Year End Report to the Audit, Standards and Risk Committee

South Yorkshire Mayoral Combined Authority

Year end report for the year ended 31 March 2024

5 February 2025

Introduction

To the Audit, Standards and Risk Committee of South Yorkshire Mayoral Combined Authority

We are pleased to have the opportunity to meet with you on 17 January 2025 to discuss the results of our audit of South Yorkshire Mayoral Combined Authority as at and for the year ended 31 March 2024.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan, presented on 17 July 2024, and updated audit plan, presented on 24 September 2024. We will be pleased to elaborate on the matters covered in this report when we meet.

The engagement team

We expect to be in a position to sign our audit opinion on the approval of the financial statements and auditor's representation letter by 28 February 2025.

We will be issuing a disclaimer audit opinion for the reasons outlined on pages 4-5.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Status of our audit and the implications of the statutory backstop.

Yours sincerely,

James Boyle
Director, KPMG LLP
5 February 2025

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

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Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of South Yorkshire Mayoral Combined Authority (the 'Authority'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

This Report has been prepared for the Authority's Audit, Standards and Risk Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Authority's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit and implications of the statutory backstop

Page 4 'Our audit and the implications of the statutory backstop' explains the impact of the statutory backstop and our resulting conclusion to issue a disclaimer opinion on the financial statements.

Our audit is complete.

This report is addressed to South Yorkshire Mayoral Combined Authority (the 'Authority'). We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Our audit and the implications of the statutory backstop

Measures to resolve the backlog

The Government has introduced measures to resolve the local government financial reporting and audit backlog. Amendments have been made to the Accounts and Audit Regulations and NAO's Code of Audit Practice which have allowed auditors to give disclaimed opinions over any open, incomplete audits up to the period ending 31 March 2023. These were required to be delivered by 13 December 2023. This has allowed our audit to progress and commence the objective of rebuilding assurance described below. For South Yorkshire Mayoral Combined Authority this has resulted in a disclaimed audit opinion for the financial year 2022/23.

Those same amendments to the Accounts and Audit Regulations require the Authority to publish its audited 2023/24 financial statements and accompanying information on or before 28 February 2025. In accordance with the Code, as auditors we are required to provide our audit report on those financial statements in sufficient time to enable the Authority to publish its audited financial statements by this date, irrespective of if the audit is complete or not.

The Appendix 'Local Audit - Reset and Recovery' provides more detailed information regarding this. The appendix also provides more detail on the implication of this in future audits, in respect of rebuilding assurance.

Impact on our audit of the financial statements

The impact of the above means that for the financial year 2023/24 we have not been able to obtain sufficient appropriate audit evidence in respect of the 2023/24 opening balances and the comparatives balances relating to 2022/23. The work we have performed in 2023/24 is explained in the next section.

As explained in the previously referenced appendix, the level of rebuilding assurance has been limited in 2023/24 as we have determined that there is insufficient time to complete our audit to obtain sufficient appropriate audit evidence, and, in our view, this is pervasive to the financial statements as a whole.

As a result of the above and irrespective of the level of work completed on 2023/24 balances, we intend to issue a disclaimer opinion on the financial statements.

Other matters

As required by the ISAs (UK) when we are disclaiming our audit opinion, our audit report will not report on other matters that we would usually report on, most notably the use of the going concern assumption in the preparation of the financial statements; the extent to which our audit was considered capable of detecting irregularities, including fraud; and whether there are material misstatements in the other information presented within the Statement of Accounts.

Although we are disclaiming our audit opinion we have, in this report, reported matters that have come to our attention and, where appropriate, we intend to include in our audit report.

Value for Money

The amendments to the Accounts and Audit Regulations do not impact on our responsibilities in relation to the Authority's Value for Money arrangements. We are responsible for forming a view on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. Page 19 provides a summary of our findings. Further details are also available in our Auditor's Annual Report for 2023/24.

Our audit and the implications of the statutory backstop

Work completed in 2023/24

Our audit plan, presented to you on 17 July 2024, and updated audit plan, presented to you on 24 September 2024, set out our audit approach including our significant risks and other audit risks. We have updated our response to those significant risks, in the pages overleaf, identifying the work we have and have not been able to complete (if applicable).

Although we are disclaiming our audit opinion, we have reported matters that have come to our attention during the audit and, where appropriate, we intend to include in our audit report.

Specifically in relation to 2023/24, we have completed all of our planned work in addition to our planning and risk assessment work, with the exception of those areas outlined below.

We have been unable to complete our work on the following areas:

- Opening balances; and
- Balance of, and movements in, usable and unusable reserves for the year ended 31 March 2024.

Significant challenges with progressing work

Matters which led to significant challenges in performing the audit included the following:

Significant delays:

- *Significant delays in management providing required information, including but not limited to their Value for Money self-assessment questionnaire and supporting documentation, other requested questionnaires relating to IT, Fixed Assets and inquiries of Those Charged With Governance, as well as requested transaction listings and sufficient and appropriate audit evidence to support our sample testing; and*
- *Significant delays due to unavailability of entity staff*

Quality of audit evidence:

- *We experienced challenges around obtaining sufficient and appropriate audit evidence to support our sampled transactions based on our quality requirements.*

We have considered the impact of these issues on our audit and have discussed fee variations with management. These are outlined on pages 17 and 26.

