DRAFT Year End Report to the Audit & Governance Committee

South Yorkshire Pensions Authority

DRAFT Year end report for the year ended 31 March 2024

—

19th September 2024

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 Pensions 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 & Governance 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 on 7 March 2024.

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.

Yours sincerely,

Richard Lee
Director KPMG LLP
19 September 2024.

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

Our audit and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 3 'Our Audit Findings' outlines the outstanding matters in relation to the audit.

Our conclusions will be discussed with you before our audit report is signed.

Restrictions on distribution

The report is provided for the information of the Audit & Governance Committee of the Authority; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Our audit findings

Significant audit risks	Page 5-8
Significant audit risks	**Our findings**
Management override of controls	No issues identified
Valuation of post retirement benefit obligations	Our work over the disclosure is still ongoing, however we have assessed the assumptions used in the estimate to be balanced.
Key accounting estimates	**Page 8**
Valuation of Pension Liabilities/Assets	The pension liabilities balance has remained consistent with the prior year. Based on our actuaries review, the overall assumptions adopted by SYPA are considered to be balanced, and within acceptable range.

Misstatements in respect of Disclosures	Page 12
Misstatement in respect of Disclosures	**Our findings**
Casting Errors	During our review of the file we identified casting errors which have since been corrected by management.
PYA Disclosure	The PYA disclosure contained incorrect wording stating it was a change in accounting policy rather than a correction of an error. Our professional practice team are currently considering whether the inclusion of a prior year adjustment to reflect the revised asset ceiling calculation for 2022/23 is appropriate.

Number of Control deficiencies	Page 11
Understatement/ (overstatement)	
Significant control deficiencies	0
Other control deficiencies	2
Prior year control deficiencies remediated	0

Outstanding matters

Our audit is substantially complete except for the following outstanding matters:

- Sign off of PYA from KPMG's Department For Professional Practice
- Finalisation of work over the LGPS estimates and assumptions
- Final consistency check of accounts
- Final disclosure checklists & review
- Finalise audit report and sign
- Management representation letter

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.

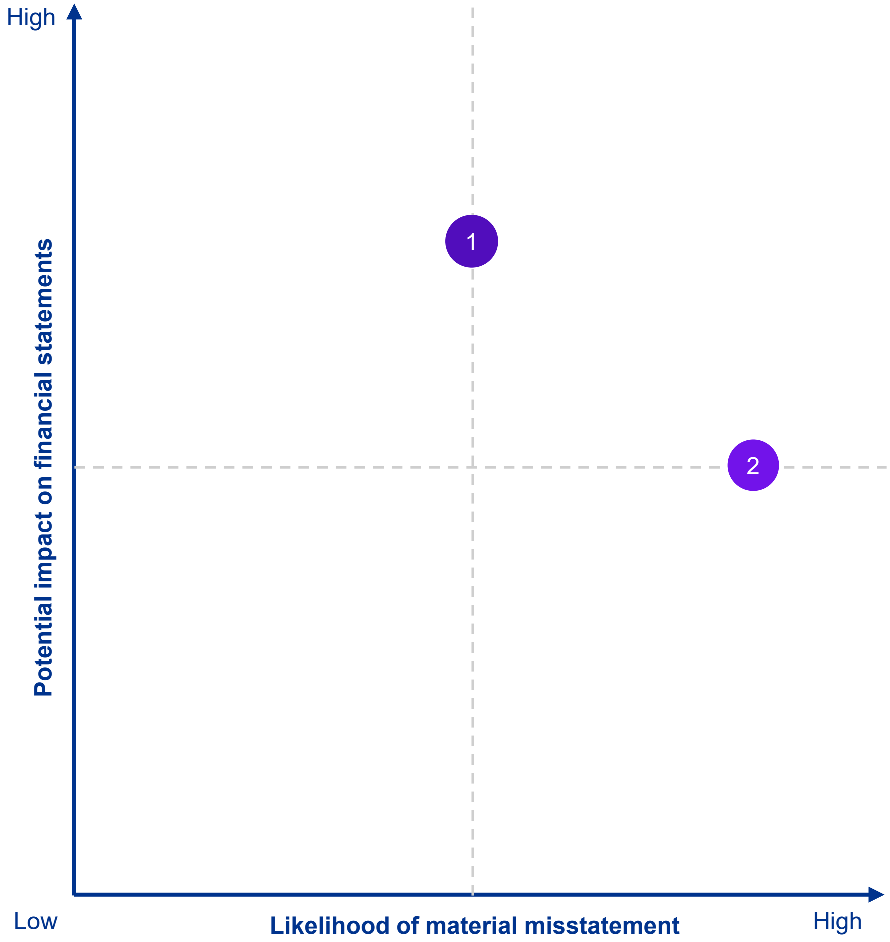
Our risk assessment draws upon our knowledge of the Authority, the industry and the wider economic environment in which South Yorkshire Pensions Authority operates.

