



Annual Audit Letter 2016/17

South Yorkshire Passenger
Transport Executive

October 2017

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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.

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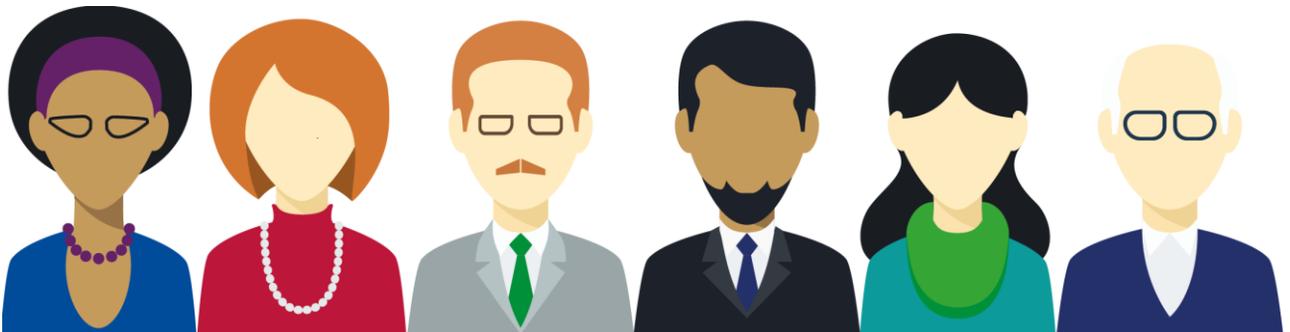
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Section one

Summary

This Annual Audit Letter summarises the outcome from our audit work at South Yorkshire Passenger Transport Executive ('the Executive') in relation to the 2016/17 audit year. Although it is addressed to Members of the Executive, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Corporate pages of the Executive's website (www.sypte.co.uk).



VFM conclusion

We issued a qualified 'except for' value for money opinion on the Executive's arrangements to secure value for money (VFM conclusion) for 2016/17 on 13 September 2017.

We have concluded that in 2016/17, the Executive had made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for tax payers and local people except for its risk management process.

VFM risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified the following significant risk areas:

— Effective Risk Management:

It was not clear at the time of our audit that the Executive manages its risks effectively as there was no finalised risk register in place. Therefore, there was a risk that this did not allow the Executive to make informed decision making.

KPMG walked through the risk management process undertaken at the operational level within the Executive to confirm our understanding of the process, and the systems used.

We recognised the role the Audit and Risk Committee have played in developing the structure and content of the risk register, however the fact that it was not being used to drive the agendas of governance meetings could not give us assurance around informed decision making.

— Governance Reporting Arrangements

Although the Audit and Risk Committee is a sub-committee of the Executive, it may not have adequate relationships with the other structures in the wider governance of the Executive and the Combined Authorities.

We have reviewed the structure of the committees in place. This included a review of the financial regulations, standing orders and Terms of References of committees.

Overall, there were improvements to be made within the governance reporting, mainly around setting the expectations of the committees.

Audit opinion

We issued an unqualified opinion on the Executive's financial statements on 13 September 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Executive and of its expenditure and income for the year.

Section one

Financial statements audit

During the financial statements audit we identified a number of adjustments most notably a material adjustment of £4.7m in relation to the revaluation of Land and Buildings and a material prior period adjustment with regard to pension assets and liabilities that had not previously been accounted for. These adjustments were corrected.

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

High priority recommendations

We raised 2 high priority recommendations as a result of our 2016/17 audit work. These are detailed in Appendix 1 together with the action plan agreed by management.

- The Executive needs to determine an effective control for monitoring possible impairment of its assets, this should include a review of its revaluation programme.
- The Executive Board should ensure that they have appropriate oversight of the strategic risk register at all Board meetings. This should allow the register to be reflected upon when decisions are being reached. Regular discussions and challenge should also be done on the register to ensure the Executive is monitoring its risk effectively.

We will formally follow up these recommendations as part of our 2017/18 work.

Certificate

We issued our certificate on 19 October 2017. The certificate confirms that we have concluded the audit for 2016/17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee

As communicated to the Executive in our External Audit plan 2016/17, our scale fee for the audit is £35,861, plus VAT, which is the same as the prior year. For 2016/17, we have discussed additional fee in relation to a number of delays encountered with the Head of Financial Services. This is still subject to PSAA determination. Further detail is contained in Appendix 3.

