

# Public Document Pack



Wednesday, 8 July 2020

To: Members of the SCR - Audit and Standards Committee and Appropriate Officers

## NOTICE OF MEETING

You are hereby summoned to a meeting of the Sheffield City Regional Mayoral Combined Authority to be held **virtually**, on: **Thursday, 16 July 2020** at **3.00 pm** for the purpose of transacting the business set out in the agenda.

A handwritten signature in black ink, appearing to read 'D. Smith'.

Dr Dave Smith  
**Chief Executive**

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## **Member Distribution**

Councillor Allan Jones (Chair)  
Rhys Jarvis (Vice-Chair)  
Councillor Josie Paszek  
Councillor Ian Auckland  
Councillor Jeff Ennis  
Angela Marshall  
Councillor Ken Richardson  
Councillor Austen White  
Councillor Ken Wyatt  
Councillor Allen Cowles

Doncaster MBC  
(Independent Member)  
Sheffield City Council  
Sheffield City Council  
Barnsley MBC  
(Independent Member)  
Barnsley MBC  
Doncaster MBC  
Rotherham MBC  
Rotherham MBC

**SCR - Audit and Standards Committee**

**Thursday, 16 July 2020 at 3.00 pm**

**Venue: Virtual Meeting**



**Agenda**

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**Date of next meeting: TBC**  
**At: 11 Broad Street West, Sheffield S1 2BQ or virtually**

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**SCR - AUDIT AND STANDARDS COMMITTEE**

**MINUTES OF THE MEETING HELD ON:**

**THURSDAY, 11 JUNE 2020 AT 11.00 AM**

**VIRTUAL MEETING**



**Present:**

Councillor Allan Jones (Chair)	Doncaster MBC
Rhys Jarvis (Vice-Chair)	(Independent Member)
Councillor Ian Auckland	Sheffield City Council
Councillor Jeff Ennis	Barnsley MBC
Councillor Josie Paszek	Sheffield City Council
Angela Marshall	(Independent Member)
Councillor Ken Richardson	Barnsley MBC
Councillor Ken Wyatt	Rotherham MBC

**Officers in Attendance:**

Dr Dave Smith	Chief Executive	SCR Executive Team
Dr Ruth Adams	Deputy Chief Executive	SCR Executive Team
Noel O'Neill	Chief Finance Officer/S73 Officer	Sheffield City Region
Mike Thomas	Senior Finance Manager/ Deputy S73 Officer	SCR Executive Team
Claire James	Senior Governance & Compliance Manager	SCR Executive Team

**In Attendance**

Dan Spiller	External Audit
Lisa Mackenzie	Internal Audit
Andrew Smith	Internal Audit
Andrew Shirt (Minute Taker)	

**1 Welcome and Apologies**

Councillor Jones welcomed everyone to first virtual meeting of the SCR Audit and Standards Committee.

Members' apologies were noted as above.

**2 Urgent Items/Announcements**

None.

3 **Items to be Considered in the Absence of Public and Press**

None.

4 **Declarations of Interest by any Members**

None.

5 **Reports from and Questions by Members**

None.

6 **Questions from Members of the Public**

None.

7 **Minutes and Actions of the Previous Meeting**

RESOLVED – That the minutes of the previous meeting are agreed to be a true and accurate record and may be signed by the Chair.

8 **2019/20 Draft Accounts**

The Committee received a report and presentation on the draft 2019/20 Annual Accounts for the MCA Group prior to formal external auditing.

The presentation drew Members' attention to the Narrative Report set out in the Statement of Accounts. This described the issues and financial impact of the activity in 2019/20. It also covered performance in terms of activity and finance, Covid-19 considerations and the financial health of the Group in detail.

Members noted the following headlines:

- The MCA's net underspend is £675,000 in 2019/20. This has been allocated to the Mayoral Election Reserve as there is a forthcoming cost of c£2m in 2022.
- An underspend of £505,000 on the South Yorkshire Transport revenue budget corresponding reduction in use of Earmarked Levy Reduction Reserve.
- The overall capital programme spend was £4.494m less than planned. The MCA Board had approved carrying forward all of the underspends to complete the programme in 2020/21.
- In section 4, Covid-19 implications were discussed. New Provisions and Earmarked reserves had been identified to ease potential pressures on current year budgets. These are:
  - SYPTE Covid-19 Income Loss £1.6m
  - MCA Covid-19 Income Loss £0.5m
  - Recovery Plan £0.4m
  - SYPTE Recovery Reserve £3.0m

The structure of the 2019/20 Statement of Accounts was presented and noted by Members.