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

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

Significant risks	
1.	Management override of controls
2.	Valuation of post retirement benefit obligations

Key: # Significant financial statement audit risk



Audit risks and our audit approach (cont.)

1 Management override of controls[(a)]

Fraud risk related to the 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

Our response

- Our audit methodology incorporates the risk of management override as a default significant risk.
- We 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.
- We analysed all journals through the year and focussed our testing on those with a higher risk, such as journals posted by high risk users or unusual postings to the cash accounts.
- We identified seven journal entries and other adjustments meeting our high-risk criteria – our examination did not identify unauthorised, unsupported or inappropriate entries.
- We communicated our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
- Our procedures did not identify any significant unusual transactions.

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

Audit risks and our audit approach

2 Valuation of post retirement benefit obligations

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

Key:
Current year

Cautious | Neutral | Optimistic

Significant 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 mortality 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 a high degree of estimation uncertainty. The financial statements disclose the assumptions used by Authority in completing the year end valuation of the pension surplus and the year on year movements.
- We have identified this in relation to the Local Government Pension Scheme membership.
- 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 :

- We obtained an understanding of the pensions process for setting and approving the assumptions used in the DBO valuation;
- Auditing standards require auditors to identify a management control where there is a significant audit risk. We assessed Management's controls that ensure the appropriateness of actuarial assumptions for the preparation of the DBO accounting estimate;
- Evaluated the competency, objectivity of the Fund actuaries and confirmed their qualifications and the basis for their calculations;
- Performed inquiries of the Fund actuaries to assess the methodology and key assumptions used;
- Challenged, with the support of KPMG pensions actuarial specialists, the key assumptions applied, the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Vouched data provided by the audited entity to the Fund Administrator for use within the DBO accounting estimate calculation;
- Confirmed that the pensions disclosures adopted by the Authority are in line with IAS19 and the SORP;
- Assessed the level of surplus that should be recognised by the entity; and
- Assessed the impact of any special events, where applicable

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

Key:
Current year

Cautious | Neutral | Optimistic

Significant 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 mortality 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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Our findings

- We acknowledge that there is a review of key assumptions by management but we do not place reliance on this control due to the lack of precision and documentation. Whilst this Management Review Control may be achieving the control objective set by management (we have not confirmed this), it does not meet the control requirements as defined by auditing standards. We do not consider this to be a significant deficiency in the internal control environment.
- The Fund actuaries (individual and entity) are professionally qualified to perform actuarial valuations and prepare IAS19 disclosure reports being Fellow of the Institute of Actuaries in the UK;
- The actuarial assumptions methodology is consistent with the prior year and compliant with SYPA reporting framework. The actuarial assumptions adopted by SYPA compared to KPMG Central Rates, are considered to be balanced overall. All individual assumptions are balanced except mortality future improvements which is cautious compared to KPMG Central Rates
- Our testing over the inputs to the DBO estimate such as benefits paid and contributions is still ongoing
- Our work on pension disclosures is in progress. We will share the disclosure recommendations once we conclude on our testing.