We will work with management in advance of the 2024/25 audit to ensure these are addressed where possible, including holding a formal debrief which will focus on continuous improvement.

Our audit findings

We have set out below the status of our work and key findings from the work we were able to perform before the backstop date. On page 4 we have discussed the reasons for the disclaimer audit opinion.

Significant audit risks	**Pages 7-9**
Significant audit risks	**Our findings**
Management override of controls	The results of our testing were satisfactory. We have not identified any instances of management override of controls
Key accounting estimates and judgements	**Page 16**
Valuation of land and building	We assessed the core assumptions underpinning the valuation to be neutral.
Valuation of LGPS pension liabilities	We involved KPMG actuarial specialists in reviewing the core actuarial assumptions. Assumptions were found to be neutral.
Reclassification of Infrastructure Assets	We assessed that management's judgement to reclassify a number of assets from Land and Buildings to Infrastructure Assets was appropriate and has been accounted for in line with the CIPFA Code, with the exception of the retrospective application of the newly implemented accounting policy. See page 29 for further details.
Integration of SYPTE	We assessed that management's judgement to apply merger accounting upon the integration of SYPTE was appropriate and accounted for in line with the CIPFA Code.

Uncorrected Audit Misstatements	**Page 29**
We have not identified any uncorrected audit misstatements that have an impact on surplus as a result of our procedures	

Misstatements in respect of Disclosures	**Page 30**
We have not identified any uncorrected audit misstatements in relation to disclosures as a result of our procedures.	

Number of Control deficiencies	**Pages 31-33**
Significant control deficiencies	0
Other control deficiencies	4

Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our knowledge of the business, the industry and the wider economic environment in which South Yorkshire Mayoral Combined Authority operates.

We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

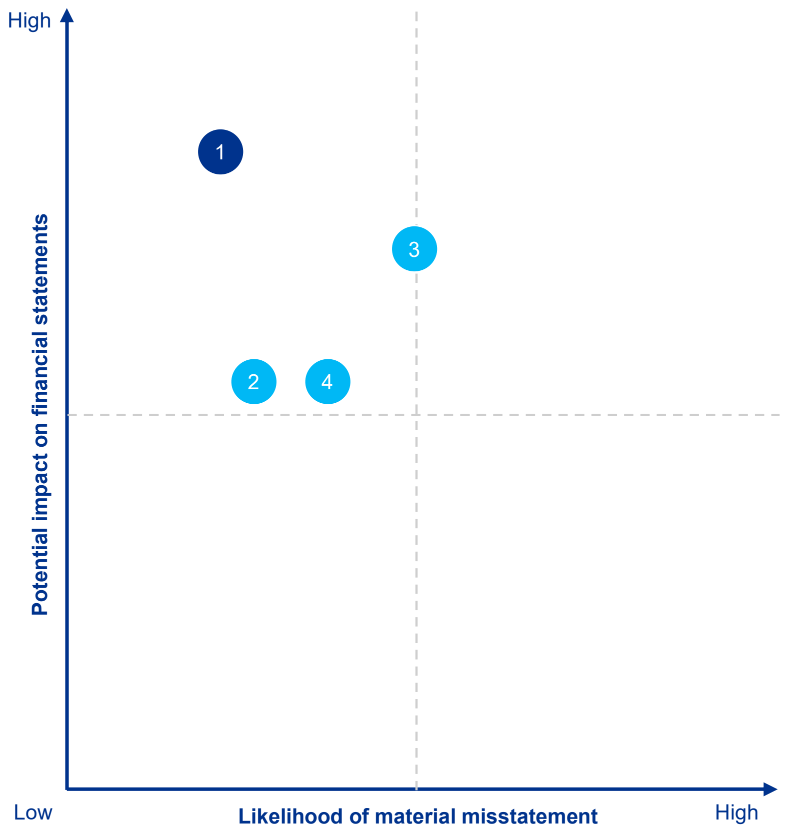
In the pages overleaf we have reported the work we have completed on significant risks and other audit risks.

See the following slides for the cross-referenced risks identified on this slide.

Significant risks	
1.	Management override of controls

Other audit risks	
2.	Valuation of post retirement benefit obligations
3.	Integration of South Yorkshire Passenger Transport Executive
4.	Reclassification of infrastructure assets

Key: # Significant financial statement audit risks # Other audit risk



Audit risks and our audit approach

1 Management override of controls[a]

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Our response

Our audit methodology incorporates the risk of management override as a default significant risk. We have performed the following procedures:

- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias;
- Evaluated the selection and application of accounting policies;
- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments;
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the Authority's normal course of business, or are otherwise unusual; and
- We analysed all journals through the year and focused our testing on those with a higher risk, such as journals posted to unusual accounts.

Audit risks and our audit approach (cont.)