In assessing the financial strength of the MCA, Members' attention was drawn to note 30 of MCA Balance Sheet and note 60 of the Group Balance Sheet. The Group had usable reserves of £90.944m. The value had increased from £75.548m in 2018/19. The major factor for the increase in usable capital receipts was the repayment of an investment.

The balance sheet reflected a very strong financial position. The medium-term financial plan looked to utilise all of the Levy Reduction Reserve (£19.52m) over the next three years.

N O'Neil stated that, Finance Directors were required to consider the on-going financial strength of an organisation as they present the financial accounts. The emergence of the Covid-19 epidemic is a key consideration and a theme that had been covered by a specific section within the Narrative Statement.

Risks to the on-going sustainability of each part of the Group had been assessed and specific budgetary impacts examined. Potential further calls on SCR Group resources had also been reviewed and sensible provisions and changes to earmarked reserves had been proposed as part of the closedown process.

Members noted that the Group remains in strong financial health with the ability to continue to operate and deliver its services in 2020/21 and beyond.

R Jarvis asked if provisions included in the accounts were based on assumptions. Additionally, he asked what the External Auditors view was in respect of this.

N O'Neil replied that, in terms of income loss, the MCA predicted that there would be income loss in respect of tenants leaving the Advanced Manufacturing Park (AMP). Mitigations were in place to manage the impact in 2020/21. In respect of SYPTE, assumptions had been made on their overall losses during the year.

Assurances were provided that, sound assumptions would be presented to the External Auditor.

Members' provided the following comments on the Statement of Accounts:-

- Narrative report – Supply Chains. R Jarvis commented that there was no mention of the Government's current 2 metre social distancing rule and the implications this would have on public transport, as of today.
- Investment income may change from the period when the statement of accounts was written.
- Underspends on the SYPTE Capital Programme - will they be utilised in the following year, due to Covid-19?
- Reserves and provisions – SYPTE accounts refers to 'Asset Management' (£0.5m). This is not included in the Narrative Report.
- Page 8 – Key Developments in the year. Is the number of homes completed during the year correct?
- Page 9 – Key Developments in the year – Tram Train pilot. Is the terminology correct for the assessment criteria used for the pilot?
- Page 87 – External Audit Fees. There was no variation to the External

Audit fees shown in the accounts as discussed at a previous meeting.

N O'Neil stated that the fees variation was in relation to the 2018/19 fee, which was currently being adjudicated by the PSAA. A discussion would take place at the July meeting.

N O'Neil thanked Members' for their comments and agreed to incorporate in the final version of the accounts.

RESOLVED – That Members reviewed the Annual Accounts for 2019/20 and approve for publication ahead of external auditing in line with CIPFA Code of Practice.

## 9 **Governance Review Activity 2019/20**

A report was received to provide the Committee with an update on the review of governance arrangements undertaken during 2019/20 and the findings from this.

The report also presented a reviewed Code of Corporate Governance for Members' consideration.

As agreed by the Committee in January, during February and March, the SCR's Governance Team had worked with the Executive Team to conduct an assessment of compliance with the Code of Corporate Governance, to gain assurance of the effectiveness of current arrangements and to identify any opportunities for improvement. Evidence of compliance with the commitments in the Code of Corporate Governance was attached at Annex A in the draft Annual Governance Statement (Appendix A).

The Committee was asked to comment on, and make contributions on the draft Annual Governance Statement.

The final draft of the Annual Governance Statement would be presented to the Audit and Standards Committee in July and to the Mayoral Combined Authority meeting scheduled for 27th July alongside the 2019/20 accounts.

In line with a commitment to review the Code of Corporate Governance annually, the Code had been updated and was presented at Appendix B.

The revised Code of Corporate Governance would be presented to the Mayoral Combined Authority for approval.

RESOLVED – That the Committee agreed to comment on, and contribute to the draft Annual Governance Statement (Appendix A) and considered the revised Code of Corporate Governance (Appendix B).

## 10 **Treasury Management Outturn Report 2019/20**

A report was received to provide Members with an update on treasury management activities undertaken in the financial year 2019/20 by the MCA Group for the 12 months to March 2020 and to demonstrate to Members



performance against the Treasury Management Performance Indicators approved by the MCA at its meeting on 25 March 2019.

Members noted that the treasury activities of the MCA in the twelve months of 2019/20 have been managed within the Treasury Management Strategy and Investment Strategy approved at the start of the year.

The MCA had operated within the prudential indicators agreed as part of the Treasury Strategy at the start of the year.

