

Sheffield City Region
Mayoral Combined
Authority Group
Audit results report
Year ended 31 March 2021

9 September 2021



Private and Confidential

9 September 2021

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

Dear Audit and Standards Committee Members

2021 Audit results report

We are pleased to attach our audit results report for the forthcoming meeting of the Combined Authority. This report summarises our preliminary audit conclusion in relation to the audit of Sheffield City Region Mayoral Combined Authority for 2020/21

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3, before the statutory deadline of 30th September 2021. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Those Charged with Governance, other members of the Combined Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the meeting on 9 September 2021.

Yours faithfully

Hassan Rohimun

Associate Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the June Audit and Standards 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. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of operating expenditure we have updated our overall materiality assessment to £3.64m (£2.93m in the Audit Planning Report). This results in updated performance materiality, at 75% of overall materiality, of £2.73m (£2.20m) and our threshold for reporting misstatements at 5% of overall materiality, of £182k (£148k).

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 Authority'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.

Status of the audit

We have substantially completed our audit of Sheffield City Regional Mayoral Combined Authority's (SCRMCA) financial statements for the year ended 31/03/2021 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the financial statements. However until work is complete, further amendments may arise:

- Completion of audit work on pensions - We await the IAS19 response from the pension fund auditor to allow us to complete our audit procedures.
- Review of final Annual Report, Financial Statements and Annual Governance Statement
- Going concern assessment
- IFRS 16 preparedness assessment
- Receipt of signed letter of representations
- Review of Post Balance Sheet Events up to the date of signing
- Completion of internal review and consultation 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 Authority has put in place '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 Authority a commentary against specified reporting criteria (see below) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the Authority 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 and Standards Committee, we reported that our value for money (VFM) risk assessment was ongoing and had not at that stage 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.

However we did identify 3 risk triggers as detailed below which we performed detailed work on to ensure they did not result in significant weaknesses:

1. Proposed governance changes as a result of the merger of SCRMCAs and South Yorkshire Passenger Transport Executive (SYPTE);
2. Review of arrangements for managing major capital projects; and
3. Review of arrangements in taking on responsibility for devolved Adult Education Budget (AEB) and function which will include commissioning adult skills provision for the residents of Barnsley, Doncaster, Rotherham, and Sheffield.

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 by the end of September 2021 as part of issuing the Auditor's Annual Report, at the same time as issuing our opinion.



Executive Summary

Audit differences

- Uncorrected misstatements decrease on deficit of provision of service by £0.75m which relates to current-year differences. Details can be found in Section 4 Audit Differences.
- We have agreed with management a disclosure adjustment of £10.79m reduction in note 38 'Revenue grant receipt in advance as 3 transaction were included in this note which are part of grant revenue already recognized. The disclosure adjustment does affect the outturn income and expenditure position.

Other reporting issues

Our review of whether the information presented in the Annual Governance Statement is consistent with our knowledge of SCRMCA has yet to be concluded.

SCRMCA is below the threshold for requiring additional audit procedures in relation to your Whole of Government Accounts return. We therefore have no issues to raise to you in regards to this.

We have no other matters to report.

Areas of audit focus

In our Audit Plan we identified a key areas of focus for our audit of Sheffield City Region Mayoral Combined Authority's financial statements. 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 and Standards Committee or Management.



Executive Summary

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

During the audit, we identified no significant deficiencies in internal control, but identified two control improvement opportunities to bring to your attention in section 7.

Independence

Please refer to Section 9 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Fraud Risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We consider that this significant risk is associated to the following specific areas:

- Improper capitalisation of revenue expenditure in order to reduce the impact on the general fund
- Understatement of expenditure recognised as liabilities in the balance sheet at the year-end
- Improper application of revenue cut-off

What judgements are we focused 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 the treatment was consistent with prior year.
- We discussed any changes to accounting policies with management prior to conducting any testing.
- We have tested the valuation of accrued income recorded in the financial statements and performed appropriate tests to consider whether all material amounts have been correctly recognised.
- We have tested revenue and expenditure cut-off at the period end date.
- We have conducted substantive testing to identify unrecorded liabilities at the year-end

Testing of revenue and expenditure has been supported through the use of data analytics tools to aid sample selection. The data analysis tools enable the full population of income and expenditure to be included within the sample population. The population have been filtered to enable testing to focus on higher risk areas, high value and unusual transactions.

What are our conclusions

Our testing has not identified any material misstatements with respect to revenue and expenditure recognition.

Subject to the completion of outstanding procedures our audit work did not identify any material issues or unusual transactions which may have indicated that the financial position of the Combined Authority had been misreported.

There are no further matters to report to you.





Areas of Audit Focus

Fraud Risk

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 and Ireland) 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 are we focused on?

Misstatements that occur in relation to the risk of fraud.

What did we do?

