

Public Document Pack



Tuesday 8 June 2021

To: Members of the MCA - Audit and Standards Committee and Appropriate Officers

NOTICE OF MEETING

You are hereby summoned to a meeting of the Sheffield City Regional Mayoral Combined Authority to be held at **11 Broad Street West, Sheffield S1 2BQ**, on: **Thursday, 10 June 2021 at 11.00 am** for the purpose of transacting the business set out in the agenda.

A handwritten signature in black ink, appearing to read 'D. Smith'.

Dr Dave Smith
Chief Executive

Webcasting Notice

This meeting will be streamed live or subsequent broadcast via the Mayoral Combined Authority's website.

You should be aware that the Mayoral Combined Authority is a Data Controller under the Data Protection Act 2018. Data collected during this webcast will be retained in accordance with the Mayoral Combined Authority's published policy.

By entering the meeting room, you are consenting to be filmed and to the possible use of those images and sound recordings for webcasting and/or training purposes.



You can view the agenda and papers at www.sheffieldcityregion.org.uk or use a smart phone camera and scan the QR code:

Member Distribution

Councillor Allan Jones
Rhys Jarvis
Councillor Phillip Lofts
Councillor Ken Richardson
Angela Marshall
Councillor Austen White

Doncaster MBC
(Independent Member)
Barnsley MBC
Barnsley MBC
(Independent Member)
Doncaster MBC

MCA - Audit and Standards Committee

Thursday, 10 June 2021 at 11.00 am

Venue: 11 Broad Street West, Sheffield S1 2BQ



Agenda

Agenda Ref No	Subject	Lead	Page
19.	External Audit Plan (late addition to agenda)	Hassan Rohimun	5 - 46
Date of next meeting: Thursday, 15 July 2021 at 11.00 am At: 11 Broad Street West, Sheffield S1 2BQ			

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Audit and Standards Committee

10 June 2021

External Audit Plan

Is the paper exempt from the press and public?	No
<i>Reason why exempt:</i>	Not applicable
Purpose of this report:	Discussion
Funding Stream:	Not applicable
Is this a Key Decision?	No
Has it been included on the Forward Plan?	Not a Key Decision

Director Approving Submission of the Report:

Gareth Sutton, Chief Finance Officer

Report Author(s):

External Audit – Ernst and Young

Executive Summary:

This report presents the external audit plan.

What does this mean for businesses, people and places in South Yorkshire?

Good governance enables the MCA to pursue its ambitions and objectives in the most effective and efficient way, bringing about better outcomes for residents and businesses in South Yorkshire.

Recommendations:

Members are asked to consider the external audit plan.



Sheffield City
Region Mayoral
Combined Authority
Group
Audit planning report

Year ended 31 March 2021
10 June 2021



Private and Confidential
Sheffield City Region Mayoral Combined Authority
11 Broad Street West,
Sheffield
S1 2BQ

10 June 2021

Dear Audit and Standards Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Standards Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Combined Authority, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit and Standards Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 10 June 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Hassan Rohimun
For and on behalf of Ernst & Young LLP

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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 (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 April 2018)" 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 and Standards Committee and management of **Sheffield City Region Mayoral Combined Authority** in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Standards Committee, and management of Sheffield City Region Mayoral Combined Authority 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 and Standards Committee and management of Sheffield City Region Mayoral Combined Authority for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



