

A photograph showing a group of people in a meeting. They are seated around a white table, looking at several documents. One person's hand is pointing at a document. A smartphone is visible on the table. The background is slightly blurred, focusing on the documents and hands.

South Yorkshire Passenger Transport Executive Audit planning report

Year ended 31 March 2022

18 October 2022



Private and Confidential

South Yorkshire Passenger Transport Executive
11 Broad Street West
Sheffield
S1 2BQ

18 October 2022

Dear Audit, Standards and Risk Committee Members

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, Standards and Risk Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 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, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit, Standards and Risk 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 18 October 2022 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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Contents



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/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/>). 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 (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) 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, Standards and Risk Committee and management of **South Yorkshire PTE** in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit, Standards and Risk Committee and management of South Yorkshire PTE 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 Committee and management of South Yorkshire PTE for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.



01

Overview of our 2021/22 audit strategy



Overview of our 2021/22 audit strategy

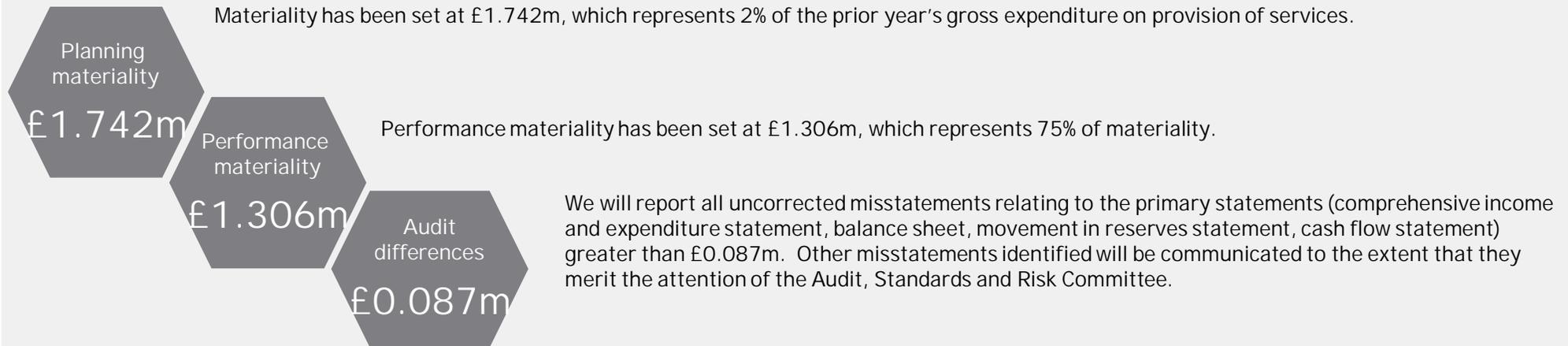
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit, Standards and Risk Committee with an overview of our initial risk identification for the forthcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition - Incorrect capitalisation of revenue expenditure	Fraud risk	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 PTE, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. However we note that in 2021/22, total capital expenditure is below materiality. This may not be the case in future years
Implementation of IFRS16 Leases	Other financial statement risk	Change in risk or focus	The implementation of IFRS16 has now been delayed until 2024/25
Local government pension scheme: 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 PTE 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.
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, 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	No change in risk or 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 2021/22 audit strategy

Materiality



Overview of our 2021/22 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 South Yorkshire PTE give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the PTE'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 PTE.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to assess independently 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 ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of the audit, we will discuss any impact on the fee with management.

Effects of climate-related matters on financial statements and Value for Money arrangements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements. We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2021/22 audit strategy

Value for money conclusion

We include details in Section 03 but in summary:

- We are required to consider whether the PTE has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the PTEs arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- We will provide a commentary on the PTE's arrangements against three reporting criteria:
 - Financial sustainability - How the PTE plans and manages its resources to ensure it can continue to deliver its services;
 - Governance - How the PTE ensures that it makes informed decisions and properly manages its risks; and
 - Improving economy, efficiency and effectiveness - How the PTE uses information about its costs and performance to improve the way it manages and delivers its services.
- The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Audit team changes

Key changes to our team.



Engagement manager
Susan Gill



02

Audit risks



Response to significant risks

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What will we do?

- 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.