Members noted the following headlines:

- The anticipated borrowing requirement to support capital investment plans (£6.2m) is within the amount approved (£9.0m);
- The overall level of borrowing is within overall limits;
- The maturity profile of the MCA Group's debt portfolio has not changed. Due to the prohibitively high cost of early redemption, there has been no real opportunity to repay debt early;
- Investments have been made in accordance with the Investment Strategy, including longer term investments, and;
- Returns on investments are below the target for the year but above the revised target suggested by the MCA's treasury advisors.

RESOLVED – That Members considered and noted the MCA Group's treasury management performance for the full financial year 2019/20.

## 11 **Treasury Management Strategy 2020/21**

A report was received to present the proposed Annual Treasury Management Strategy and Investment Strategy for the financial year 2020/21.

Members were informed that the main focus of the 2020/21 Treasury Management Strategy was on developing the Investment Strategy. The two principal reasons for this were set out in paragraph 1.1 of the report.

It was noted the intention was that, the SCR Audit and Standards Committee would be used as a forum to explore strategic options, prior to these options being presented to the MCA for ratification.

Further reports would be presented to Members during the course of the year to monitor and report on compliance with the Treasury Management Strategy.

In addition, should the significant changes that are anticipated from unlocking the Devolution Deal and development of medium and longer term financial plans, leading to a need to reconsider Treasury Management Strategies, Policies or Prudential indicators, these would be brought back to the MCA for approval before being implemented where the change is considered material.

R Jarvis asked if the MCA would need to borrow additional funds due to the Covid-19 pandemic.

N O'Neil replied that, as of 11<sup>th</sup> June 2020, there was no requirement for the MCA to borrow additional funds for transport activity.

The Committee noted that, today would be the last meeting Noel would be attending before leaving the SCR Team.

On behalf of the Committee, Councillor Jones thanked Noel for all his help and assistance at Committee meetings and wished him all the best for the future.

RESOLVED – That Members considered:

- The Annual Treasury Management Strategy.
- The Annual Investment Strategy set out in Appendix 1 of the Annual Treasury Management Strategy.
- Noted the authority delegated to the Group Director of Finance to develop it further by investigating options for diversification in consultation with the MCA's external advisors and Audit and Standards Committee.
- The capital expenditure estimates and associated prudential indicators set out in Appendix 2 of the Annual Treasury Management Strategy.
- The borrowing strategy set out in Appendix 3 of the Annual Treasury Management Strategy.

The Minimum Revenue Provision Policy set out in Appendix 4 of the Annual Treasury Management Strategy.

## 12 **Internal Audit Reports**

A report was presented to provide Members with an update on Internal Audit reports for Risk Management; GDPR; Programme Management; and Resource Management and HR Systems.

Members noted that Internal Audit had reviewed the processes and controls around the Authority's Risk Management arrangements and concluded the processes provided significant assurance with some improvement required. Based on Internal Audit's findings, 18 recommendations had been issued.

Internal Audit's assessment of overall compliance with the GDPR had provided significant assurance with some improvement required. 5 low recommendations and 9 improvement points had been issued.

Internal Audit had reviewed the SCR MCA's arrangements regarding Programme Management and concluded that, the processes provided significant assurance with some improvement required. Based on the findings, two low risk recommendations had been issued.

Internal Audit's review of the SCR MCA's processes and progress with regard to the development of HR policies, procedures and culture had provided partial assurance with improvement required. 3 medium recommendations and 1 improvement recommendation had been issued.

A Marshall made reference to the improvement recommendation issued in relation to there currently being no agreement in place between the shared service and SCR MCA. She was of the opinion that, management's response to the recommendation had not been met.

L MacKenzie replied that the recommendation had been discussed at length

with management. Management did not agree with the recommendation due the service provided being internal between SYPTE and the SCR MCA.

D Smith added that, the priorities of both organisations would be managed through normal line management objective setting sessions agreed by the Head of HR and not in the form of a contractual arrangement.

Following discussion, D Smith agreed to present a report to a future meeting to demonstrate the SCR MCA's element of the HR shared service. **ACTION: D Smith**

Councillor Jones asked if Members could have access to the new tracker system to allow them to track the progress of all management actions in between meetings.

L MacKenzie acknowledged the request and agreed to investigate the option of allowing Members' 'read only access' to the system. **ACTION: L MacKenzie & C James**

In response to a question from A Marshall, L MacKenzie confirmed that Internal Audit reports on the results of the Core Financial Control and Governance Audits would be presented at the July Audit and Standards Committee meeting.

RESOLVED – That Members considered the findings and recommendations of the following internal audits: Risk Management; GDPR; Programme Management; and Resource Management & HR Systems.