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01

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

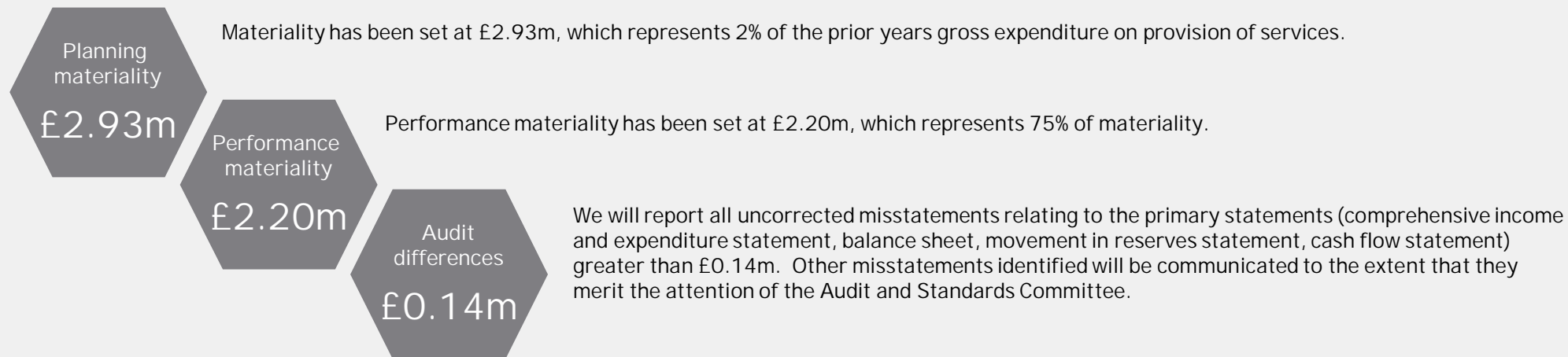
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Standards Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk	No change in risk or focus	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.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 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 would otherwise appear to be operating effectively.
LGPS -Pension Liability Valuation	Other financial statement risk	No change in risk or focus	The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates. There is therefore an increased risk of misstatement and error.
Valuation of Property, Plant and Equipment	Other financial statement risk	No change in risk or focus	The Group has a material asset base that is subject to management judgements. Valuation of assets is an area subject to professional estimation and therefore a higher inherent risk of misstatement.
Financial Ledger upgrade	Other financial statement risk	New Risk 2020/21	SCRMCA has upgraded the General Ledger system from Interga to Epicor, with the new system having gone live in April 2020. We will be required to perform procedures over the transfer of data to obtain assurance that the financial statements are based on a complete set of transactions.
Ongoing Covid-19 implications, including ISA 570 Going Concern and Disclosure considerations	Inherent risk	No change in risk or focus	The unpredictability of the current environment gives rise to a risk that the Group would not appropriately disclose the key factors impacting the year of account, or relating to going concern underpinned by management's assessment with particular reference to Covid-19, the Group's actual year-end financial position and forecast for the going concern period of a minimum of 12 months after the auditor's report date.
Accounting for Covid-19 grants	Inherent risk	New area of focus	The Group received a series of grants from the UK government during 2020/21 in support for the pandemic crisis management. We identified the accounting treatment of those grants as an area of focus since this is a significant change in the funding streams for accounting by the Group.

Overview of our 2020/21 audit strategy

Materiality



Overview of our 2020/21 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Sheffield City Region Mayoral Combined Authority give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Authority's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Authority.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of the group audit, we will discuss these with management as to the impact on the scale fee.

Audit team changes

Key changes to our team.



Partner
Hassan Rohimun
Taking over as Audit Partner
from Stephen Clark



Manager
Reyna Ramdhani
Working alongside
Dan Spiller



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02 Audit risks



Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

<p>Risk of fraud in revenue and expenditure recognition*</p> <ul style="list-style-type: none"> - Improper capitalisation of revenue expenditure - Improper application of revenue cut-off 	<p>What is the risk?</p>	<p>What will we do?</p>
<p>Financial statement impact</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.</p>	<p>We will carry out substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below:</p>
<p>Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. These accounts had the following balances in the 2019/20 financial statements:</p> <p>Income Account: £131m</p> <p>Expenditure Account: £142m</p>	<p>We consider that this significant risk is associated to the following specific areas:</p> <ul style="list-style-type: none"> • Improper capitalisation of revenue expenditure in order to reduce the impact on the general fund • Improper application of revenue cut-off 	<ul style="list-style-type: none"> • Document our understanding of the processes and controls in place to mitigate the risks. • Identify and walk through those processes and controls, confirming our understanding. • Review income and expenditure recognition policies and confirm consistency of application through performance of testing. • Identify significant accounting estimates for revenue and expenditure, discussing assumptions and calculation methodology with management • Test the identified significant accounting estimates to confirm appropriateness and consistency with supporting records considering evidence of bias. • Sample test material revenue and expenditure streams with a focus on assets and liabilities at the year-end. • Testing of revenue cut-off at the period end date. • Conduct testing to identify unrecorded liabilities at the year-end. • Testing a sample of Property Plant and Equipment additions to confirm that the expenditure has been appropriately capitalised.
		<p>Testing of revenue and expenditure will be supported through the use of data analytics tools to support sample selection. The data analysis tools enable the full population of income and expenditure to be included within the sample population. The population will be filtered to enable testing to focus on higher risk areas, high value and unusual transactions.</p>