1 Management override of controls[a] (cont.)

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Our findings

- We evaluated accounting estimates and did not identify any indicators of management bias. See page 16 for further discussion.
- We determined the selection and application of accounting policies to be appropriate.
- In line with Auditing Standards, we are required to assess the design and implementation of controls with respect to significant risks. Through our review of management's documentation upon journal approval, we concluded that whilst management does carry out a review prior to approving the journal entry, the documentation of this does not meet the specific requirements of an effective management review control as defined by Auditing Standards. A formal control recommendation has not been raised with respect to this given the unlikelihood of being able to meet these ISA requirements and that the Authority considers its existing controls to be proportionate to address the associated risk. However, as the management override of controls is associated with a significant risk, we are required to bring this matter to your attention.
- We did not identify any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.
- Our procedures relating to significant unusual transactions did not identify any issues in the business rationale and/or the appropriateness of the accounting treatment applied to the integration of South Yorkshire Passenger Transport Executive. See pages 12-13 for further details.
- We performed screening and risk assessment routines over the journals population to establish our high-risk criteria. We analysed the population and identified 5 journal entries and other adjustments meeting our high-risk criteria. Our procedures did not identify unsupported, inappropriate or unauthorised entries.

Audit risks and our audit approach (cont.)

2 Valuation of post retirement benefit obligations

An inappropriate amount is estimated and recorded for the defined benefit obligation

Cautious | Neutral | Optimistic

Other audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and pension increase rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Authority's pension liability could have a significant effect on the financial position of the Authority.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has an elevated degree of estimation uncertainty. The financial statements disclose the assumptions used by the Authority in completing the year end valuation of the pension deficit /surplus and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme.
- Also, recent changes to market conditions have meant that more Authorities are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our response

We have performed the following procedures:

- Understood the processes the Authority have in place to review the assumptions used in the valuation;
- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Performed inquiries of the accounting actuaries to assess the key assumptions made;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and pension increase rates against externally derived data;
- Considered the adequacy of the Authority's disclosures in respect of the sensitivity of the deficit or surplus to these assumptions;
- Where applicable, assessed the level of surplus that should be recognised by the entity.

Audit risks and our audit approach (cont.)

2 Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation

Cautious | Neutral | Optimistic

Other audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and pension increase rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Authority's pension liability could have a significant effect on the financial position of the Authority.
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- Also, recent changes to market conditions have meant that more Authorities are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our findings

- We assessed the competency and objectivity of the Scheme actuaries and did not identify any reportable findings. The Fund actuaries (individual and entity) are professionally qualified to perform actuarial valuations and prepare IAS19 disclosure reports being Fellows of the Institute of Actuaries in the UK.
- Our actuaries have performed inquiries of the actuaries and have reviewed the underlying assumptions behind the calculation of the estimate. We have concluded that the overall assumptions are balanced relative to our central rates. All individual assumptions are balanced except mortality future improvements which are cautious compared to KPMG Central Rates. However, this assumption remains within our reasonable range. See page 24 for further details.
- Our actuaries have performed a review of the pension disclosures and identified a number of best practice disclosure amendments that have subsequently been made by management. See page 30 for further details.
- We have assessed the level of surplus recognised by the Authority and did not identify any reportable findings.

Audit risks and our audit approach (cont.)

3 Integration of South Yorkshire Passenger Transport Executive

Merger accounting is not appropriately applied in relation to the integration of SYPTE

Other audit risk

- In 2022/23, the SYMCA Group comprised the South Yorkshire Mayoral Combined Authority (SYMCA) and its wholly owned subsidiary, South Yorkshire Passenger Transport Executive (SYPTE).
- The integration of SYMCA and SYPTE took place on 1 April 2023.
- The Code of Practice on Local Authority states that there are two options to account for the business combination on integration: absorption accounting or merger accounting.
- The Authority has determined merger accounting to be the most appropriate accounting treatment based on the unified management of SYPTE in 2022/23 and the fact that the entity was consolidated into the group accounts.
- Under merger accounting, comparative information is required, together with a full retrospective restatement, with comparatives being adjusted as necessary to achieve uniformity of accounting policies and consistency of presentation.
- There is a risk that merger accounting is not applied correctly, particularly in relation to the uniform application of accounting policies and the impact this would have on specific balances (e.g. the unwinding of the SYPTE capital grants).

Our response

We have performed the following procedures:

- Determined the appropriateness of applying merger accounting opposed to absorption accounting;
- Reviewed the application merger accounting, including the restated opening balances, to confirm this has been appropriately applied; and
- Performed testing of the material balances forming part of the 2023/24 SYMCA figures, in line with our usual audit procedures, for the key affected account captions.

Audit risks and our audit approach (cont.)

3 Integration of South Yorkshire Passenger Transport Executive (cont.)

Merger accounting is not appropriately applied in relation to the integration of SYPTE

Other audit risk

- In 2022/23, the SYMCA Group comprised the South Yorkshire Mayoral Combined Authority (SYMCA) and its wholly owned subsidiary, South Yorkshire Passenger Transport Executive (SYPTE).
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- The Code of Practice on Local Authority states that there are two options to account for the business combination on integration: absorption accounting or merger accounting.
- The Authority has determined merger accounting to be the most appropriate accounting treatment based on the unified management of SYPTE in 2022/23 and the fact that the entity was consolidated into the group accounts.
- Under merger accounting, comparative information is required, together with a full retrospective restatement, with comparatives being adjusted as necessary to achieve uniformity of accounting policies and consistency of presentation.
- There is a risk that merger accounting is not applied correctly, particularly in relation to the uniform application of accounting policies and the impact this would have on specific balances (e.g. the unwinding of the SYPTE capital grants).