### 13 **Internal Audit Annual Report**

A report of the Interim Head of Internal Audit was submitted which reported on the Internal Audit Team's completed reports throughout 2019/20, recommendations made and also the Interim Head of Internal Audit's annual assurance based on the work undertaken during the year.

The Internal Audit Team had delivered all of the audits days included within the Group Internal Audit Plan for 2019/20. During the year, the Plan had been flexed to take account of emerging risks and additional requests with the agreement of the Committee.

During the year, Internal Audit had raised 34 recommendations, which had all been accepted by management. No high risk recommendations were reported during 2019/20.

Members were informed that, based on the scope of reviews undertaken and the sample tests completed during 2019/20, the Interim Head of Internal Audit was able to give a significant assurance with some improvement required to the overall adequacy and effectiveness of Sheffield City Region Mayoral Combined Authority's framework of governance, risk management and control.

Councillor Jones asked if presentation of the pie chart at 'figure 2: outstanding recommendations' (page 9) could be presented in a different colour for future reports.

A Smith acknowledged the requested.

RESOLVED – That Members noted the contents of the report.

14 **2020/21 Internal Audit Plan and 3 year Strategy**

A report was presented to set out the 2020/21 Internal Audit Plan and three year Strategic Internal Audit Strategy to 2023.

The 2020/21 Plan was subject to final discussion with the Head of Financial Services and Interim Group Chief Financial Director and Chair of Audit Committee, prior to final approval and adoption by the Audit Committee.

The Plan had been formulated prior to the outbreak of Covid-19 and was subject to flexibility to reflect the uncertainty of the impact of Covid-19.

Internal Audit would discuss the Plan and 3-year Strategy with management throughout the year as a result of the situation and keep the contents and timing of audits under review. Changes made to reviews due to Covid-19 were detailed at Appendix A to the report.

Based on Internal Audit's initial risk assessment, the 2020/21 Plan reflected 250 Internal Audit days input.

L MacKenzie reported that, early discussions were currently taking place with management with regards to adding an estimated extra 20 days to the 2020/21 Plan to reflect additional Internal Audit work to certify and sign-off the DfT's Light Rail Recovery grant claims.

It was noted the certification and sign-off of the grant claims by the Head of Internal was an audit requirement of the DfT.

Councillor Jones asked who would be responsible for financing the extra days of work required by Internal Audit.

M Thomas stated he was of the opinion that, the extra days of work required by Internal Audit should be funded from the Grant. He agreed to discuss further with the DfT. **ACTION: M Thomas**

M Thomas added that, in light of the Covid-19 pandemic, it would now be an appropriate time to review the 2020/21 Internal Audit Plan to consider if any work could be re-prioritised, which may free-up Internal Audit days input in the Plan to undertake the work required by the DfT.

D Smith agreed to produce a Briefing Note setting out which areas of Internal Audit work could be re-scheduled in the 2020/21 Internal Audit Plan. **ACTION: D Smith**

RESOLVED – That Members noted the report.

15      **Assurance and Accountability Framework**

A report was presented to remind Members that, each year the Sheffield City Region (SCR) LEP and MCA is required to update and publish its Assurance Framework to ensure that robust, transparent and effective governance arrangements are in place.

The draft Assurance Framework 2020 had been further revised to incorporate the additional requirements in readiness for devolution.

At their meeting held on 1st June 2020, the MCA had endorsed the Assurance Framework in order for it to be submitted to Government for approval as part of the devolution readiness conditions.

Paragraph 2.4 of the report set out the key amendments to the Assurance Framework, which were noted by Members’.

A Marshall asked if Special Educational Needs Students aged 16-25 were included in the Adult Education Budget.

D Smith replied that there was separate provision for Special Educational Needs Students which would be considered in consultation with service providers.

RESOLVED - That the Committee notes, at section 2.4, the key amendments to the Assurance Framework including the early release of funding to aid capital scheme development.

16      **Proposed Dates for 2020/21**

A report was submitted to present the proposed future dates for SCR Audit and Standards Committee meetings in 2020/21.

The proposed dates for the Audit and Standards Committee for 2020/21 were as follows:

- 29th October 2020\*
- 21st January 2021
- 18th March 2021
- 10th June 2021
- 15th July 2021

It was proposed that meetings continue to start at 11:00 am and finish at 1:00 pm and either be held virtually or at 11 Broad Street West, Sheffield S1 2BQ.

\*This meeting will be taking place at 10:00 am, concluding at 12:00 pm to accommodate another public meeting taking place on that day.