Our response to significant risks (continued)

Misstatements due to fraud or error*

Financial statement impact

Misstatements that occur in relation to the risk of fraud or error could affect both the Comprehensive Income and Expenditure Statement and the Balance Sheet. We deem the risk to be most prevalent when reviewing journals involved in the Financial Statement Close Process

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 identify and respond to this fraud risk on every audit engagement.

What will we do?

We will carry out substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below:

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Testing of journals from the accounting period that are identified from application of specified audit risk criteria.
- Consider the existence of significant unusual transactions during the year, and performing review and testing as required.
- Consider the results of testing relating to revenue and expenditure recognition in order to identify indicators of management override of controls.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements.

What is the risk/area of focus?

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Group to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by South Yorkshire Pensions Authority (SYPA). The Group deficit is a material estimated balance and the Code requires that this liability be disclosed on the Group's balance sheet. At 31 March 2020 this totalled £39.3 million. The information disclosed is based on the IAS 19 report issued to the Group by the actuary to SYPA (Mercers).

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

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) represents significant balances in the Group's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What will we do?

We will:

- Liaise with the auditors of SYPA, to obtain assurances over the information supplied to the actuary in relation to the Group;
- Assess the work of the Pension Fund actuary (Mercers) 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 considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Group's financial statements in relation to IAS19.

We will:

- Consider the work performed by the Group's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in the year to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements,

Other areas of audit focus (continued)

What is the risk/area of focus?

What will we do?

Financial Ledger upgrade

SCRMCA has upgraded the General Ledger system from Integra to Epicor, with the new system having gone live in April 2020. We will be required to perform procedures over the transfer of data to obtain assurance that the financial statements are based on a complete set of transactions

We will:

- Review work performed by management and internal audit to obtain assurance over the completeness of the data transfer;
- Review and test the reconciliations performed between systems as part of the data transfer; and
- Liaise with our IT audit colleagues to support us in obtaining assurance that data transferred between systems is complete and accurate.

Ongoing Covid-19 implications, including ISA 570 Going Concern and Disclosure considerations

There is a presumption that the Combined Authority will continue as a going concern for the foreseeable future based on the continued provision of public services. However, the Combined Authority is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on its income sources, there is a need for the Combined Authority to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive. The Combined Authority is required to ensure that disclosures within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified. Disclosures may also be necessary to reflect the impact of Covid-19 across the statement of accounts.

We will:

- Continue to assess the adequacy of disclosures required in 2020/21, and the impact on our opinion, should these be inadequate;
- Obtain management's going concern assessment and review for any evidence of bias and consistency with the accounts;
- Review the financial modelling and forecasts prepared by the Combined Authority. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to at least 12 months after the signing date of the accounts and opinion;
- Ensure that an appropriate going concern disclosure has been made within the financial statements; and
- Considered the impact on our audit report and comply with EY consultation requirements, if such are determined appropriate.

We consider the unpredictability of the current environment, gives rise to a risk that the Combined Authority will not appropriately disclose the key factors relating to the impact of Covid-19, including on its going concern assessment.

Other areas of audit focus (continued)

What is the risk/area of focus?

Accounting for Covid-19 grants

Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year.

