

**South Yorkshire
Passenger Transport
Executive**
Audit results report
Year ended 31 March 2022
September 2023



Private and Confidential

20 September 2023

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

Dear Audit, Standards and Risk Committee Members

2021-22 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit, Standards and Risk Committee. We will update the Committee at its meeting scheduled for 20 September 2023 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2021-22 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on the South Yorkshire Passenger Transport Executive's (PTE) accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included an update on our work on value for money arrangements.

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

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 20 September 2023.

Yours faithfully

Hassan Rohimun

Partner

For and on behalf of Ernst & Young LLP

Encl

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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, Standards & Risk Committee and management of the PTE in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Committee and management of the 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 the 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 Executive Summary



Executive Summary

Scope update

In our audit planning report tabled at the 18 October 2022 Audit, Standards and Risk Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- ▶ Changes in materiality. The basis of our assessment has remained consistent with prior years at 2% of gross operating expenditure. Planning materiality was set at £1.742m, and performance materiality at £1.306m. The level at which we report differences to you has been set at £87K.

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Executive's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.



Executive Summary

Status of the audit

Our audit work in respect of the PTE opinion is nearing completion. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- ▶ Response from Pension Fund Auditor on the Revised Triennial IAS 19 Valuation
- ▶ Obtain letter of representation
- ▶ Subsequent events review
- ▶ Obtain approved updated financial statements

We anticipate issuing an unqualified opinion with an Emphasis of Matter Paragraph drawing attention of the users towards the transfer of the functions of South Yorkshire Passenger Transport Executive to South Yorkshire Mayoral Combined Authority from 1 April 2023. Our opinion is not modified in this respect, however, our final audit opinion is subject to completion of the aforementioned final procedures.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the PTE has 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the PTE a commentary against specified reporting criteria (see below) on its arrangements 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 Executive plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Executive ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the Executive uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit - Value for Money

In the Audit Plan and subsequent update to the Audit, Standards and Risk Committee, we reported that we had completed our value for money (VFM) risk assessment and not identified any risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have revisited our assessment on completion of the audit of the financial statements and remain satisfied that we have not identified a risk of significant weakness. As a result, we have completed our planned VFM procedures and have no matters to report by exception in the auditor's report.

We plan to issue the VFM commentary as part of issuing the Auditor's Annual Report.

Executive Summary

Audit differences

- ▶ We have identified one unadjusted misstatement relating to the valuation of the Pension Fund. We were informed by the auditor of the pension fund that the fund assets were undervalued by approximately £27.3m and £7.9m: the PTE's share of this, at approximately 1.21% of the Fund, was less than £427K. This is not material but is above our reporting level.
- ▶ Subject to the completion of outstanding procedures we have no other misstatements which require us to report to you.
- ▶ The audit difference is explained in detail in Section 4.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Executive. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. However, the PTE falls below the threshold for requiring additional work.

We have no other matters to report.

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of the Executive. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised.

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit, Standards and Risk Committee or management.

Control observations

During the audit, we identified one significant deficiency in internal controls.

When we carried out our audit of year-end material journal entries, we found that there was "blanket authorisation" for all of these given by one email (this was the term used in the email to us giving the explanation). While this could be interpreted as explicitly covering the listing attached to the original email, any subsequent amendments could potentially be actioned without specific appropriate management approval.

Independence

Please refer to Section 8 for our update on Independence. There are no issues to bring to your attention.



02

Areas of Audit Focus



Areas of Audit Focus

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 judgements did we focus on?

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition, which could affect the reported income and expenditure accounts.

What did we do?

We reviewed revenue and expenditure recognition accounting policies to ensure that the treatment was consistent with the previous year.

We tested the valuation of accrued income recorded in the financial statements and performed appropriate testing to ensure that all material amounts have been correctly recognised.

We tested revenue and expenditure cut-off at the balance sheet date.

We carried out substantive testing to identify unrecorded liabilities at the year-end.