RESOLVED – That the Audit and Standards Committee noted the proposed 2020/21 meeting dates as outlined above.

I, the undersigned, confirm that this is a true and accurate record of the meeting.

Signed .....

Name .....

Position .....

Date .....

**AUDIT & STANDARDS COMMITTEE**16<sup>th</sup> July 2020**External Audit Progress Update****Purpose of Report**

This report provides members with a progress update on the external audit of the 2019/20 Annual Accounts for the MCA Group.

**Freedom of Information & Section 12A of the Local Government Act 1972**

Under the Freedom of Information Act this paper and any appendices will be made available under the Mayoral Combined Authority Publication Scheme. This scheme commits the Authority to make information about how decisions are made available to the public as part of its normal business activities.

**Recommendations**

Members are asked to note the external audit progress update and to endorse the proposal to convene a special meeting of the Audit & Standards Committee by early September, in order to review the external auditor's final set of findings and to endorse the audited statement of accounts for approval by the MCA on 21<sup>st</sup> September 2020.

**1. Introduction**

- 1.1** At the previous meeting on 11 June, the Committee received a report and presentation on the draft 2019/20 Annual Accounts for the MCA Group prior to formal external auditing. The presentation drew Members' attention to the Narrative Report set out in the Statement of Accounts. This described the issues and financial impact of the activity in 2019/20. It also covered performance in terms of activity and finance, Covid-19 considerations and the financial health of the Group in detail.
- 1.2** After reviewing the Annual Accounts, the Committee approved them for publication on 15<sup>th</sup> June, well ahead of the revised statutory date for publication of the 31<sup>st</sup> August. At this point the external audit of the MCA's accounts commenced.
- 1.3** The aim of this report is to bring Members up to speed on progress with the external audit. A report on the external auditor's interim findings is attached at Appendix 1 of this report. The external auditor will present their findings at the Committee.

- 1.4 Finance officers and the audit team have worked collaboratively under challenging circumstances to manage the audit process to the pre-Covid timescales, with the main body of work now largely complete.
- 1.5 However, despite best efforts, delays to the conclusion of the South Yorkshire Pensions Authority audit will prevent the external auditor from completing their work to the agreed pre-Covid timescales. This is a matter that will be familiar to all South Yorkshire authorities working to those timescales. Our understanding is that the SYPA audit will be finished by early August, which will allow the MCA group's external auditor to complete their testing of the pension asset and liability disclosures in the MCA group accounts.

## **2. Report**

- 2.1 The external audit of the MCA single entity and group accounts commenced as soon as the accounts had been published on 15<sup>th</sup> June. In the meantime, the external auditor had already started the audit of SYPTE's draft accounts.
- 2.2 The external auditor met with senior finance officers on 29<sup>th</sup> June to discuss their interim findings on the audit of both the SYPTE accounts and the accounts for the MCA group. As referenced in paragraph 1.5, only one significant amendment to the accounts was recommended by the external auditor. The amendment was related to the technical classification of resources set aside to alleviate potential financial pressures that may arise in the current financial year and beyond as a result of Covid-19. Senior finance officers have considered the recommendation and agreed to adjust the accounts accordingly, which will affect the split between provisions and earmarked reserves on the balance sheet. There is net nil impact on the main statements as a result of this adjustment.

### **2.3 Next Steps**

The external auditor will complete their testing of the pension asset and liability disclosures in the MCA group accounts by mid-August, on the proviso that the SYPA audit will be finished by early August.

It is then proposed to convene a special meeting of SYPTE's Audit & Risk Committee by late August, subject to that Committee's endorsement when it meets on 9<sup>th</sup> July. Thereafter, it is proposed to hold a special meeting of the MCA Audit & Standards Committee to review the external auditor's final set of findings and to endorse the audited statement of accounts for approval by the MCA on 21<sup>st</sup> September 2020.

The proposed timing for the special MCA Audit & Standards Committee meeting is likely to be 3<sup>rd</sup> September, but no later than 10<sup>th</sup> September in order to conclude matters before the MCA report publication date of 11<sup>th</sup> September.

## **3. Consideration of alternative approaches**

- 3.1 The MCA is obliged legally to publish its accounts in two stages each year. The first stage is the publication of the unaudited accounts. Normally this is by 31<sup>st</sup> May, but in the light of the Covid-19 pandemic, the regulations have been relaxed for 2019/20 accounts; the revised deadline of 31<sup>st</sup> August was achieved comfortably. The second stage is the publication of the audited accounts. Ordinarily this is by 31<sup>st</sup> July, but for the same reasons as above the deadline has been revised to 30<sup>th</sup> November.



