External Audit Report 2015/16

Sheffield City Region Combined Authority

—

September 2016

Contents

The contacts at KPMG in connection with this report are:

Trevor Rees
Director

KPMG LLP (UK)

Tel: 0161 246 4063

trevor.rees@kpmg.co.uk

Alison Ormston
Senior Manager

KPMG LLP (UK)

Tel: 0113 231 3942
alison.ormston@kpmg.co.uk

Matthew Ackroyd
Manager

KPMG LLP (UK)

Tel: 0113 254 2996
matthew.ackroyd@kpmg.co.uk

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Trevor Rees, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 for both the Authority and its pension fund; and**
- **Our assessment of the Authority's arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- Our audit work at Sheffield City Region Combined Authority ('the Authority') in relation to the Authority's 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').
- The Pension Fund financial statements sit as an addendum to the main financial statements and are produced by South Yorkshire Pensions Authority (SYPA) on behalf of the Combined Authority. Therefore recommendations raised relate to the operations at SYPA, although this does not remove the Combined Authority's legal responsibility for administering the fund.

Financial statements

Our *External Audit Plan 2015/16*, presented to you in April 2016, set out the four stages of our financial statements audit process.

Planning

Control Evaluation

Substantive Procedures

Completion

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July and August 2016.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Conclusion

Our External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- Considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- Carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior period recommendations.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Section two: Headlines

Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2016.
Audit adjustments	We are pleased to report that there were no adjusted or unadjusted audit differences for the Authority's single entity, group or the pension fund accounts. There were a number of non-material presentational adjustments relating to single entity and the group accounts. All of these were adjusted by the Authority.
Key financial statements audit risks	We review risks to the financial statements of the Authority and the Pension Fund on an ongoing basis. We identified the following significant risk in our 15/16 External audit plan issued in April 2016 specific to the financial statements of the Pension Fund. — The introduction of the new pensions administration system by South Yorkshire Pensions Authority has caused problems for the Pension Fund as it was not working as designed. Workarounds were put in place and the new system is requiring significant input from officers as they continue to work through a large processing backlog. We have worked with officers throughout the year to discuss this key risk and our detailed findings are reported in section 3 of this report. There were a number of matters arising regarding this issue related to IT controls issues and errors in mapping data from one system to another. This has resulted in three recommendations being made. Recommendations regarding these issues are found at Appendix One, although it is acknowledged that the responsibility for addressing these is largely outside the control of the Authority.

Headlines (cont.)

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Accounts production and audit process	We received complete draft accounts on 31st May 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code. We have noted an improvement in the quality of the accounts and the supporting working papers this year. It was noted that the availability of officers and sufficient resource did at times slow the planned audit process although this was still completed to meet both Audit Committee and statutory deadlines. The Authority has implemented all of the recommendations in our *ISA 260 Report 2014/15* relating to the financial statements of the Authority. Separate recommendations with regards to the Governance Framework (VFM) and backlog of pensions issues (Pension Fund) have not been full addressed. As in previous years, we will debrief with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular we would like to thank Authority Officers for their help during the course of the audit.
VFM conclusion and risk areas	Our detailed VFM work for 2016 identified 1 significant risk. — There is a risk that as the Authority continues to develop its governance arrangements these are not fully embedded and operational throughout the period. We have worked with officers throughout the year to discuss this VFM risk and our detailed findings are reported in section 4 of this report. We anticipate issuing a qualified ‘except for’ conclusion by 30 September 2016 which draws attention to the Authority’s improving but ongoing development of governance arrangements. Section four provides further detail.

Headlines (cont.)

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas: — Review of final set of accounts for minor presentational changes; and — Follow up on minor queries that we do not anticipate impacting our audit conclusion or findings. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 30th August 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Section three: Financial Statements

Proposed opinion and audit differences

We have not identified any issues in the course of the audit that are considered to be material.

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 12 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix two for more information on materiality) level for this year's audit was set at £2 million. Audit differences below £100k are not considered significant.

The Authority's own (single-entity) financial statements

We did not identify any material misstatements or significant audit differences in the single entity accounts. We identified a small number of presentational adjustments required and these have been adjusted accordingly.

The Authority's Group financial statements

We did not identify any material misstatements or significant audit differences in the group accounts. We identified a small number of presentational adjustments required and these have been adjusted accordingly.

Pension Fund

The final materiality level for this year's audit of the Pension Fund was set at £3m. Audit differences below £150k are not considered significant.