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

Key:
Current year

Cautious | Neutral | Optimistic

Significant 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 mortality 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 a high degree of estimation uncertainty. The financial statements disclose the assumptions used by Authority in completing the year end valuation of the pension surplus and the year on year movements.
- We have identified this in relation to the Local Government Pension Scheme membership.
- 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

Surplus restriction:

- This funded scheme currently has a net surplus of £6.049 million (2023: £3.903 million). We have assessed the accounting treatment of the surplus (IFRIC14) for the scheme, including the rationale of the treatment and noticed that the Authority has restated their position at PY to allow for the updated asset ceiling methodology agreed for the current year-end. This has been reflected in note 2c of the Authority's 2023/24 accounts.
- Based on this, a partial asset ceiling at 31 March 2023 equal to the value of the difference between the present value of future service costs and future service contributions is required, which resulted in an asset restriction of £2,360k.
- Although management has reflected the above changes as an adjustment to the prior year accounts, our professional practice team are currently considering whether the above treatment is appropriate or whether the impact should be included in the 2023/24 financial year only.

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 Fund best-estimate		✓
	Future improvements	Latest available CMI model	No, however change is reasonable	✓	CMI 2022, 1.5% long-term trend rate, 0.25% initial addition parameter 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	✓	✓	In line with most recent Fund valuation	In line with Fund experience		

Employer's assumptions are balanced except for mortality future improvements which is cautious when compared to KPMG central rates but within KPMG tolerance levels. SYPA used a long-term trend rate which is 1.5% higher than KPMG central rate which falls in the Cautious range when compared to KPMG central rates

Key accounting estimates and management judgements– Overview

Our view of management judgement

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.

Key:
Current year

Asset/liability class	Our view of management judgement	Balance as at 31.03.24 (£m)	Balance as at 31.03.23 (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Present value of funded LGPS Liability	Cautious / **Neutral** / Optimistic	(26,719)	(26,375)	344	Needs improvement / **Neutral** / Best practice	The pension liabilities balance has remained consistent with the prior year. Based on our actuaries review, the overall assumptions adopted by SYPA are considered to be balanced, and within acceptable range.
Valuation of LGPS Pension Asset	Cautious / **Neutral** / Optimistic	32,768	30,278	2,490	Needs improvement / **Neutral** / Best practice	The pension assets balance has by 8% in comparison to the prior year as a result of the increase in return on assets excluding interest from (£1,838k) in prior year to £934k in current year The valuation basis is considered to be balanced.

Other significant matters

Control deficiencies

We obtain an understanding of internal control to design appropriate audit procedures, but not to express an opinion on the effectiveness of the Authority's internal control. See page 22 for management's response to our findings and recommendations.

Key:

Red	These are significant control deficiencies which increase the likelihood and potential magnitude of a material misstatement in the financial statements. We have identified 0 significant control deficiencies in the current year.
Amber	These are matters of sufficient importance to note such as weaknesses which were subsequently corrected and matters that could be significant in the future if left unaddressed. We have identified 2 of such deficiencies in the current year.
Green	These are less significant weaknesses but which we considered to be of sufficient importance to merit management's attention. We have raised 0 related observations in the current year.

Management review of Journals

Journal controls are now subject to enhanced scrutiny by auditors and must comply with a series of prescriptive criteria in order to be considered effective. Criteria include:

•documentation requirements for the objective being tested
•consideration of the data and its reliability
•the expected precision and allowable deviations present in the control
•the consistency of application
•the predictability of inputs, the criteria for investigation / follow up and the outcome of such follow ups.

We note that whilst management were able to evidence what they deem to be an effective review process, the journal control does not meet these strict criteria and the threshold set as per the auditing standards. We recommend management fully document the journals review process. As set out above, this should include clearly defined criteria for selection of journals, confirmation that each journal selected has been reviewed along with the supporting documentation and that the posting is accurate and appropriate, and formal documentation of the review conclusions.

Management review of Actuarial Assumptions

Management review the assumptions and methodologies used in the calculation of the IAS 19 report. This includes inputs to testing such as cash flow, membership data and asset balances. This is based on their understanding of the pension scheme, the accounting standard and the business process and circumstances. However, we identified that there is no criteria or threshold developed for investigation/identification of outliers for pension assumptions. Therefore, it does not allow for an objective criteria to perform their review on and therefore it is ineffective.