Appendix 1

Key issues and recommendations

Our audit work on the Executive's 2016/17 financial statements has identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

No.	H/M/L	Issue and recommendation	Management response/responsible officer/due date
1		Impairment Review Recommendation The Executive needs to determine an effective control for monitoring possible impairment of its assets, this should include a review of its revaluation programme	Management Response Accepted. An effective control will be identified. Owner Head of Financial Services Due Date December 2017
2		Review of Pension Assumptions Recommendation Management should ensure they perform a review of the assumptions and ensure they can evidence that this has been done.	Management Response Accepted. However SYPTE does not have specialists in this area and a review of assumptions may be of limited value in assessing the appropriateness. SYPTE will discuss the issue with LA partners to identify an appropriate approach. Owner Head of Financial Services Due Date December 2017
3		Audit of passenger returns Recommendation Whilst any issues would not be material based on the other procedures performed by the Executive, they should seek to visit each transport provider to gain comfort over the claims being made.	Management Response Accepted. A process will be put in place to address this issue. Owner Director of Customer Services Deadline October 2017
4		Executives oversight of risk register Recommendation The Executive Board should ensure that they have appropriate oversight of the strategic risk register at all Board meetings. This should allow the register to be reflected upon when decisions are being reached. Regular discussions and challenge should also be done on the register to ensure the Executive is monitoring its risk effectively.	Management Response Accepted. However it should be recognised that there are already processes in place to address this issue including:- Risk implications sections in all EB and MB papers; and- Changes to the risk register are now taken to Executive via the new dashboard report presented at every meeting. -Additional information about SYPTE's key risks including relevant KPI's will be presented at each Executive Board meeting to ensure that they have oversight and can challenge. Owner Executive Director Deadline December 2017

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No.	H/M/L	Issue and recommendation	Management response/responsible officer/due date
5	M	<p>Quality of the risk register</p> <p>Recommendation</p> <p>The Executive should commission a full review of the register and ensure that each risk has: set report dates for actions to be completed; and a reflective RAG rating given for the inherent risk identified and the level of risk once actions have been put in place.</p>	<p>Management Response</p> <p>Accepted. The Senior management team will review all risks in the risk register to ensure that they have an appropriate RAG rating and where appropriate mitigating actions with owners and date of implementation.</p> <p>Owner</p> <p>Executive Director</p> <p>Due Date</p> <p>December 2017</p>
6	M	<p>Challenge of the Executive Board</p> <p>Recommendation</p> <p>The Executive Board should ensure that comprehensive minutes are taken of all meetings held.</p>	<p>Management Response</p> <p>Management accepts that the minutes of meetings are not a verbatim record and are intended as an accurate record of the matter discussed the main action points and action, owner and the final decision reached. Where required the minutes include more detail of the debate to demonstrate it had regard to certain matters e.g. the equality implications of a decision (example 30th January 2017), to ensure the risk of challenge is mitigated. The minutes of every meeting are agreed with the Chair and presented to the next meeting for agreement as to accuracy and to discuss any matters arising. They are signed as a correct record. The minutes could include a more detailed record of actual discussion, particularly where it is a decision about a strategic matter.</p> <p>The style of the minutes will be considered with the Board to determine their preferred style.</p> <p>Owner</p> <p>Principal solicitor and Secretary to the Executive.</p> <p>Deadline</p> <p>October 2017</p>
7	M	<p>Governance Review</p> <p>Recommendation</p> <p>The Executive should commission a full review of the governance structures in place.</p>	<p>Management Response</p> <p>Partially Accepted. SYPTE recognised that this was an issue and has already put in place a process to undertake a review of governance within SYPTE and therefore question whether this should be reported in this way in this report.</p> <p>Owner</p> <p>Executive Director</p> <p>Deadline</p> <p>December 2017</p>

Appendix 1

Key issues and recommendations

Follow up of previous recommendations

As part of our audit work we followed up on the Executive's progress against previous audit recommendations. We are pleased to report that the Executive has taken appropriate action to address the issues that we have previously highlighted through high priority recommendations.

Appendix 2

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Corporate pages of the Executive's website (www.sypte.co.uk).