We have:

- Identified any risks relating to fraud risks during the planning stages.
- Made enquiries with management about risks of fraud and the controls that in place to address those risks.
- Developed an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Reviewed the effectiveness of management's controls designed to address the risk of fraud.
- Developed an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures, regardless of specifically identified fraud risks, including:
- Tested journal entries and other adjustments in the preparation of the financial statements;
- Reviewed the accounting estimates in the statements for evidence of management bias; and
- Evaluated the business rationale for significant unusual transactions.

What are our conclusions

We have not identified any specific fraud risks other than that relating to fraud in revenue and expenditure recognition that has already been identified as a significant risk.

Subject to the completion of outstanding procedures we have not identified any evidence of material management override.

Our testing of a sample of journals has not identified any matters to report to you.

We have not identified any instances of inappropriate judgements being applied or bias within significant accounting estimates.

We did not identify any transactions during our audit which appeared unusual or outside the normal course of business of the Combined Authority.





Areas of Audit Focus

Other Risk

Valuation of Property, Plant and Equipment

What is the risk?

The Authority has a large and complex asset base that makes up a significant proportion of its balance sheet. Valuation of assets is an area subject to professional estimation and therefore a higher inherent risk of misstatement.

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

What did we do?

- Considered the work performed by the Authority'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;
- Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements,

What are our conclusions

Our work has considered the work of the external valuer to the Sheffield City Region Mayoral Combined Authority and Group; and also the impact of COVID-19 on wider market conditions.

Our testing of a sample of key asset information used in the valuations and processing of accounting entries did not identify any issues.

We have reviewed the Property, Plant and Equipment and Investment Property balances not subject to valuation against indices provided by provided by our internal valuation specialists and have not identified any misstatements.

We have not identified any issues relating to the useful economic life of assets tested or the accounting entries processed in the financial statements



Areas of Audit Focus

Other Risk

Local Government Pension Scheme

What is the risk?

The Authority, under IAS19 is required to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme.

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

Covid-19 has had an impact on the delivery of IAS19 reports; preparation of draft pension fund statements from The pension authority and will therefore add a further delay to the completion of the pension fund audit. This will have an impact on how we gain our assurance over the IAS19 figures in the financial statements.

What are our conclusions

At the time of writing, we are currently awaiting the work of the pension fund auditor which will allow us to complete our work in this area.



Areas of Audit Focus

Other areas of audit focus – applies to SCRMCMA only

Financial Ledger upgrade

What is the risk?

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

What did we do?

We have:

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

What are our conclusions

Our work in this area has been completed. We have performed checks on the completeness of data transfers including substantive procedures to agree balances between systems.

We have no findings to report to the Audit and Standards committee in relation to this work. Due to their being additional work necessary in performing additional testing, section 8 of this report outlines a proposed Scale Fee Variation.



Areas of Audit Focus

Other areas of audit focus

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

What is the risk?

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

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

What are our conclusions

At the time of writing this report we have yet to obtain and evaluate management's going concern assessment.

We have engaged with management on the detail required in the assessment and amendments to expand the draft going concern disclosure at note 5.



Areas of Audit Focus

Other areas of audit focus

Accounting for Covid-19 grants

What is the risk?

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

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

What did we do?

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

- Reviewed the accounting guidance applied by the Combined Authority and assessed 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 sufficient and appropriate disclosures are included in the accounts.

What are our conclusions

Our work in this area has been completed. On a sample of these grant transactions we have performed checks on the accounting of these grants, including any conditions relating to recognition thereof and ensured they are appropriately disclosed in the accounts.

We have no findings to report to the Audit and Standards committee in relation to this work.



03 Audit Report



Audit Report

Draft audit report

Note -The Audit Opinion and Report will be included following completion of the outstanding areas covered above in this report. We expect to issue an unqualified opinion, subject to completion of our audit work over pensions.



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 no misstatements greater than £182k which have been corrected by management that were identified during the course of our audit

There is one expected significant disclosure adjustment, to expand the basis of preparation (going concern) disclosure in note 5

Uncorrected misstatements are outlined on the following page.

Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the [Audit and Standards Committee](#) and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2021 (£'000)		Effect on the current period:	 Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Errors						
Known differences:						
<ul style="list-style-type: none"> Settlement agreement dated 27 November 2020, has been recorded as grant received in advance, instead it should be recorded as income received 		(650,000)			650,000	
<ul style="list-style-type: none"> Net Pension Liabilities: Management prepared draft accounts on the basis of reports provided by the actuary. Subsequent to the preparation of the draft accounts, an updated report was provided which restated the authority's share of the pension fund assets by £100k 	(100,000)					100,000
Balance sheet totals					650,000	100,000
Income effect of uncorrected misstatements	(100,000)	(650,000)				



05

Value for Money



Value for money

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

The Authority is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

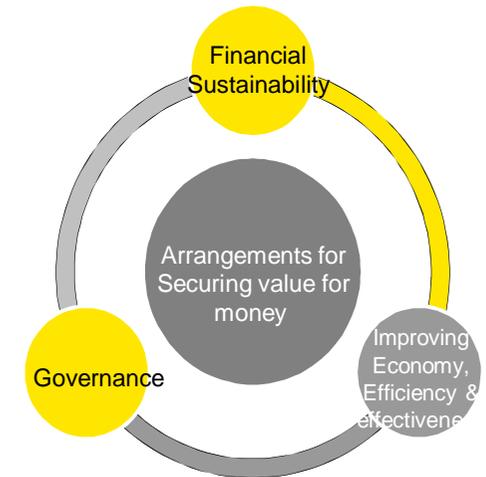
As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect 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