We recommend that management engages a third party independent expert to review and analyse the assumptions made by the actuaries.

Significant audit misstatements

Management has approved the correction of the audit misstatements detailed on page 21 and they are reflected in the draft financial statements.

The misstatements identified, and their estimated financial impact on the deficit are summarised in the table on the right.

[In line with ISA (UK) 450 we request that you correct uncorrected misstatements.

- For our views on management estimates – see Page 10 (Key accounting estimates)
- A detailed summary of corrected and uncorrected audit misstatements and omissions and errors in disclosure is included in the appendix

Audit misstatements

	Type	£	Comment
Corrected misstatements			
Irrecoverable VAT Expense	Factual	399,998	This misstatement was identified though our VAT work and has been corrected in the year end accounts. This impacted the debtors, creditors, income and expenditure and cashflow at the Authority.
Prior year Adjustment	Factual	TBC	We are awaiting sign off of this PYA from KPMG's Department For Professional Practice, and will update in this regard at a later date. Our professional practice team are currently considering whether the inclusion of a prior year adjustment to reflect the revised asset ceiling calculation for 2022/23 is appropriate

Disclosure

Matter	Type	Comment
Casting Errors	Factual	There were small casting errors in the accounts which have since been corrected by management
Prior year Adjustment	Factual	The wording in the prior year adjustment disclosure in the accounts required changing, to reflect that this was an error rather than a change in accounting policy. Our professional practice team are currently considering whether the inclusion of a prior year adjustment to reflect the revised asset ceiling calculation for 2022/23 is appropriate

Types of misstatement

Factual: Misstatements about which there is no doubt

Projected: Our best estimate of misstatements in the audited populations

Judgemental: Differences arising from judgments of management that we consider unreasonable or inappropriate

Other matters

Annual report

We have read the contents of the 2023/24 Narrative Report (including the Annual Governance Statement (AGS)) and audited the relevant parts of the Remuneration Report. We have checked compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 issued by Chartered Institute of Public Finance and Accountancy (CIPFA). Based on the work performed :

- We have not identified any inconsistencies between the contents of the Accountability, Performance and Officer's Reports and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the director's statements. As Councillors you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for patients, regulators and other stakeholders to assess the Authority's performance, business model and strategy.
- The report of the Audit & Governance Committee included in the Annual Report includes the content expected to be disclosed as set out in the Code of Practice and was consistent with our knowledge of the work of the Committee during the year.

Whole of Government Accounts

As required by the National Audit Office (NAO) we are required to provide a statement to the NAO on your consolidation schedule. We comply with this by checking that your summarisation schedule is consistent with your annual accounts. Our work is ongoing.

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 proscribed 2023/24 audit scale fee for the audit was £148,276 plus VAT (£51,518 in 2022/23).

We propose charging a fee variation of £13,472 plus VAT to cover our additional work over ISA315r (£6,420 Fund and £3,080 Authority) and VAT partial exemption risk assessment (£3,972).

01

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

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

Performance improvement observations

As part of our work we have identified no Performance Improvement Observations, which are suggestions for improvement but not responses to identified significant weaknesses.

02
South Yorkshire Pensions Authority Appendices

Year ended 31 March 2024

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19 September 2024

Appendices

Contents	Page

Required communications

Type	Response
Our draft management representation letter	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	There was one adjusted audit differences with no impact on the deficit due to the recharge to the fund of the expenditure.
Unadjusted audit differences	There we no unadjusted audit differences.
Related parties	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	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	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 in March.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	No actual or suspected fraud involving Authority 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	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	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	No significant difficulties were encountered during the audit.
Modifications to auditor's report	None.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information. The narrative report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	There are no independence issues. We are required to report that Richard Lee has a close family member who is a member of the South Yorkshire Pension Fund. We do not believe this presents an independence conflict.
Accounting practices	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	No significant matters from the audit required correspondence with management outside of the normal.
Certify the audit as complete	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.
Provide a statement to the NAO on your consolidation schedule	We will issue our report to the National Audit Office following the signing of the narrative report and accounts. We have noted no issues to date.

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 Responsible Individual and audit staff is not impaired.