Our response

- Our assessment of the accounting treatment applied upon the integration of SYPTE concluded that merger accounting had been appropriately selected based on the circumstances of the original entities, the historic consolidation of SYPTE balances within the group accounts and the already integrated management and governance structure in place prior to integration.
- Our procedures did not identify any issues in relation to the use of 22/23 consolidated balances as prior year comparators and restated opening balances within the 23/24 financial statements.
- Our procedures did not identify any issues in relation to the adjustments made to opening balances to align the differences in accounting rules between SYMCA and SYPTE.

Audit risks and our audit approach (cont.)

4 Reclassification of infrastructure assets

Infrastructure assets are not appropriately classified at the period end, or the reclassification is not accurately recorded

Other audit risk

- The Authority has a statutory responsibility for providing bus stations and shelters, and for planning and funding new public transport facilities, such as light rail systems and new stations, in accordance with the policies set by the Authority.
- Up to and including 2022/23, these assets were held in the balance sheet of South Yorkshire Passenger Transport Executive (SYPTE) as individual operational property, plant and equipment assets, and were therefore, in accordance with the Code of Practice for Local Authority Accounting, carried at fair value.
- Following the integration of SYPTE with the Authority on 1 April 2023, management has reviewed the presentation of these assets within the balance sheet and determined that the most appropriate treatment is to reclassify them as infrastructure assets and to restate their carrying value in the balance sheet from fair value to depreciated historical cost.
- There is a risk that these assets are not appropriately classified, or the reclassification is not accurately recorded at the year end.

Our response

We have performed the following procedures:

- Reviewed management's assessment of the reclassification of relevant PPE assets to infrastructure assets and assessed the appropriateness of this treatment in accordance with the relevant financial reporting requirements;
- Reviewed the reclassification of assets recognised in year to confirm this has been appropriately applied; and
- Performed testing of the reclassified assets back to supporting documentation to confirm the appropriate measurement at depreciated historical cost upon reclassification.

Audit risks and our audit approach (cont.)

4 Reclassification of infrastructure assets

Infrastructure assets are not appropriately classified at the period end, or the reclassification is not accurately recorded

Other audit risk

- The Authority has a statutory responsibility for providing bus stations and shelters, and for planning and funding new public transport facilities, such as light rail systems and new stations, in accordance with the policies set by the Authority.
- Up to and including 2022/23, these assets were held in the balance sheet of South Yorkshire Passenger Transport Executive (SYPTE) as individual operational property, plant and equipment assets, and were therefore, in accordance with the Code of Practice for Local Authority Accounting, carried at fair value.
- Following the integration of SYPTE with the Authority on 1 April 2023, management has reviewed the presentation of these assets within the balance sheet and determined that the most appropriate treatment is to reclassify them as infrastructure assets and to restate their carrying value in the balance sheet from fair value to depreciated historical cost.
- There is a risk that these assets are not appropriately classified, or the reclassification is not accurately recorded at the year end.

Our findings

- We reviewed and assessment management's assessment of the reclassification of relevant PPE assets to infrastructure assets and did not identify any issues in relation to the appropriateness of this treatment in accordance with the relevant financial reporting requirements.
- Assets were confirmed to have been appropriately reclassified in line with the change in accounting policy applied, however given this was deemed to be a change in accounting policy, this should have been applied retrospectively to the financial statements, rather than a reclassification in year. Whilst this is reclassification of assets is not deemed to be qualitatively material to the users of the accounts, this has been reported as an unadjusted audit difference for transparency purposes. See page 29 for further details.
- Our procedures did not identify any issues in relation to the measurement of reclassified assets at depreciated historical cost.

Key accounting estimates and management judgements – Overview

Our view of management judgement

Cautious Neutral Optimistic

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Asset/liability class	Our view of management judgement (Cautious / Neutral / Optimistic)	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates (Needs improvement / Neutral / Best practice)	Further comments
Valuation of land and buildings	Neutral	23.0	0.2	Neutral	The Authority has used the services of a professionally qualified valuation expert to complete a valuation of its land and buildings as at 31 March 2024. The valuation has been carried out in line with the CIPFA Code. We have reviewed the assumptions used within the valuation and have not found any issues to report from our review of the underlying valuation. We can confirm that the assumptions used by the valuer in the 2023/24 valuation are reasonable and appropriate.
Defined benefit LGPS pension liability	Neutral	118.4	(2.4)	Neutral	The LGPS liability balance has decreased by 2% in comparison to the prior year as a result of the remeasurement gain/(loss) arising from change in assumptions. Based on our actuaries review, the overall assumptions adopted by SYMCA are considered to be balanced, and within our reasonable range.
Reclassification of Infrastructure Assets	Neutral	N/A	N/A	Neutral	We assessed that management's judgement to reclassify a number of assets from Land and Buildings to Infrastructure Assets was appropriate and has been accounted for in line with the CIPFA Code, with the exception of the retrospective application of the newly implemented accounting policy. See page 29 for further details.
Integration of SYPTE	Neutral	N/A	N/A	Neutral	We reviewed management's judgement to apply merger accounting upon the integration of SYPTE and deemed this to be appropriate and accounted for in line with the CIPFA Code.

Other matters

Narrative report

We have read the contents of the Narrative Report and checked compliance with the requirements of the Annual Report and financial statements with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 ('the Code'). Based on the work performed:

- We have not identified any inconsistencies between the contents of the Narrative Report and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the statements of the Authority. As Audit, Standards and Risk Committee members you confirm that you consider that the Narrative Report and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Authority's performance, model and strategy.