Testing of income and expenditure has been supported by the use of data analytics tools to aid sample selection. These tools enable the full population of income and expenditure to be included in the sampling process. The population has been filtered to enable testing to be focused on higher risk areas, high value, and unusual transactions.

What are our conclusions?

Our testing has not identified any material misstatements for revenue and expenditure recognition.

Our work did not identify any material issues or unusual transactions which might indicate misreporting of the PTE's financial position.

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 have we done?

Subject to the completion of outstanding work on infrastructure assets we have:

- ▶ Considered 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 tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code 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 (NB all assets were revalued for the 2021-22 audit).
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested that accounting entries have been correctly processed in the financial statements.
- ▶ On receipt of the statements, we also reviewed the material adjustment of train rolling stock from infrastructure to Vehicles.

We have:

- ▶ Liaised with the auditors of SYPA to obtain assurances over the information supplied to the actuary for the PTE;
- ▶ Obtained the updated revised triennial valuation for the pension fund;
- ▶ Assessed 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;
- ▶ Evaluated the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model; and
- ▶ Reviewed and tested the accounting entries and disclosures made within the PTE's financial statements in relation to IAS19.
- ▶ Because of changes to the valuation of the Pension Fund there is an unadjusted misstatement to the PTE's own financial statements.

Other areas of audit focus (continued)

What is the risk/area of focus?

What are we doing?

ISA 570 Going Concern and Disclosure considerations

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 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.

Our audit procedures comprise:

- ▶ assessing the adequacy of disclosures required in 2021-22, and the impact on our opinion, should these be inadequate;
- ▶ obtaining management's going concern assessment and undertaking a review for any evidence of bias and consistency with the accounts;
- ▶ reviewing the financial modelling and forecasts prepared by the PTE, including key assumptions, stress testing applied to those assumptions and considered the risk to cashflow up to at least 12 months after the signing date of the accounts and opinion;
- ▶ ensuring that an appropriate going concern disclosure has been made within the financial statements; and
- ▶ considering the impact on our audit report and comply with EY consultation requirements, if such are determined appropriate.

Accounting for Covid-19 grants

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

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

- reviewed the accounting guidance applied by the PTE and assess whether the appropriate guidance was considered and correctly applied;
- reviewed whether any conditions are attached to grants impacting their recognition;
- assessed whether the accounting appropriately follows those judgements; and
- ensured that sufficient and appropriate disclosures are included in the accounts.

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.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements will be communicated to the Audit Standards and Risk Committee on the completion of outstanding procedures



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

There were some minor disclosure amendments agreed during the audit but none were significant enough to require reporting to you, other than updating the accounting policies over the change of classification of trams and tram trains from infrastructure to vehicles. This is to ensure consistency with the disclosures in the statements.

Unadjusted differences

There is one uncorrected misstatement relating to the valuation of the Pension Fund. We were informed by the auditor of the pension fund that the Fund assets were undervalued by approximately £27.3m and a difference between the value of assets submitted to the actuary and those held by the pension fund of £7.9m. In total this creates an overall error at the pension fund of £35.2m: the PTE’s share of this, at approximately 1.21% of the Fund, was £427k. This is not material but is above the level which we must report to you. We will require an explanation in the letter of representation to outline the reason for not making the correction.



05

Value for Money



Value for money

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

The Executive 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 Executive must 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 Executive tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