2017

Jan

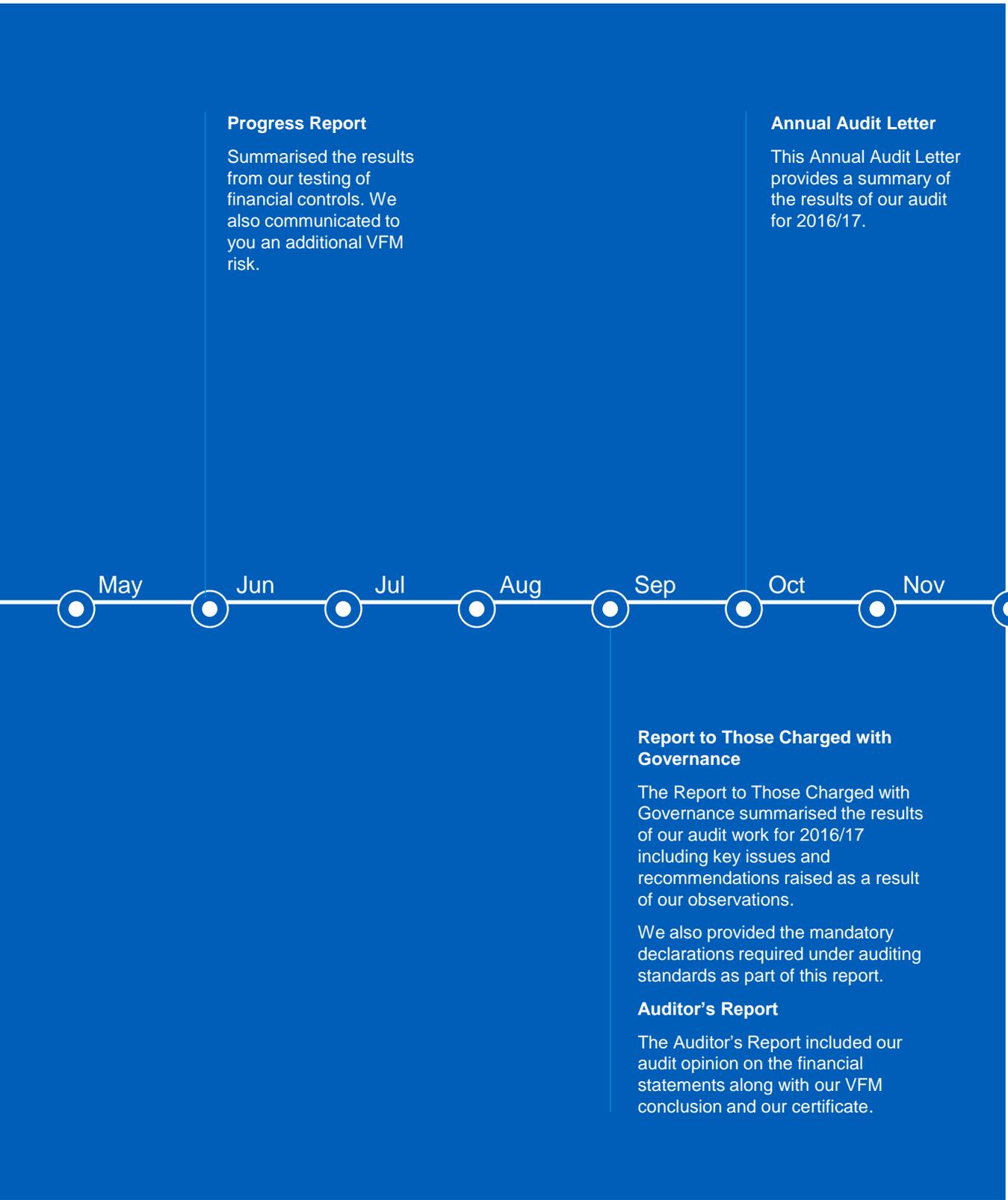
Feb

Mar

Apr

External Audit Plan

The External Audit Plan set out our approach to the audit of the Executive's financial statements and work to support the VFM conclusion.



Progress Report

Summarised the results from our testing of financial controls. We also communicated to you an additional VFM risk.

Annual Audit Letter

This Annual Audit Letter provides a summary of the results of our audit for 2016/17.

Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2016/17 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion and our certificate.

Appendix 3

Audit fees

This appendix provides information on our final fees for the 2016/17 audit.

To ensure transparency about the extent of our fee relationship with the Executive we have summarised below the outturn against the 2016/17 planned audit fee.

External audit

Our final fee for the 2016/17 audit of South Yorkshire Passenger Transport Executive is estimated to be £48,539, this is higher than the planned fee by £12,858. However this additional fee of £12,858 still needs to be approved by the PSAA. The reasons for this variance is because additional work was undertaken in relation to the CIES restatement, the triennial pension revaluation, the restatement of the prior years pension asset and liabilities following the crystallisation of South Yorkshire ITA fund, the late revaluation of Land and Buildings and the additional work required due to the significant Value for Money risks identified.

As mentioned our fees are still subject to final determination by Public Sector Audit Appointments.

Other services

We did not charge any additional fees for other services

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