To the Audit and Governance Committee members

Assessment of our objectivity and independence as auditor of South Yorkshire Pensions 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.

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 responsible individual and audit staff is not impaired.

This report is intended solely for the information of the Audit and Governance Committee 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

KPMG LLP

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	*2022/23*
Statutory audit	148,276	*45,969[(a)]*
ISA315r	9,500	-
VAT Specialist	3,972	-
TOTAL	**161,748**	*45,969*

Note: (a) Fee charged by Deloitte – 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. We propose charging an additional £9,500 to cover this work across the Authority and Fund (£6,420 Fund and £3,080 Authority).
- We also propose charging an aadditional fee for the involvement of the KPMG VAT specialists in relation to the Irrecoverable VAT expense incurred (£3,972).

Corrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Governance 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 (£)				
No.	**Detail**	**SOCI Dr/(cr)**	**SOFP Dr/(cr)**	**Comments**
1	Dr Owed from Pension Fund		399,998	This misstatement was due to SYPA incorrectly expecting they could recover the VAT on project Chip. After discussion with their tax advisor they determined they would not recover the VAT and instead would expense the VAT in the period
	Dr Irrecoverable VAT Expense	399,998		
	Cr Charges to South Yorkshire Pension Fund	(399,998)		
	Cr Payables to HMRC - VAT		(399,998)	
Total		-	-	

Our professional practice team are currently considering whether the inclusion of a prior year adjustment to reflect the revised asset ceiling calculation for 2022/23 is appropriate.

Control Deficiencies

The recommendations raised as a result of our work in the current year are as follows:

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.	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.	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.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	②	Journals review Control Journal controls are now subject to enhanced scrutiny by auditors and must comply with a series of prescriptive criteria in order to be considered effective. We have determined that the SYPA control does not meet these criteria. Full details are on Page 11.	TBC
2	②	Management review of Actuarial Assumptions Management reviews the assumptions and methodologies used in the calculation of the IAS 19 report. This includes inputs to testing such as cash flow, membership data and asset balances. This is based on their understanding of the pension scheme, the accounting standard and the business process and circumstances. However, we identified that there is no criteria or threshold developed for investigation/identification of outliers for pension assumptions. Therefore, it does not allow for an objective criteria to perform their review on and therefore the control is ineffective.	TBC

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 [X]. 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.

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

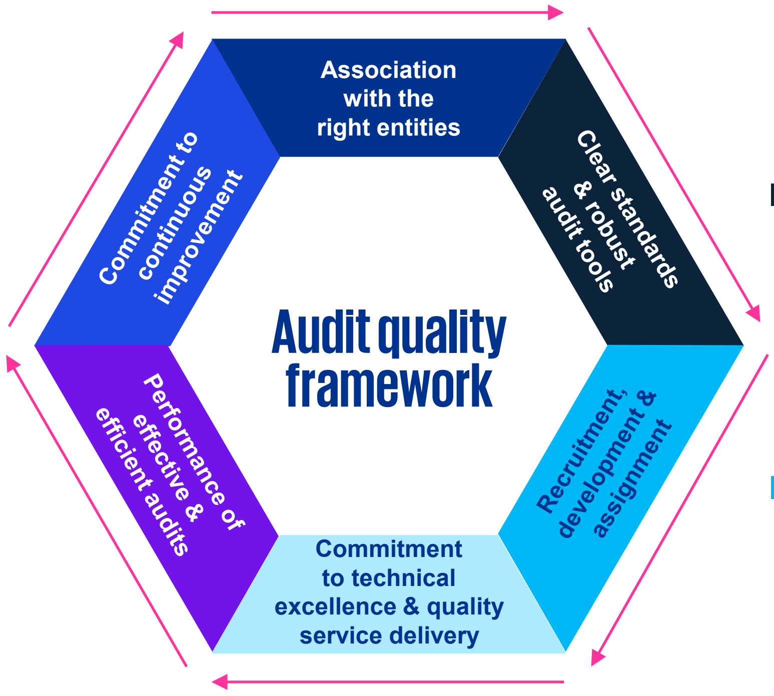
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

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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