The Combined Authority needs to review each of these to establish the correct accounting treatment. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any outstanding conditions that may also affect the recognition of the grants as revenue during 2020/21.

What will we do?

On a sample of the Covid-19 grants and funding population we will:

- Review the accounting guidance applied by the Combined Authority and assess whether the appropriate guidance was considered and correctly applied;
- Review whether any conditions are attached to grants impacting their recognition;
- Assess whether the accounting appropriately follows those judgements; and
- Ensure sufficient and appropriate disclosures are included in the accounts.



03

Value for Money Risks



Value for money

Combined Authority responsibilities for value for money

The Combined Authority 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.

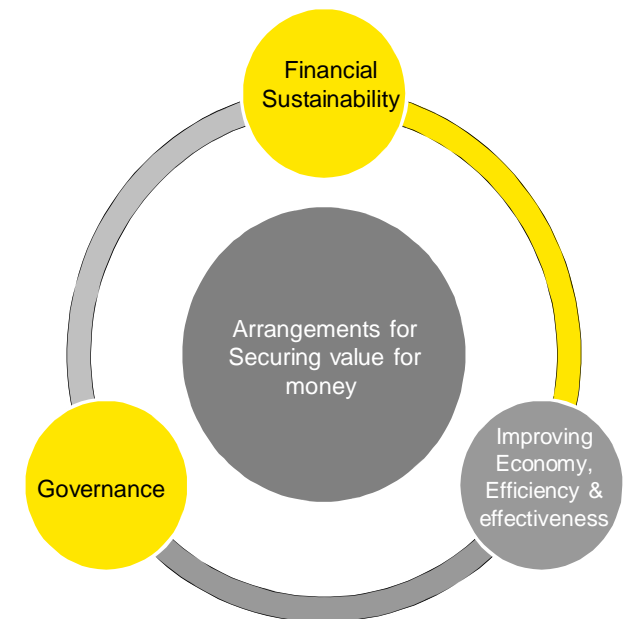
As part of the material published with its financial statements, the Combined Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Combined Authority tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Combined Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion upon which we need to conclude. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Combined Authority a commentary against specified reporting criteria (see below) on the arrangements the Combined Authority 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 Combined Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Combined Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the Combined Authority uses information about its costs and performance to improve the way it manages and delivers its services.



Value for money risks

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Combined Authority's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Combined Authority's arrangements, we are required to consider:

- The Combined Authority's governance statement
- Evidence that the Combined Authority's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. The NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Combined Authority to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Combined Authority's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Combined Authority;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Combined Authority's reported performance;
- Whether the issue has been identified by the Combined Authority's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Combined Authority has had to respond to the issue.



Value for money risks

Responding to identified risks

We are still completing our planning work for VFM. If our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit and Standards Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Combined Authority's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

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Status of our 2020/21 VFM planning

We have yet to fully finalise our detailed VFM planning. However, area of focus will be on the arrangements that the Combined Authority has in place in relation to Financial sustainability in light of the impact of Covid-19.

We will continue to update the Audit and Standards Committee meeting on the outcome of our VFM planning, any further changes to our risk assessment and also our planned response to any identified risks of significant weaknesses in arrangements.



04

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £2.93m. This represents 2% of the Group's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix c.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