Annual Governance Statement

We have reviewed the Authority's 2023/24 Annual Governance Statement and confirmed that:

- It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Whole of Government Accounts

As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack.

We have confirmed that, for South Yorkshire Mayoral Combined Authority, the threshold at which detailed testing is required has not been exceeded.

We will submit an updated assurance statement on completion of the audit and following review the final financial statements.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our PSAA prescribed 2023/24 audit scale fee for the audit was £114,378 plus VAT.

Additional fees of £87,342 plus VAT were charged in relation to the integration of SYPTE, the introduction of ISA315 Revised / ISA 240 Revised, changes to our original scope and inefficiencies identified in the audit process. These have been discussed and agreed with management.

We are in the process of considering the impact of the delays incurred and the quality of audit evidence on our audit fees.

We have not completed any non-audit work at the Authority during the year.

Value for money

Value for money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

Commentary on arrangements

We have prepared our Auditor's Annual Report and a copy of the report is included within the papers for the Committee alongside this report. The report is required to be published on your website alongside the publication of the annual report and accounts.

Response to risks of significant weaknesses in arrangements to secure value for money

As noted on the right, we have identified no risks of a significant weakness in the Authority's arrangements to secure value for money.

We have no recommendations to report.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	No significant risks identified	No significant weaknesses identified
Governance	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

Further detail is set out in our Auditor's Annual Report.

Appendices

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Local Audit - Reset and Recovery

Background

It has been widely reported the level of delays in Local audit had grown to an unacceptable level. As a result, Central Government has been working with the Financial Reporting Council (FRC), as incoming shadow system leader and other system partners to develop proposals to address issues in the local audit. These consist of three stages:

Phase 1: **Reset** involving clearing backlog of historical audit opinions.

Phase 2: **Recovery** from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycle.

Phase 3: **Reform** involving address systemic challenge in the local audit system and embedding timely financial reporting and audit.

Implementation of Reset and Recovery

The Accounts and Audit (Amendment) Regulations 2024, introduced backstop dates by which local bodies must publish audited accounts and the NAO have also issued the revised 'Code of Audit Practice 2024 **Code of Audit Practice** that requires auditors to give an opinion in time to enable local bodies to comply with the backstop date. The table overleaf identifies the backstop dates and the status of your audits where impacted.

The NAO has also published Local Audit Rest And Recovery Implementation Guidance (LARRIGs), which have been prepared and published with the endorsement of the FRC and are intended to support auditors in meeting their requirements under the Act https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors

Local Audit - Reset and Recovery

Financial year	Date
Up to 2022/23	13 December 2024
2023/24	28 February 2025
2024/25	27 February 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

Recovery period and audit work

The implication of receiving a disclaimed audit opinion for the financial year 2022/23 means that for the financial year 2023/24 we have not been able to rely on the opening balances from 2022/23.

To obtain sufficient appropriate audit evidence over opening balances, auditing standards identify two approaches. One of those is to use the working papers and other information available on the prior year audit file, which as noted above has not been possible as the outgoing auditor has not been able to complete their audit. An alternative approach is the performance of specific audit procedures to obtain evidence regarding opening balances.

The LARRIGs, in particular LARRIG 05 *Rebuilding assurance following a disclaimed audit opinion,* was only finally published in September 2024 and further guidance, mentioned in the LARRIG in the format of a case study was only released in December 2024.

We also note there is an ongoing sector wide process, convened by the Financial Reporting Council (FRC) with other stakeholders to determine the appropriate level of work to perform to obtain sufficient appropriate audit evidence over opening balances. This, along with the backstop date for 2022/23 being only 2 months prior to that of the 2023/24 period, has limited the extent of building back assurance that has been possible in 2023/24.

During our audit of 2023/24 we have completed our work on the closing balances for 2023/24 and in year transactions (see pages 4-5) and this will contribute to rebuilding assurance.

The table overleaf identifies an indicative pathway to returning to an unmodified opinion. However, it must be noted this is only an indicative pathway and the speed of progress will depend on a range of factors including the level of work required to provide assurance on opening balances, in particular PPE balances and reserves balances.

Local Audit – Reset and Recovery

Rebuilding assurance

Given the importance and complexity of reserves balances and management, a detailed risk assessment will be undertaken to understand the level of work required to obtain sufficient appropriate audit evidence on the reserves balances. As noted on the previous page, there is an ongoing sector wide process with other stakeholders to determine the appropriate level of work to perform to obtain sufficient appropriate audit evidence over opening balances.

We note there may be other factors which impact on the speed of this work – such as the support provided by the audited entity and availability and quality of audit evidence. Where such support is not provided and the availability and quality of audit evidence is not present this will significantly impact on the time taken to build back assurance and the likely cost of such a process in terms of audit fees. As we complete our debrief with management, we can discuss how assurance can be gained on individual account balances and ultimately lead to a position that unmodified opinions can be issued in future years.

A draft extract of the audit opinion for 2024/25 will be shared in due course.