We did not identify any corrected or uncorrected audit differences over £150k.

Annual governance statement

We have reviewed the 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 or inconsistent with other information we are aware of from our audit of the financial statements.

Pension fund annual report and accounts

We have reviewed the *Pension Fund Annual Report and Accounts and confirmed that:*

— The financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the *Pension Fund Annual Report and Accounts* at the same time as our opinion on the Statement of Accounts.

Significant audit risks

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

.

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of focus

In our External Audit Plan 2015/16, presented to you in April 2016, we identified one area of audit focus. This is not considered as a significant risk but an area of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings.

South Yorkshire ITA Properties Ltd

The Authority must prepare group accounts to consolidate the accounts of SYITA Properties Limited. The latter is in the process of being wound up and therefore this has potential implications for the going concern review of the board of the Combined Authority. We also understand that the Combined Authority is owed an outstanding dividend balance (£4.5m) from SYITA Properties Limited.

Findings

We have fully considered the going concern assessment of the Combined Authority and the accounting of the balances held by SYITA Properties Limited at the year end and are satisfied that these have been assessed and treated appropriately with no impact on the going concern of the Combined Authority. We understand that the company's final reporting period shall be an 18 month period ending September 2016.

Significant audit risks - Pension Fund

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

In our External Audit Plan 2015/16, presented to you in April 2016, we did identified one significant risk affecting the Authority's 2015/16 Pension Fund. We have now completed our testing of this area and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Pensions Administration System

During 2014/15 the Authority purchased a new pensions administration system. The introduction of the new system has caused problems for the Pension Fund as it was not working as designed. Workaround systems have been put in place, for example on pensioners payroll to ensure members receive their entitlements, accurately and timely. The new system is requiring significant input from officers as they continue to work through a large processing back-log.

This risk affects only the Pension Fund.

Findings

KPMG IT specialists undertook testing in respect of the migration of data from the old Heywoods Pension system to the new Civica Pension system. Their work identified the following issues:

- Due to mapping errors from Axis to UPM not being recognised until post go live, issues are arising on an adhoc basis with no clear indication or certainty of how many exist in UPM.
- A high number of outstanding issues are logged across the UPM Team, a number of which relate to the data migration process.
- Weaknesses in access controls mean that any pay element (basic pension, PI, refund, transfer, etc.) can be amended by Payroll without a process/instruction from Pensions Admin.
- No formal review has been carried out on the above area to provide assurance over unauthorised changes to key and or sensitive information had occurred.

The exceptions noted above contribute to a lack of assurance over completeness and accuracy for the migration from the old to new Pension systems.

Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers did not always have the capacity or availability to deal with audit queries this was a significant factor in the audit process taking longer than originally planned.

The Authority has implemented 5 of 7 recommendations from our 2014/15 ISA260 report related to the financial statements.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has strengthened its financial reporting process through the provision of additional resource and improved accounts production procedures. There is scope to improve this further by ensuring there is sufficient available resource to prepare the accounts and supporting working papers. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 31sy May 2016. There were minimal amendments made to the original draft with all changes communicated on a timely basis.
Quality of supporting working papers	The quality of working papers provided was good and met the standards required.
Response to audit queries	Officers resolved many of the audit queries in a reasonable time. Due to resource and capacity in the finance team, in some cases, we experienced delays. However, we recognise officers responded in the best available timescale given resource constraints.

Element	Commentary
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by the KPMG team on the financial statements of South Yorkshire PTE, and SY Passenger Transport Pension Fund. There are no specific matters to report pertaining to the group audit.
Pension Fund Audit	The audit of the Pension Fund was completed by a separate team alongside the audit of the South Yorkshire Pension Authority who manages the fund on the Combined Authority's behalf. There are no specific matters to bring to your attention relating to this.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented 5 out of 7 of the recommendations in our *ISA 260 Report 2014/15*. *Recommendations regarding the pensions administration system and governance arrangements remain outstanding.*

Appendix one provides further details.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Sheffield City Region Combined Authority and South Yorkshire Passenger Transport Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Sheffield City Region Combined Authority and South Yorkshire Passenger Transport Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix three in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Section 151 officer for presentation to the Leader's Board. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2015/16 financial statements.

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people except for some areas of corporate governance arrangements.

Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

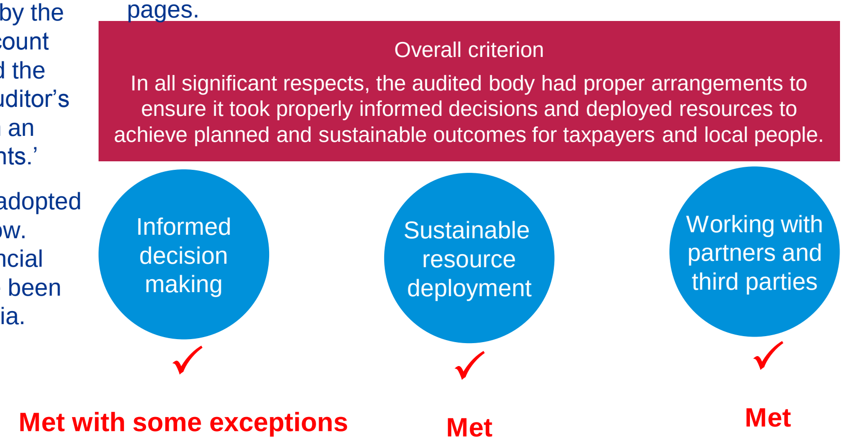
This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

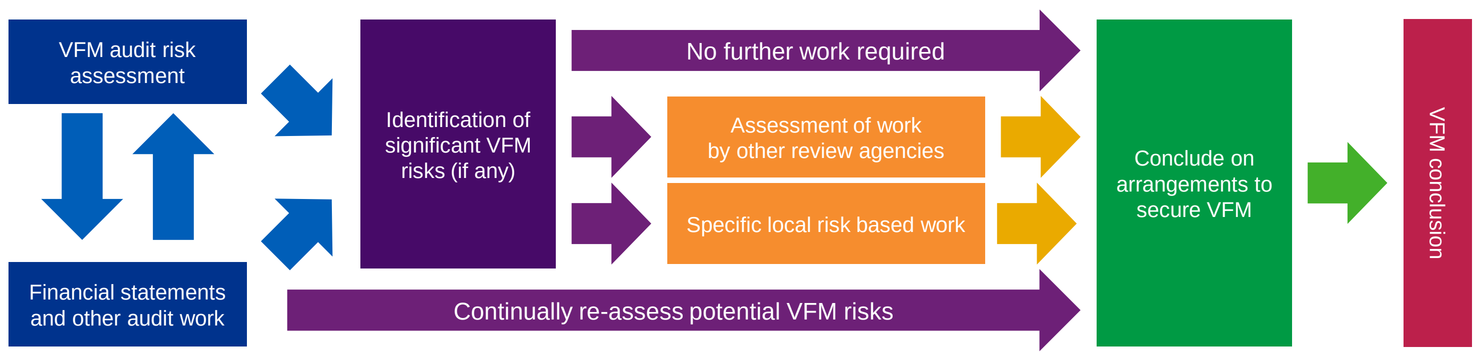
The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.

Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people except for the specific areas regarding governance arrangements detailed on the following pages.





Specific VFM Risks

We have identified one specific VFM risk.

We have identified that internal scrutiny has not provided sufficient assurance that the Authority's current arrangements in relation to this risk area is adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

— Assessed the Authority's key business risks which are relevant to our VFM conclusion;

— Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

— Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and

— Discussed our thoughts and assessment with key senior officers at the Authority.

Key findings

On the following page we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We noted that significant progress had been made by the Authority in the year in establishing governance arrangements and practice. However, some areas, whilst beginning to be established in the 2015/16 period and beyond remained incomplete either at the time of our audit or were not in place for the entire 2015/16 reporting period.

Further detail and specific areas are noted on the following page.

Specific VFM Risks (cont.)

We have identified one specific VFM risk.

We have identified that internal scrutiny has not provided sufficient assurance that the Authority's current arrangements in relation to this risk area is adequate.