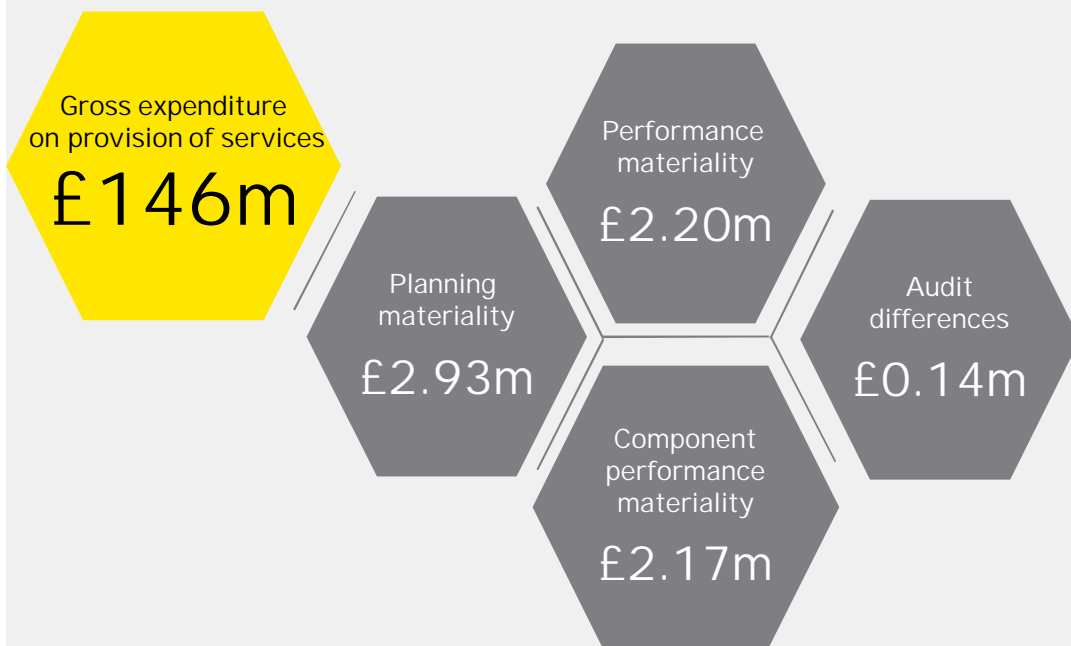
Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £2.20m which represents 75% of planning materiality.

Component performance materiality range – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group. For Combined Authority's single entity financial statements this has been set at £2.17m

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet, that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Standards Committee, or are important from a qualitative perspective.

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We request that the Audit and Standards Committee confirm its understanding of, and agreement to, these materiality and reporting levels.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Authority's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Standards Committee.

Internal audit:

We will regularly meet with the Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

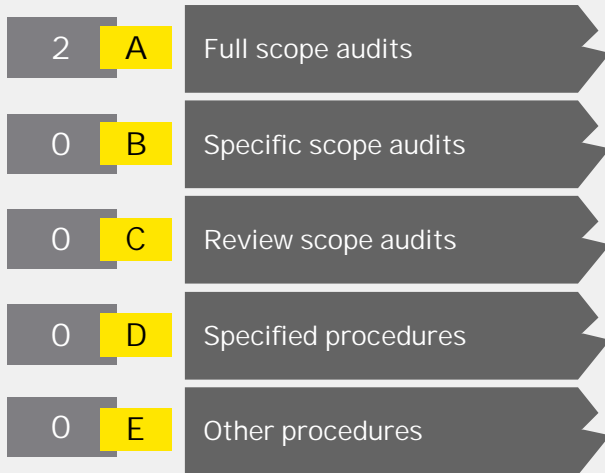
Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. Significant components: A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component within Appendix E.



Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. Individually, these components do not exceed more than 0.01% of the Group's Gross Expenditure on provision of services

Scoping the group audit (continued)

Coverage of Revenue/Total assets

Based on the group's prior year results, our scoping is expected to achieve the following coverage of the group's gross revenue expenditure and total assets



Our audit approach is risk based and therefore the data above on coverage is provided for your information only. Further details on the scoping of the Group audit can be found at Appendix D.

Details of other procedures

- Sheffield City Region Mayoral Combined Authority prepares group accounts, consolidating the results of two subsidiaries; South Yorkshire Passenger Transport Executive and SCR Financial Interventions Holding Company Ltd.
- EY are the appointed auditor of South Yorkshire Passenger Transport Executive and the results of this Authority are material to the Group. This will be treated as a full scope audit for Group purposes. We have prepared a full Audit Planning Report to be presented to the Audit and Risk Committee of South Yorkshire Passenger Transport Executive.
- The consolidated results of SCR Financial Interventions Holding Company Ltd are not material to the results of the Group and have been held at nil value at the end of 2019/20. We do not anticipate any change in value in 2020/21 and therefore do not plan to perform any work thereof.