Indicative pathway based is reproduced from the LARRIGs

2023/2024	Disclaimer of Opinion	Auditors will begin work to rebuild assurance, gaining sufficient assurance over some, but not all, closing balances. No assurance will be possible over brought forward balances from 2022-23 or comparatives, therefore this will lead the audit to be disclaimed as it cannot be concluded that the financial statements are free from material and pervasive misstatement.
2024/2025	Disclaimer of Opinion / Qualified (Except For)	Auditors will now have obtained sufficient evidence over most, if not all, closing balances in 2024-25, but does not yet have assurance over the brought forward balances that were not audited in 2023-24. This will likely lead the auditor to disclaim, however where auditors have gained assurance over in-year movements, they may be able to issue a qualified opinion instead.
2025/2026	Qualified (Except For)	Auditors should have assurance over the opening and closing balances plus in year movements, but may not have sufficient assurance over the comparative figures. This will likely lead to a qualification by limitation of scope to exclude assurance over the comparative figures – a material, but not pervasive misstatement.
2026/2027 2027/2028	Unmodified	It is expected that most audits, will have assurance over opening balances, closing balances, in-year movements and prior year comparatives. This will result in an unmodified opinion being issued.

LGPS Actuarial Assumptions

South Yorkshire Mayoral Combined Authority – LGPS participation – IAS 19 as at 31 March 2024

Procedures 3-6: UK assumptions

Level of prudence compared to KPMG central assumptions

Audit misstatement | *Cautious* | *Balanced* | *Optimistic* | *Audit misstatement*

Reasonable range

Overall assessment of assumptions for audit consideration						Balanced	
Underlying assessment of individual assumptions	**Methodology**	**Consistent methodology to prior year?**	**Compliant methodology with accounting standard?**	**Employer**	**KPMG central**	**Assessment**	**Significant assumption**
Discount rate	AA yield curve	✓	✓	4.85%	4.81%		✓
CPI inflation	Deduction to inflation curve with adjustment for recent inflation experience	✓	✓	2.75%	2.85%		✓
Pension increases	In line with CPI	✓	✓	2.75%	2.83%		
Salary increases	Employer best estimate	✓	✓	CPI plus 0.6%	In line with long-term remuneration policy		
Mortality – **Base tables**	In line with most recent Fund valuation	✓	✓	Fund-specific based on Club Vita Curves	In line with best-estimate Fund experience		✓
Mortality – **Future improvements**	In line with most recent Fund valuation, updated to use latest CMI model	✓	✓	CMI 2022, 1.5% long-term trend rate, an initial addition parameter of 0.25% and default other parameters	CMI 2022,1.25% long-term trend rate and default other parameters		✓
Other demographics	In line with most recent Fund valuation	✓	✓	Member take 50% of the maximum additional tax-free cash up to HMRC limits	In line with Fund experience		

Required communications

Type		Response
Our draft management representation letter	OK	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences	OK	There were 2 adjusted audit differences with a surplus impact of £3.7m. See page 30 for further details.
Unadjusted audit differences	OK	The aggregated surplus impact of unadjusted audit differences would be nil. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See page 29 for further details.
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Make a referral to the regulator	OK	If we identify that potential unlawful expenditure might be incurred then we are required to make a referral to your regulator. We have not identified any such matters.
Issue a report in the public interest	OK	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Type		Response
Significant difficulties	OK	No significant difficulties were encountered during the audit.
Modifications to auditor's report	X	Our audit opinion will be disclaimed. See pages 4-5 for further details.
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	No material inconsistencies were identified related to other information in the narrative report. The narrative report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	OK	No matters to report. The engagement team has complied with relevant ethical requirements regarding independence.
Accounting practices	OK	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	OK	No significant matters for discussion with management were identified.
Certify the audit as complete	X	We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above. We have not yet certified the audit as complete because our work on WGA is outstanding.
Provide a statement to the NAO on your consolidation schedule	OK	We will issue our report to the National Audit Office following the signing of the Annual Report and accounts. We have not identified any differences to report.

Fees

Audit fee

Our fees for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2023/24 (£'000)	*2022/23 (£'000)*
Statutory audit	114,378	*34,232*[(a)]
Integration of SYPTE	65,035	*32,337*[(a)]
ISA315R / ISA240	8,973	-
Overruns	13,334	-
TOTAL	**201,720**	*66,569*

Note: (a) Fee charged by Ernst & Young LLP – your predecessor auditor.

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA315 revised (risk of material misstatement); or ISA 240 (auditor's responsibilities relating to fraud.
- We have also charged additional fees for the integration of SYPTE.
- We have also charged for delays incurred throughout the audit that have been agreed with management.
- Additional fees have been/will be subject to the fees variation process as outlined by the PSAA.

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit, Standards and Risk Committee members

Assessment of our objectivity and independence as auditor of South Yorkshire Mayoral Combined Authority

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

We have not carried out any non-audit services during the year.

Confirmation of Independence (cont.)

Summary of fees

We have considered the fees charged by us to the Authority for professional services provided by us during the reporting period.