Audit risks

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 and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the PTE'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.

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the PTE 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 PTE's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the PTE's balance sheet. At 31 March 2022 this was £23.2 million, a decrease of £10.8 million from 2020/21.

The information disclosed is based on the IAS19 report issued to the PTE by the actuary.

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.

What will we do?

We will:

- Consider the work performed by the PTE'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 for PPE and annually for IP. 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 2021/22 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.

We will:

- Liaise with the auditors of SYPA, to obtain assurances over the information supplied to the actuary for the PTE;
- 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;
- Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model; and
- Review and test the accounting entries and disclosures made within the PTE's financial statements in relation to IAS19.

Other areas of audit focus (continued)

What is the risk/area of focus?

What will we do?

ISA 570 Going Concern and Disclosure considerations

We will:

There is a presumption that the PTE will continue as a going concern for the foreseeable future based on the continued provision of public services. However, the PTE is required to carry out a going concern assessment that is proportionate to the risks it faces. There is a need for the PTE to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive. The PTE 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.

- Continue to assess the adequacy of disclosures required in 2021/22, 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 PTE. 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.

Accounting for Covid-19 grants

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

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

The PTE 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 2021/22.

- Review the accounting guidance applied by the PTE 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





The PTE's responsibilities for value for money

The PTE 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.

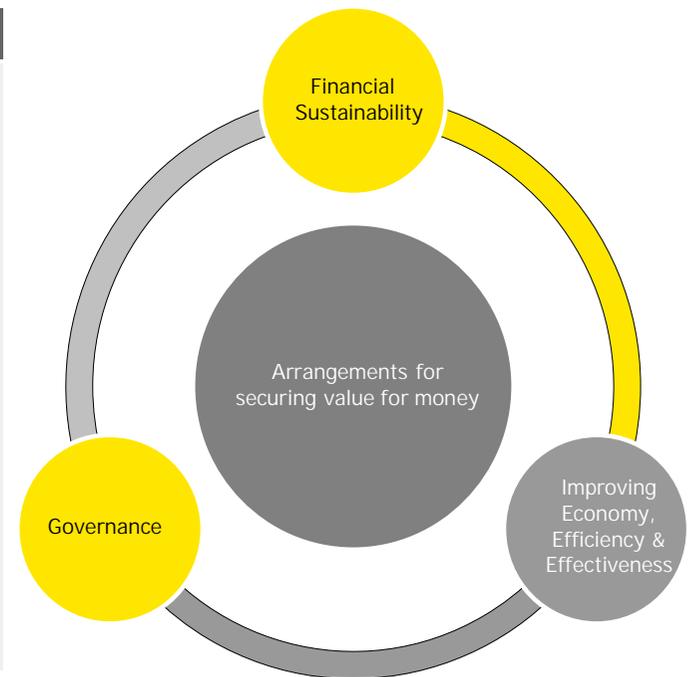
As part of the material published with the financial statements, the PTE is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the PTE tailors the content to reflect its own individual 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 arrangements for securing value for money from the use of resources.

Auditor responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the PTE has 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the PTE a commentary against specified reporting criteria (see below) on the arrangements the PTE 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 PTE plans and manages its resources to ensure it can continue to deliver its services.
- Governance - How the PTE ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness - How the PTE uses information about its costs and performance to improve the way it manages and delivers its services.





Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the PTE'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.

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

- The PTE's governance statement;
- Evidence that the PTE'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 regards 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. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the PTE 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 PTE'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 PTE;
- 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 PTE's reported performance;
- Whether the issue has been identified by the PTE'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 PTE has had to respond to the issue.



Value for Money

Responding to identified risks of significant weakness

Where 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, Standards and Risk committee.

Reporting on VFM

Where we are not satisfied that the PTE has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the PTE'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.

Status of our 2021/22 VFM planning

We have completed our initial VFM (value for money) risk planning work, where we have considered:

- Our entity level controls and understanding the business assessment
 - The PTE's Risk Register
 - The Annual Governance Statement
 - PTE meeting minutes
 - Our planning meetings with management
 - Key financial and budget information/ Key performance reports
 - Internal audit reports
- We have not at this stage identified significant weaknesses in the PTE's arrangements to secure economy, efficiency and effectiveness on its use of resources. We will review in the light of our other audit work as this progresses.