In the Audit Plan and subsequent update to the Audit and Standards Committee, we reported that our value for money (VFM) risk assessment was ongoing and had not at that stage 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 identified three areas where we undertook additional work to review the processes in place to assess whether there was a significant weaknesses in arrangements:

1. Proposed governance changes as a result of the merger of SCRMCA and South Yorkshire Passenger Transport Executive (SYPTTE);
2. Review of arrangements for managing major capital projects; and
3. Review of arrangements in taking on of significant new functions as a result of the Adult Education Budget



Status of our VFM work

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 by the end of September 2021 as part of issuing the Auditor's Annual Report, at the same time as issuing our opinion on the financial statements.



06 Other reporting issues

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 account 20/21 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.

We have yet to complete our procedures in relation to these areas.

Whole of Government Accounts

Sheffield City Region Mayoral Combined Authority is below the threshold for requiring additional audit procedures in relation to your Whole of Government Accounts return. We therefore have no issues to raise to you in regards to this.

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.

We also have a duty to make written recommendations to those charged with governance, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other reporting issues

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 Authority's 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 that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

There are no matters to report to you in respect of the above areas other than as included in the body of the report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place 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 therefore 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 not identified any 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 raise two recommendations in respect of your control environment:

Fixed Asset Register

During our testing of Property, Plant and Equipment we obtained the Fixed Asset Register and noted that Revaluation losses was entered into the impairment column instead of revaluation downwards. This had no impact on the overall total of the PPE on the FAR. Our testing of the revaluations and disclosure of PPE in the accounts did not raise any issues.

Recommendation:

We recommend a periodic and final review of the fixed asset register at year end is undertake to ensure that the FAR is being correctly updated and maintained as a supporting schedule to the final figures in the statements.

Disclosure Note:

In producing the note 38 Revenue grant receipt in advance (Deferred income on the balance sheet), 3 transactions were incorrectly included, which were part of grant revenue already recognised. This was an error in the disclosure note and had no impact on the overall income and expenditure outrun.

Recommendation:

A full review of the accounts and related disclosure notes should be undertaken by management to ensure that the disclosure notes agree to the main statements within the accounts and that they comply with the requirements of the code.



08 Data Analytics



Use of Data Analytics in the Audit

Data analytics

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2020/21, our use of these analysers in the authority's audit included testing income and expenditure recognition, journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year across payroll codes. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



9

Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 10 June 2021.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit and Standards Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Standards Committee on 9/09/2021

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31/03/2021.

We confirm that we have not undertaken non-audit work. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020.

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

(1) We remain in discussion with PSAA about increasing the scale fee for 2019/20 and 2020/21 to reflect the additional work auditors are required to do to meet regulatory requirements.

Management has not agreed to this increase in the scale fee and we have provided the PSAA with our assessment of the fee.

(2) The 2019/20 additional fees have been discussed with management, who have not agreed to £2,500 (additional pensions work) of the additional fee for both SCRMCMA and SYPTE, and has been referred to PSAA for their approval.

(3) For 2020/21, the scale fee will be impacted by a range of factors which have result in additional work. We will communicate these further with you once our work is completed but will include:

- Additional work relating to assessment of risk and internal consultation relating to South Yorkshire Pensions (To be fully calculated when pension fund assurances obtained from pension fund auditors)
- Increased scope of Value for money work under new NAO 2020 code (Exp £2,500) each for SCRMCMA and SYPTE
- Additional work that was required to gain assurance over the transfer of data within the exercise to upgrade the SCRMCMA general ledger system. (Exp: c£4,000)

All additional fees are subject to approval by the PSAA

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

[EY UK Transparency Report 2020 | EY UK](#)



10 Appendices

 Appendix A

Management representation letter

To be communicated on the completion of pensions assurance work

Appendix B

Required communications with the Audit and Standards 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 and standards committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report 10 June 2021
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 September 2021

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		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <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 September 2021
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 September 2021
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 September 2021

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		 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: <ol 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 Audit and Standards Committee responsibility. 	Audit results report September 2021
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 September 2021
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 10 June 2021 and Audit results report September 2021

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		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 September 2021
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 September 2021

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		 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 September 2021
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 10 June 2021 and Audit results report September 2021
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report September 2021
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 September 2021
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 September 2021

Appendix C

Implementation of IFRS 16 Leases

In previous reports to the Audit and Standards 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 authority until 1 April 2022. However, officers should be acting now to assess the authority's leasing positions and secure the required information to ensure the authority will be fully compliant 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 authority 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 authority is lessee; and potentially for sub-leases, where the authority 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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