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2023/24
	£'000
Statutory audit	202
Total Fees	**202**

Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit, Standards and Risk Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit, Standards and Risk Committee of the Group and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Uncorrected audit misstatements

Given we are disclaiming our audit opinion as described on pages 4-5 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported uncorrected audit misstatements that we have identified.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit, Standards and Risk Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit, Standards and Risk Committee, details of all adjustments greater than £375k are shown below:

We have identified the following disclosure adjustments which have not been adjusted for:

- During the year, upon the integration of SYPTE, the Authority has reclassified a number of assets from land and buildings to infrastructure assets. This represents a change in the basis of accounting and therefore needs to be treated as a change in accounting policy and under IAS 1 and IAS 8. From our review of the financial statements, we confirmed that the reclassification had been applied prospectively in year, rather than reflected as an adjustment to the opening balances as at 1 April 2022. We have therefore challenged management on the application of this treatment, to which they concluded that this retrospective application of this accounting policy change is not deemed to be qualitatively material to the users of the accounts, and therefore has not been applied. Given we have concluded that this reclassification to infrastructure assets is indeed deemed to be immaterial to the users of the accounts from a qualitative perspective, we are required to bring this matter to the attention of those charged with governance given the current treatment is not in line with the relevant accounting standards. However we will not request management to make this adjustment given the qualitative immaterial nature of the reclassification and the fact they have enhanced their disclosure around the approach taken, following auditor challenge, to aid transparency.
- We have been unable to obtain sufficient appropriate evidence over the disclosed comparative figures for the year ended 31 March 2023 due to the Backstop Date. We note that as at 31 March 2023 a pension surplus (asset) of £10m was presented within long-term liabilities. Whilst we have been unable obtain sufficient appropriate audit evidence over the reported £10m as at 31 March 2023 due to the Backstop Date, if a surplus existed at 31 March 2023, this should have been presented as part of long-term assets rather than within long-term liabilities.

Corrected audit misstatements

Given we are disclaiming our audit opinion as described on pages 4-5 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported corrected audit misstatements that we have identified.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit, Standards and Risk Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Corrected audit differences (£'000s)				
No.	**Detail**	**CIES Dr/(cr)**	**BS Dr/(cr)**	**Comments**
1	Dr Actuarial (Gains)/Losses (OCIES) / Pensions Reserve Cr LGPS Unfunded Liability	3,688 -	- (3,688)	Through our review of the IAS19 pensions valuation report, we identified that the net unfunded liability had initially been inappropriately offset against the net funded surplus when this should have been disclosed separately on the balance sheet with a corresponding debit entry to the pensions reserve.
2	Dr Land and Buildings Dr Infrastructure Assets Cr Vehicles, Plant, Furniture and Equipment	- - -	1,753 3,793 (5,546)	Through our work reconciling the financial statements back to the valuation reports, we identified that the value of Land and Buildings did not reconcile to the valuation reports. This was due to depreciation on the newly reclassified infrastructure assets being incorrectly recognised within the Land and Buildings caption rather than Infrastructure Assets. Additionally, management later identified a number of shelters, previously classified as Vehicles, Plant, Furniture and Equipment that should have been reclassified into Infrastructure Assets. This has no impact on the overall PPE balance and is purely a disclosure adjustment amongst the PPE categories.
Total		**3,688**	**3,688**	

We have identified the following disclosure adjustments which have been adjusted for:

- Amendments to the Officers' Remuneration disclosure, including the update of 1 senior officer pay figure;
- Amendments to the PFI disclosure, including updates to the period in which the PFI covered, the forecast Unitary Charge over the lifetime of the PFI and the 11-15 years breakdown of Contingent/Rental, Service Charge and Lifecycle Costs;
- Amendments to the LGPS Pensions disclosure, including updates to the LGPS asset and liabilities reconciliations;
- Amendments to the Capital Commitments disclosure, including additional commentary on the balances being disclosed;
- Amendments to the Termination Benefits disclosure, including the movements of 2 employees from Other Departures to Redundancies; and
- Other minor typing and casting corrections.

These have all been corrected by management.

Control Deficiencies

Although we are disclaiming our audit opinion we have reported recommendations as a result of our work in the current year as follows:

Priority rating for recommendations

1 **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

2 **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

3 **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	2	**Quality and Sufficiency of Audit Evidence** Throughout the audit, management were unable to provide audit evidence of sufficient quality on a timely basis, particularly in relation to income, expenditure and accruals transactions. In most cases the evidence initially provided amounted to an internal email or Microsoft Teams trail detailing required payments or accruals to be made, with no backing evidence for the value or business or accounting rationale. Additional supporting information was subsequently provided by management to enable us to gain assurance over the balances sampled and recognised within the financial statements. This results in additional time taken to complete areas of substantive testing and requires the re-review of audit documentation and revisiting of working papers as a result of the back and forth of our challenge, therefore creating an inefficient audit process. This also increases the risk that payments are made for transactions that lack commercial substance. We recommend that management puts in place processes to ensure all audit evidence collated fully meets the requirements of the audit requests prior to being provided to the audit team. Additionally, management should ensure there is a third party (where possible) audit trail available to support transactions raised in the ledger to provide both the Authority and audit team with assurance over the value, business and accounting substance of the transaction.	**Management Response:** A comprehensive set of audit working papers were uploaded to the sharepoint site prior to the commencement of the audit. What subsequently emerged was that there was a step change in what constituted sufficient reliable evidence on certain aspects of the financial statements audit compared to previous audits, most notably around grant income, grant expenditure and accruals. Accordingly, in these areas, it required additional time to provide the necessary additional evidence. We welcome the opportunity to hold a formal debrief to identify where the standard of evidence did not initially meet audit expectations so that we can look to make the necessary improvements in closing down 2024/25. **Responsible Officer:** Ian Bagshaw **Due Date:** 2024/25 closedown

Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	3	**Duplicate Payments to HMRC** Through carrying out our substantive testing over payroll costs, we identified that the Authority had made duplicate payments to HMRC from April 2023 to June 2023 on behalf of SYPTE. There is a risk that duplicate payments are made and not identified, therefore increasing the spend of the Authority inappropriately. However, as part of our substantive testing we confirmed that these funds we reimbursed through the reduction of future payments. We recommend that management put processes in place to ensure there is sufficient oversight of payments being made through the various routes available to prevent duplicate payments being made.	**Management Response:** This was a one off issue that stemmed from the integration of SYMCA and SYPTE on 1 April 2023. The cause of the duplication was due to the fact that SYMCA used the payroll bureau to automatically make payovers to HMRC whereas SYPTE controlled such payovers through the accounts payable system. This led to duplicate payments being made for the first 3 months post integration – once through accounts payable and a second time by the automatic payover by the payroll bureau. On discovery, a single method of payment was adopted through accounts payable giving the MCA's Financial Services team control over payovers to HMRC and the overpayments were recovered promptly. More regular control account reconciliations over tax and national insurance have also been introduced to detect any such occurrence more quickly in the future. Management consider that with these improvements there are now effective controls in place. **Responsible Officer:** Matt Bell **Due Date:** Implemented
3	3	**IFRS 16 Transition Plan** The Authority plans to implement the new lease accounting standard, IFRS 16, effective from 1 April 2024. A review of the IFRS 16 pre-transition disclosures in the draft financial statements revealed that management has only included qualitative disclosures, without providing quantitative impact information. According to IAS 8, the disclosure should include a discussion of the estimated impact the introduction of new standards will have on the financial statements. If a reasonable estimate cannot be made due to data limitations, this fact should be disclosed. While the lack of quantitative disclosures in the 2023-24 financial statements is not considered an omission, given the standard's effective date of 1 April 2024, it is expected that management should be well advanced in their quantitative impact assessment for the 2024-25 financial statements. There is a risk that delaying this assessment could lead to errors, insufficient review time, and potential material misstatements. Management should ensure that the quantitative impact assessment is scheduled and completed promptly, allowing sufficient time for review and challenge before posting transition adjustments. We recommend management prepare an implementation plan and this is reviewed by an appropriate member of staff.	**Management Response:** We recognise the importance of successfully implementing the new lease accounting rules under IFRS 16. To this end, Finance officers have attended IFRS 16 training courses provided by CIPFA and have prepared a project plan which identifies workstreams that need to be completed to identify and properly account for leases or lease type arrangements that are subject to the new lease accounting rules. This work has been identified as a key risk for 2024/25 closedown and will be prioritised to bring it to a timely conclusion. **Responsible Officer:** Ian Bagshaw **Due Date:** March 2025

Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
4	❸	**Capital Commitments Disclosure** Through our review of the Capital Commitments disclosure note, we identified that the Authority does not currently disclosure it's contractual commitments in line with the CIPFA Code. Instead of disclosing the amount of contractual commitments for the acquisition of property, plant and equipment as at the balance sheet date, the Authority currently discloses all approved budgeted spend for the forthcoming financial year. There is a risk that this disclosure is not interpreted in the way the Authority has intended given that the disclosure does not currently align directly to the CIPFA Code. Additional commentary has therefore been included within the disclosure note to make it clear to readers what the current disclosure represents. We recommend that management review the disclosure for 24/25 against the CIPFA Code requirements and assess whether any additional disclosures are required in order to address the requirements of the Code.	**Management Response:** We will consider with external audit how to make the disclosure Code compliant in 2024/25. **Responsible Officer:** Ian Bagshaw **Due Date:** 24/25 closedown

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on page 4. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements*, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

ISA (UK) 315 Revised: changes embedded in our practices

Summary

In the prior period, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity's audit.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every engagement lead and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

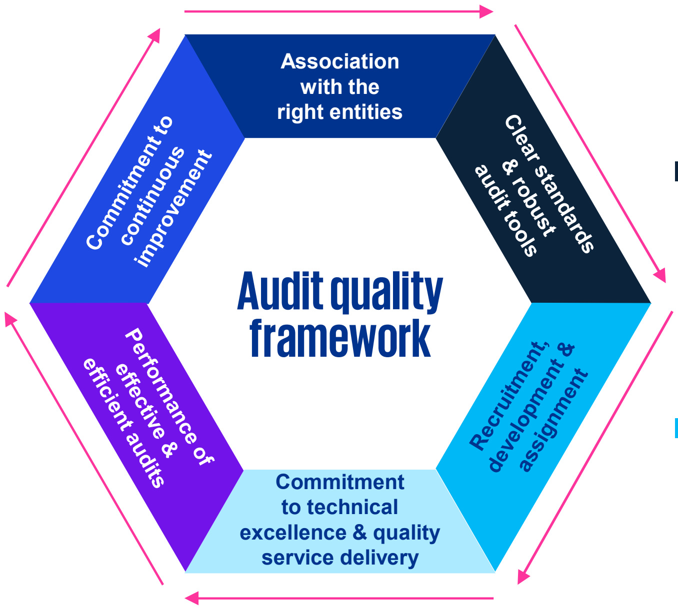
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members

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