## **4. Implications**

### **4.1 Financial**

Financial implications of the actions undertaken by the MCA Group in 2019/20 are reflected in the unaudited statement of accounts which were presented to Members at the previous meeting on 11<sup>th</sup> June.

### **4.2 Legal**

None.

### **4.3 Risk Management**

The actions detailed in the Narrative Statement and changes to provisions and earmarked reserves approved by MCA Board have mitigated potential budgetary risks that may arise in the current year. An assessment of the overall financial position shows that the Group is financially resilient to any significant changes to its operating environment.

### **4.4 Equality, Diversity and Social Inclusion**

There are no equality, diversity or social inclusion implications.

## **5. Communications**

5.1 None.

## **6. Appendices/Annexes**

6.1 Appendix 1 – External Auditor’s Interim Findings

<b>REPORT AUTHOR</b>	<b>Mike Thomas</b>
<b>POST</b>	<b>Senior Finance Manager</b>
Officer responsible	Gareth Sutton
Organisation	Sheffield City Region Mayoral Combined Authority
Email	<a href="mailto:gareth.sutton@sheffieldcityregion.org.uk">gareth.sutton@sheffieldcityregion.org.uk</a>
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Background papers used in the preparation of this report are available for inspection at: 11 Broad Street West, Sheffield S1 2BQ

Other sources and references: None

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**Sheffield City Region Mayoral  
Combined Authority**

**Audit progress report**

Year ended 31 March 2020

16 July 2020

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## Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Standards Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Local Government Pension Scheme – Pension Liability Valuation	Other financial statement risk	Increase in risk or focus	The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates. There is therefore an increased risk of misstatement and error. For the standalone SCRMCAs this is also the first year of accounting for the defined benefit liability.
Valuation of Property, Plant and Equipment	Other financial statement risk	No change in risk or focus	The Group has a material asset base that is subject to management judgements. Valuation of assets is an area subject to professional estimation and therefore a higher inherent risk of misstatement.
Preparation for IFRS 16	Other financial statement risk	New risk for 2019/20	The CIPFA Code of Practice requires all local authorities to apply IFRS 16 from 1 April 2020. In order to hit this deadline the Group will need to undertake the necessary preparation work in 2019-20 and make disclosures of the impact of adopting IFRS 16 in the 2019-20 financial statements.
Financial Ledger upgrade	Other financial statement risk	New risk for 2019/20	<b>RISK ONLY APPLICABLE TO SOUTH YORKSHIRE PASSENGER TRANSPORT EXECUTIVE</b> SYLTE has upgraded the Epicor General Ledger system from version 7.4 to version 10, with the new system going live in January 2020. We will be required to perform procedures over the transfer of data to obtain assurance that the financial statements are based on a complete set of transactions.





# 01 Executive Summary



## Executive Summary

### Status of the audit

We have substantially completed our audit of the Authority and Group's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the financial statements. However until work is complete, further amendments may arise:

- Completion of work on disclosures relating to South Yorkshire Pensions Authority
- completion and review of transaction testing in a number of areas impacting the CIES and Balance Sheet (Creditors, Grant Income, Payroll)
- Receipt of third party confirmations for the bank and investment balances (Federated, Lloyds, Santander, Invesco, Other Local Authorities)
- Review of consolidation workings
- Review of workings for the Expenditure and Funding Analysis (EFA)
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter

We expect to issue the audit certificate at the same time as the audit opinion.

We expect to be able to provide a verbal update on the progress of a number of the above areas by the time of the meeting on 16 July.

### Audit differences

There are currently two adjustments of which we are aware. We have been made aware of an error relating to the treatment of recharges within the CIES; we are still working with management to establish the full impact of this amendment, but it will be purely presentational and not impact the net deficit on provision of services. The second error that will improve the deficit on provision of services, by reducing a provision made in relation to the impact of COVID-19. This will instead be represented as an earmarked reserve for the Authority. The identified provision will require adjustment in both the single-entity statements and also as part of a larger error including a similar adjustment for SYPTE.

We have made a number of suggestions for amendments for disclosures and the narrative statements that have been agreed by management.

We have identified one low-level recommendation in relation to the recharges adjustment noted above. this will be reported more fully in our Audit Results Report.