06

Audit team



Audit team

Audit Team

The engagement team is led by Hassan Rohimun – Audit Partner, who has significant Local Government experience. Hassan is supported by Dan Spiller and Reyna Ramdhani who are responsible for the day-to-day direction of audit work and Alex Slack who is the key point of contact for the finance team.

We will engage specialists in the audit team where deemed necessary and the table below sets out our expectations of the use of specialists at the planning stage of the audit.

Area	Specialists
Valuation of Land and Buildings	Management's valuation experts/EY estates
Pensions disclosure	EY Actuaries, PSAA consulting actuaries and Scheme actuary

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In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Trust's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07 Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Audit and Standards Committee and we will discuss them with the Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit and Standards Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	December		
	January		
Walkthrough of key systems and processes	February		
	March		
	April		
	May	Audit and Standards Committee	Audit Planning Report
	June		
Year end audit testing	July - September		
Audit Completion procedures	September	Audit and Standards Committee	Audit Results Report Audit opinions and completion certificates





08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.
- ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Written confirmation that all covered persons are independent;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Hassan Rohimun, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Group. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Combined Authority. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

New UK Independence Standards

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

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed.

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

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 3 July 2020 (published November 2020):

https://www.ey.com/en_uk/who-we-are/transparency-report-2020



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Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

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	Planned fee 2020/21	Final fee 2019/20
	£	£
Audit Scale Fee – Code work	29,414	29,414
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	21,234	21,324
Scale Fee Variation sent to PSAA for approval (Note 2/Note3)	TBC	6,500
Total SCRMCA audit fees	TBC	57,238
Audit Scale Fee – Code work	27,613	27,613
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	17,867	17,867
Scale Fee Variation sent to PSAA for approval (Note 2/Note3)	-TBC	10,500
Total relating to SYPTE	TBC	55,980
Total fees	TBC	113,218

(1) We remain in discussion with PSAA about increasing the scale fee for 2020/21 to reflect the additional work auditors are required to do to meet regulatory requirements. This was described in further detail in our 2019/20 Annual Audit Letter, management has not agreed to this increase in the scale fee and we have provided the PSAA with our assessment of the fee.

(2) The 2019/20 additional fees have been discussed with management, who have agreed in principle, and has been referred to PSAA for their approval.

(3) Additional fees are likely for 2020/21 for the changing risks associated with Covid-19 and the impact of the revised approach to Value for Money under the new 2020 NAO Code. The impact of these will be discussed with management

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Authority; and
- The Authority has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Combined Authority in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

All fees exclude VAT



Appendix B

Required communications with the Audit and Standards Committee



We have detailed the communications that we must provide to the Audit and Standards Committee.



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	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • 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
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> • 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
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report

Required communications with the Audit and Standards Committee (continued)



Required communications	 What is reported?	 When and where
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity'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 entity 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • 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 	Audit Planning Report and Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • 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

Appendix B

Required communications with the Audit and Standards Committee (continued)



Our Reporting to you

Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report
Internal controls	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit 	Audit results report
Group audits	<ul style="list-style-type: none"> An overview of the type of work to be performed on the financial information of the components An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit planning report and Audit results report
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report and Audit results report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit and Standards Committee reporting appropriately addresses matters communicated by us to the Audit and Standards Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Appendix D

Scoping the group audit

The below table sets out the scoping details of all locations. We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed at each reporting unit.

Detailed scoping						
In scope locations	Scope	Statutory audit performed by EY	Coverage		Current year rationale for scoping	
			Revenue	Total assets	Size	Risk
Sheffield City Region Mayoral Combined Authority	Full	✓	64.77%	49.48%	Yes	Yes
South Yorkshire Passenger Transport Executive	Full	✓	35.23%	50.52%	Yes	Yes
TOTAL FULL SCOPE			100%	100%		

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