Whilst progress has been made in the development of governance arrangements we note that the Authority does not yet have a Code of Corporate Governance or a fully established risk management process.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Governance Arrangements	We noted in the previous period that the Authority had identified a number of areas meaning it did not have a fully functioning governance framework in place. Specifically the following areas were highlighted: - Establish a Code of Corporate Governance - Establish a robust risk management process - Establish a performance management framework - Review the operation of SYITA Properties Ltd - Address the backlog and performance issues at the pension fund. This was highlighted in our VFM opinion on the previous period. These areas link to the first VFM criterion of informed decision making.	The Authority has begun to address all of these areas, however some have progressed further than others. A Code of Corporate Governance has not yet been established by the Authority as noted in the Annual Governance Statement. A risk management process has begun to be established with the first corporate risk register presented to audit committee in July 2016, however this was not in operation during the 2015/16 period. A performance management framework has been developed and continues to evolve, ensuring the performance of the Authority and funded projects can be assessed. SYITA Properties Ltd has been assessed and the company is in the process of being wound up. Issues with regards to backlog and performance have remained throughout the year at the pension fund. We noted that the Authority's internal audit service was only able to provide a limited assurance opinion in the period due to arrangements not being fully in place. **Specific risk based work required: No** No additional work has been undertaken as the findings are clear and have been discussed and understood with senior officers. We shall highlight in our VFM opinion by exception the incomplete areas around Code of Corporate Governance, risk management processes and the continued backlog and performance issues at the pension fund.

Appendices

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations					
❶	***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.	❷	***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.	❸	***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.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	❶	**Corporate Governance Arrangements** We noted both from our own work and the Authority's Annual Governance Statement that a Code of Corporate Governance has not yet been established at the Authority. We also noted that whilst the Authority has made good progress in establishing a robust risk management process this was still in its infancy and had not been in place for the full 2015/16 period with the first corporate risk register only being presented to Audit Committee in July 2016. There remained some issues with regards to the data processing performance of the pension fund (highlighted in recommendations 2-4), although we acknowledge that, other than moving pensions administrator, these issues are largely out of the control of the Authority directly. **Recommendation** The Authority needs to establish a clear Code of Corporate Governance as a priority in order to demonstrate it is operating effectively in the 2016/17 period. Establishing the Code should also enable the risk management framework to become more fully embedded.	**Management Response** The Authority has implemented a number of changes to its Corporate Governance arrangements during financial year 2015/16, and will work to ensure that these are fully embedded and reviewed throughout 2016/17. The Authority continues to recognise that further development of arrangements are, however, necessary. External support has been commissioned from specialist consultancy providers to support the Authority in developing effective arrangements as it moves towards a devolution agreement with central government, and as an evolving organisation the Authority will continue to review those arrangements. As administering body, the Authority will coordinate with SYPA such that the changes necessary to address weaknesses identified in the pension fund are implemented. **Responsible Officer** Dave Smith – Head of Paid Service **Due Date** 31 March 2017

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	❶	**Pension Admin System – Mapping Errors** Due to mapping errors from Axis to UPM not being recognised until post go live, issues are arising on an ad hoc basis with no clear indication or certainty of how many exist in UPM. Management have informed us that once UPM DART (the data cleansing tool) is fully operational it will allow SYPA to improve the data quality significantly going forward. **Recommendation** Management should continue to be alert for mapping errors and deal with them promptly and completely (making full use of the DART tool once operational) once identified.	**Management response** Procedures are in place for the notification and rectification of data mapping errors as and when they arise. Whilst the possibility of new errors remains, it is unlikely that they will impact large numbers of members the further we move away from our live implementation date. Nevertheless, DART will be used to ensure any erroneous data is corrected. **Responsible officer** Gary Chapman, SYPA **Due date** 31 March 2017
3	❶	**Pensions Administration System – Helpdesk issues** The number of issues logged across the UPM team in the major areas (Processes and Calculations) was high. At 16 June 2016 these stand at 173 outstanding issues in respect of Calculations and 251 outstanding issues in respect of Processes. It our understanding that a proportion of the issues logged were due to data migration problems. **Recommendation** Management should address those outstanding issues relating to data migration problems promptly and completely (making full use of the DART tool once operational).	**Management response** The UPM team is currently concentrating heavily on the annual returns and actuarial valuation process and as a consequence a backlog of support logs relating to UPM calculations and processes has built up over time. However the vast majority of these issues relate to current UPM usage and not data migration issues and are prioritised according to their urgency and impact on similar cases. It is agreed though that any data migration issues should be dealt without delay. **Responsible officer** Gary Chapman, SYPA **Due date** 31 October 2016

Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
4	❶	**Pensions Administration System – Access Control** From review of the internal project plan / issues log we noted that following issue remained open on and after Weekly Update w/c 09/02/15, management have confirmed that this issue has not been resolved: Any pay element (basic pension, PI, refund, transfer, etc.) can be amended by Payroll without a process/instruction from Pensions Admin. Although there is a warning given by the system prior to confirming any amendment to a pay element. We noted no formal review had been carried out on the above area to provide assurance over unauthorised changes to key and or sensitive information occurring. **Recommendation** Management should carry out a formal review of the above area as soon as possible to ensure: • Only authorised changes have and are made to data and system; • The results of the review should be documented and actions identified should be tracked to completion; • Appropriate segregations of duties are implemented to reduce the risk of unauthorised changes; and • Going forward a formal periodic reviews is carried out, documented and signed off by management.	**Management response** Procedures are in place for the notification and rectification of data mapping errors as and when they arise. Whilst the possibility of new errors remains, it is unlikely that they will impact large numbers of members the further we move away from our live implementation date. Nevertheless, DART will be used to ensure any erroneous data is corrected. **Responsible officer** Gary Chapman, SYPA **Due date** 31 March 2017

Follow up of prior year recommendations

The Authority has not yet implemented all of the recommendations in our *ISA 260 Report 2014/15*.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original reports	7
Implemented in year or superseded	5
Remain outstanding (re-iterated below)	2

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
1	❶	**Governance Framework** The Authority needs to address the improvement priorities highlighted in the Annual Governance Statement, namely: • Establish a Code of Corporate Governance • Establish a robust risk management process • Establish a performance management framework • Review the operation of South Yorkshire Properties Ltd • Recover the data processing performance of the pension fund following the implementation of new software. **Recommendation** Ensure that the programme to establish a governance framework is completed in time to demonstrate it is operating effectively during 2015/16 financial year.	CA Monitoring Officer – November 2015	The Combined Authority has made some progress towards meeting some of the areas outlined. Notably a performance management framework has been established, encompassing all projects, and the operation of SYITA Properties Ltd has been reviewed. Progress has been made in developing a risk management process, with the first corporate risk register presented to audit committee in July 2016. A formal code of corporate governance has not yet been established. See revised recommendation at page 22.

Appendix one

Follow up of prior year recommendations (cont.)

The Authority has not yet implemented all of the recommendations in our *ISA 260 Report 2014/15*.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original reports	7
Implemented in year or superseded	5
Remain outstanding (re-iterated below)	2

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
2	2	**Pensions Administration System** The new system has not been capable of producing the processes and calculations previously produced by the old system and so workarounds have been put in place by officers to ensure business, specifically in relation to payments to members, has continued correctly and with minimal disruption to members. It is recognised that issues with the new system are largely outside of the SYPA's control. Due to the previous provider withdrawing the service earlier than expected, SYPA had no choice but to implement the new system earlier than planned. **Recommendation** Continue to clear any backlog created as a result of the new system inadequacies and maintain rigorous reporting to members on the position.	Gary Chapman, SYPA 31 December 2015	The pension administration has continued to experience some backlog in queries as well as other identified issues. See recommendations 2 to 4 identified for the current period.

Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

Material misstatements

We are pleased to report that there were no material misstatements identified.

Non material audit differences

Some minor amendments focused on presentational improvements have also been made to the draft financial statements.

The Finance Department are committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Materiality and reporting of audit differences

For 2015/16 our materiality is £2.0million for the Authority's accounts. For the Pension Fund it is £3.0 million.

We have reported all audit differences over £100k for the Authority's accounts and £150k for the Pension Fund, to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

— Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

— Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

— Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the Authority at the start of the final accounts audit, largely due to the drop in expenditure from prior period as a result of the one-off grant of circa £73m to the Public Transport Executive in the previous period.

Materiality for the Authority's accounts was set at £2million which equates to around 1.7 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £100k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Materiality – Pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £3 million which is approximately 1.5 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £150k for 2015/16.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK&I) 260 Communication of *Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

— Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

— The related safeguards that are in place.

— The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

Declaration of independence and objectivity (cont.)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action

Auditor declaration

In relation to the audit of the financial statements of Sheffield City Region Combined Authority and the Passenger Transport Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP Sheffield City Region Combined Authority and the Passenger Transport Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Audit Independence

Audit Fees

Our scale fee for the audit of the Combined Authority group accounts was £38,200 plus VAT in 2015/16. This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in April 2016. Our scale fee for the audit of the Pension Fund account was £21k plus VAT in 2015/16.

Non-audit services

We have not undertaken any additional non-audit services for the Authority during the period.

kpmg.com/uk

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG LLP is multi-disciplinary practice authorised and regulated by the Solicitors Regulation Authority. For full details of our professional regulation please refer to ‘Regulatory Information’ at www.kpmg.com/uk