# 02

## Areas of Audit Focus



## Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of fraud in revenue and expenditure recognition\*

### Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts. These accounts had the following balances in the 2018/19 financial statements:

Income Account: £248m

Expenditure Account: £233m

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by APN10 issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

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

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

### What will we do?

We will carry out substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below:

- Document our understanding of processes and controls in place to mitigate the risks.
- Identify and walk through those processes and controls, confirming our understanding.
- Review income and expenditure recognition policies and confirm consistency of application through performance of testing.
- Identify significant accounting estimates for revenue and expenditure, discussing assumptions and calculation methodology with management
- Test the identified significant accounting estimates to confirm appropriateness and consistency with supporting records considering evidence of bias.
- Sample test material revenue and expenditure streams with a focus on assets and liabilities at the year-end.
- Testing of revenue cut-off at the period end date.
- Conduct testing to identify unrecorded liabilities at the year-end.
- Testing a sample of Property Plant and Equipment additions to confirm that the expenditure has been appropriately capitalised.

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

### Current status

Our work is broadly complete in this area and we currently have no items that will, or are likely to, be brought to your attention.

## Our response to significant risks (continued)

Misstatements due to fraud or error\*

### Financial statement impact

Misstatements that occur in relation to the risk of fraud or error could affect both the Comprehensive Income and Expenditure Statement and the Balance Sheet. We deem the risk to be most prevalent when reviewing journals involved in the Financial Statement Close Process.

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

### What will we do?

We will carry out substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below:

- Identifying fraud risks during the planning stages.
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- Testing of journals from the accounting period that are identified from application of specified audit risk criteria.
- Consider the existence of significant unusual transactions during the year, and performing review and testing as required.
- Consider the results of testing relating to revenue and expenditure recognition in order to identify indicators of management override of controls.

### Current status

Our work is broadly complete in this area and we currently have no items that will, or are likely to, be brought to your attention.

## Other areas of audit focus

### What is the risk/area of focus?

#### Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 requires the entity to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by South Yorkshire Pensions Authority (SYPA).

The deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2019 this totalled £42.5 million. The information disclosed is based on the IAS 19 report issued to management by the actuary to SYPA (Mercers).

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

The Combined Authority, as a standalone entity became a constituent employing authority for the first time in 2019/20. We understand that there is no opening deficit being inherited by the Combined Authority for the staff who have transferred under TUPE arrangements.

### What will we do?

#### We will:

- Liaise with the auditors of SYPA, to obtain assurances over the information supplied to the actuary in relation to the Group;
- Agree the nil opening position for the staff who have transferred to the Combined Authority on 1 April 2019 to notification from SYPA;
- Assess the work of the Pension Fund actuary (Mercers) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Review and test the accounting entries and disclosures made within the Group's financial statements in relation to IAS19.

### Current status

We are not in a position to provide any conclusive statements in this area. Our work in this area will require assessment of the work performed by the auditors of South Yorkshire Pensions Authority, which is not yet finished.

## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements.

### What is the risk/area of focus?

#### Valuation of Land and Buildings

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

### What will we do?

#### We will:

- Consider the work performed by the Group's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in the year to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements,

### Current status

We have broadly completed our work in this area without any findings to report. Our audit opinion will highlight the disclosed material valuation uncertainty that has been included by the professional external valuer in their report.

## Other areas of audit focus (continued)

### What is the risk/area of focus?

#### Preparation for IFRS16 – leases

IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to be published, but in July 2019 CIPFA/LASAAC issued ‘IFRS 16 leases and early guide for practitioners’.

This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including:

- The identification of leases
- The recognition of right-of-use assets and liabilities and their subsequent measurement
- Treatment of gains and losses
- Derecognition and presentation and disclosure in the financial statements,
- The management of leases within the Prudential Framework.

The guidance also covers the transitional arrangements for moving to these new requirements, such as:

- The recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees
- The mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).

### What will we do?

IFRS 16 – leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases.

The key accounting impact is assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will be recognised on the balance sheet.

Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.

In particular, full compliance with the revised standard for 20/21 is likely to require a detailed review of existing lease and contract documentation prior to 1 April 20 in order to identify:

- all leases which need to be accounted for
- the costs and lease term which apply to the lease
- the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease.

We will discuss progress made in preparing for the implementation of IFRS 16 – leases with the finance team over the course of our 2019/20 audit.

### Current status

Due to the COVID-19 outbreak, the decision has been made to defer implementation of IFRS 16 by 12 months, therefore we have nothing further to report in our 19/20 audit cycle.

## Other matters

### What is the risk/area of focus?

#### Going Concern Compliance with ISA 570

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Group will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Group is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit and Standards Committee .

The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.'

'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'

### What will we do?

The revised standard requires:

- auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While Sheffield City Region Mayoral Combined Authority is not one of the three entity types listed, we will ensure compliance with any updated reporting requirements;
- a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

The revised standard extends requirements to report to regulators where we have concerns about going concern.