04

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £1.742m. This represents 75% of the PTE'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.



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

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 £1.306m which represents 75% of planning materiality. This reflects the overall risk factors associated with the audit and a history of few errors.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement and balance sheet, where there is 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, Standards and Risk committee, or are important from a qualitative perspective.

Materiality

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 the circumstances that might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including member allowances: we will agree all disclosures back to source data, and member allowances to the agreed and approved amounts.
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.



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 PTE'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 PTE has '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 2021/22 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, Standards and Risk Committee.

Internal audit:

We will meet with 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.



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 Susan Gill, who is 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 Real Estates
Pensions disclosure	EY Actuaries, PSAA consulting actuaries and Scheme actuary

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 PTE'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 2021/22.

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

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	July		
Walkthrough of key systems and processes	August		
Year-end audit	September		
Year-end audit	October	Audit Committee	Audit Planning Report
	November		
Audit Completion procedures	December		Audit Results Report
Final AAR reporting	January	Audit Committee	Annual Auditor's Report



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 December 2019, 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	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between 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. 	<ul style="list-style-type: none"> ▶ 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/additional 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; ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▶ 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 all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; 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 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.



Other communications

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021: https://www.ey.com/en_uk/about-us/transparency-report-2021



09

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.

	Final fee 2021/22	Scale fee 2021/22	Final Fee 2020/21
	£	£	£
Total Fee - Code work	27,613	27,613 (Note 2)	27,613 (Note 1)
Pricing for quality	TBC	17,867	17,867
Pensions work	TBC	2,500 - 3,500	2,500
Value for money work	TBC	2,500 - 3,500	2,500
Total fees	TBC	TBC	50,480

All fees exclude VAT

(1) The 2020/21 Code work includes an additional fee of £22,867, which relates to additional work listed in the table above. Management did not agree with the fee variation which have been submitted to the PSAA for determination.

(2) For 2021/22, the scale fee will be affected by a range of factors (see page 9) which will result in additional work. We set out an estimate of the potential additional fee for this above any additional fees will require PSAA approval. The issues we have identified at the planning stage which will impact on the fee include:

- Additional procedures to consider the PTE's going concern assessment, including our internal consultation requirement.
- The need to consider engaging EY Real Estates to review the valuation of PPE and IP, and to look at infrastructure assets in depth
- The need to engage EY Pensions to review assumptions used in the Pensions IAS19 liability.

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

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 PTE; and
- The PTE 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 PTE 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.

Appendix B

Required communications with the Audit, Standards and Risk Committee

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



Our Reporting to you

Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the 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 • Material misstatements corrected by management 	Audit results report

Required communications with the Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Subsequent events	<ul style="list-style-type: none"> Asking the audit committee (where appropriate) whether any subsequent events have occurred that might affect the financial statements 	Audit results report
Fraud	<ul style="list-style-type: none"> Enquiries of the 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 Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> Management; Employees who have significant roles in internal control; or Others where the fraud results in a material misstatement in the financial statements The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected Any other matters related to fraud, relevant to Committee responsibility 	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: <ul style="list-style-type: none"> 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

Required communications with the Committee (continued)

		Our Reporting to you
Required communications	What is reported?	When and where
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 <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit Planning Report and Audit Results Report
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
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the 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, Standards and Risk Committee may be aware of 	Audit results report
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Management letter/audit results report

Appendix B

Required communications with the Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
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 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 Audit results report
Value for Money	<ul style="list-style-type: none"> • Risks of significant weakness identified in planning work • Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses. 		Audit planning report Audit results report

Additional audit information

Objective of our audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit, Standards and Risk Committee. The audit does not relieve management or the Audit, Standards and Risk Committee of their responsibilities.

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 internal controls.
- 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 for the financial information to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit, Standards and Risk Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Other required procedures during the course of the audit (continued)

Procedures required by the Audit Code	<ul style="list-style-type: none"> • Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement. • Examining and reporting on the consistency of consolidation schedules or returns with the PTE’s audited financial statements for the relevant reporting period
Other procedures	<ul style="list-style-type: none"> • We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice

We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.

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 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.

EY | Assurance | Tax | Transactions | Advisory

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

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