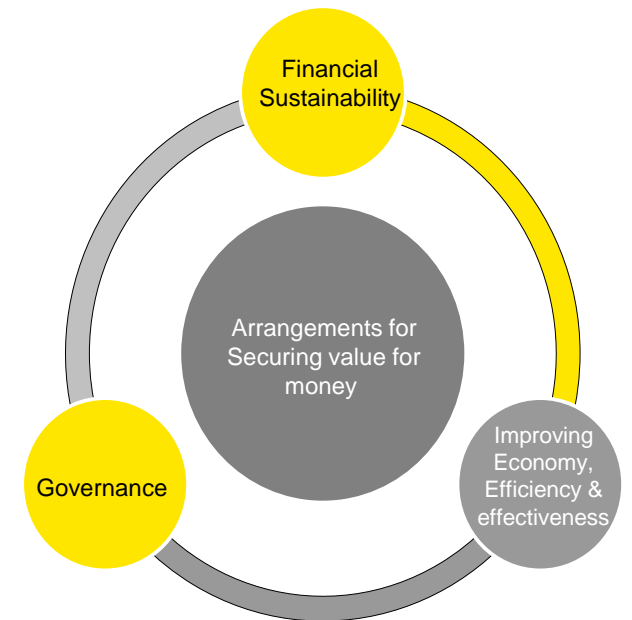
We have previously reported to the Committee the outcome of our assessment of the risk of significant weaknesses in the Executive's VFM arrangements: we did not identify any risks.

We have revisited our risk assessment and did not identified any additional risks.

Status of our VFM work

We have completed our VFM procedures over identified risks and we have not identified a significant weakness in arrangements. We have no matters to report by exception.

Under the Code of Audit Practice 2020 we are required to issue our commentary on the Executive's VFM arrangements in the Auditor's Annual Report (AAR). The AAR is issued on the conclusion of the audit.





06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts for the year ended 31 March 2022 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts for the year ended 31 March 2022 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm that it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters arising to the Committee.

Other reporting issues

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

Other matters

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

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit discussed with management;
- Written representations we have requested;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

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

We have identified one deficiency: our review of material year-end journal entries identified that authorisation had been carried out using “blanket authorisation” in a single email to cover all year-end journals. In our opinion, this does not provide evidence of sufficient consideration of year-end journals and whether they have been appropriately approved.

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

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness in internal controls, for example due to significant staff absences or limitations as a result of working remotely. We identified no issues to bring to your attention.



08

Independence

Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the PTE, and its directors and senior management and its affiliates, including all services provided by us and our network to the PTE, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below. Further detail of all fees has been provided to the Audit, Governance and Standards Committee.

Independence

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)
Increased cost of regulation	TBC	17,867	12,360
Pensions work	TBC	2,500 - 3,500	
Value for money work	TBC	2,500 - 3,500	
PPE and IP valuation	TBC	£5,000 - £10,000	
Total fees	TBC	TBC	39.973

All fees exclude VAT

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

We wrote to management and the Audit Sub-Committee Chair setting out our considerations on the sustainability of UK local public audit. The 2020/21 Code work includes an additional fee of £12,360 as approved by PSAA.

(2) For 2021/22, in addition to the increased cost of regulation, additional work was required in a number of areas. We set out an estimate of the potential additional fee for these areas which will be discussed with management and be subject to 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.
- Additional procedures to respond to VFM code of audit practice responsibilities
- 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.

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 dated October 2022 :

[EY UK 2022 Transparency Report | EY UK](#)







09

Appendices





Appendix A

Required communications with the Committee





There are certain communications that we must provide to the those charged with governance of UK entities. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit, Standards and Risk Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	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





Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<ul style="list-style-type: none"> ▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee ▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The identification of any non-EY component teams used in the group audit ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant 	
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 related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness 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
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report




Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit 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: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to the Committee’s responsibility. 	Audit results report
Related parties	<p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <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
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 Audit Results Report

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
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 audit 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 committee may be aware of 	Audit results report

Appendix A


		Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results report
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations requested from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ 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"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report

Appendix B

Implementation of IFRS 16 Leases

In previous reports to the Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Executive until 1 April 2024, having been further postponed. However, officers should be acting now to its leasing positions and secure the required information to ensure full compliance with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures 
Data collection	Management should: <ul style="list-style-type: none"> ▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▶ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases ▶ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The Executive needs to agree on certain policy choices. In particular: <ul style="list-style-type: none"> ▶ Whether to adopt a portfolio approach ▶ What low value threshold to set and agree with auditors ▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components ▶ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the PTE is lessee; and potentially for sub-leases, where it is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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