We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.

### Current status

Outlined further in section 03.

## Other areas of audit focus (SYPTE only)

### What is the risk/area of focus?

#### Financial Ledger upgrade

SYPTE has upgraded the Epicor General Ledger system from version 7.4 to version 10, with the new system going live in January 2020. We will be required to perform procedures over the transfer of data to obtain assurance that the financial statements are based on a complete set of transactions.

### What will we do?

We will:

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

### Current status

Our work in this area has been completed. We have performed checks on the completeness of data transfers including substantive procedures to agree balances between systems. In order to achieve efficiencies, we planned alongside management that our data analytics work was performed in two distinct and separate parts. This meant that the data extraction exercises required to obtain transaction populations for testing, was done in a way that eliminated the need for reconciling our interim testing to the testing performed at our final accounts visit. The remaining data analytics work to assess completeness of data was therefore able to utilise the same approach to completeness as our substantive audit work.

We have no findings to report to the Audit and Standards Committee in relation to this work. Due to their being additional work necessary in performing additional testing and two sets of data analytics work, our final Audit Results Report will include a proposed Scale Fee Variation.



**03**

**Audit Report**



## Status of opinion

### Current status

The work required to be completed in relation to the area of focus around IAS 19 Pension Liability Valuation, means that we are currently unable to provide an accurate assessment of the opinion we are likely to be able to provide on the financial statements. There are a range of issues that may arise, which are out of the control of the Authority.

In other areas, the COVID-19 outbreak has increased uncertainty in markets; the professional valuer for the Authority's PPE, has identified a material valuation uncertainty, as raised by all RICS members, which should be disclosed by management. The inclusion of this statement will mean that we will draw attention to this uncertainty in our Audit Opinion.

Similarly, COVID-19 has increased the likelihood of changes, namely reductions, to the funding of Public Sector bodies. We have done, and will continue to do, work to assess the going concern status of the Authority in relation to the cashflow forecasting and short to medium-term financial sustainability. We have also performed a thorough review of the disclosures made by management in relation to the issues being raised by the pandemic and its impact on service potential, use of reserves and the strain it may put on the constituent authorities who fund the Authority.

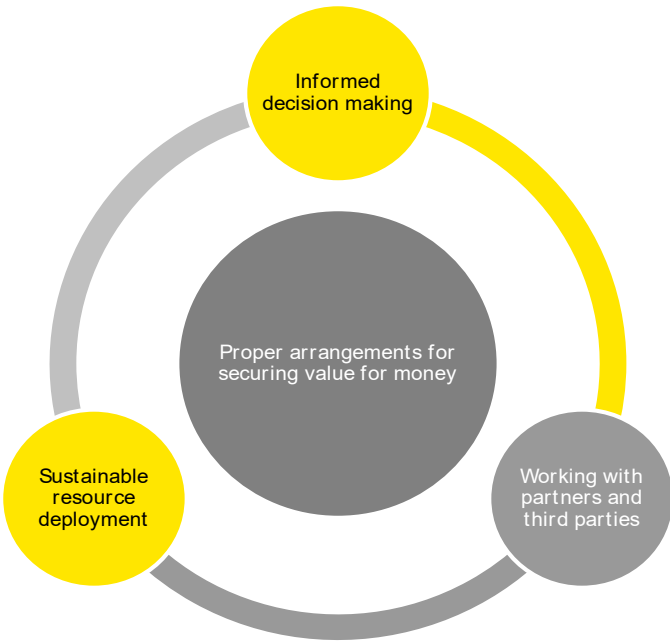
Our current view, although subject to change, is that the disclosures provide a clear and balanced view of the impact of COVID-19 and what it means for the Authority in the current term. The pervasive nature of this event means that we are likely to draw attention to these disclosures in our audit report.

Both of the above would be regarded to modifications to our audit report whilst allowing us to still provide, notwithstanding other issues noted, a clean opinion on the financial statements.



**04**

## Value for Money Risks



## Background

We are required to consider whether the Combined Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Overall conclusion

We did not identify any significant risks around these criteria.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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ED None

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**Audit & Standards Committee**

**16<sup>th</sup> July 2020**

**Group Internal Audit Plan Progress Report**

**Purpose**

This report provides an update on the progress of the 2020/21 Group Internal Audit Plan.

**Freedom of Information & Section 12A of the Local Government Act 1972**

Under the Freedom of Information Act this paper and any appendices will be made available under the Mayoral Combined Authority Publication Scheme. This scheme commits the Authority to make information about how decisions are made available to the public as part of its normal business activities.

**Recommendations**

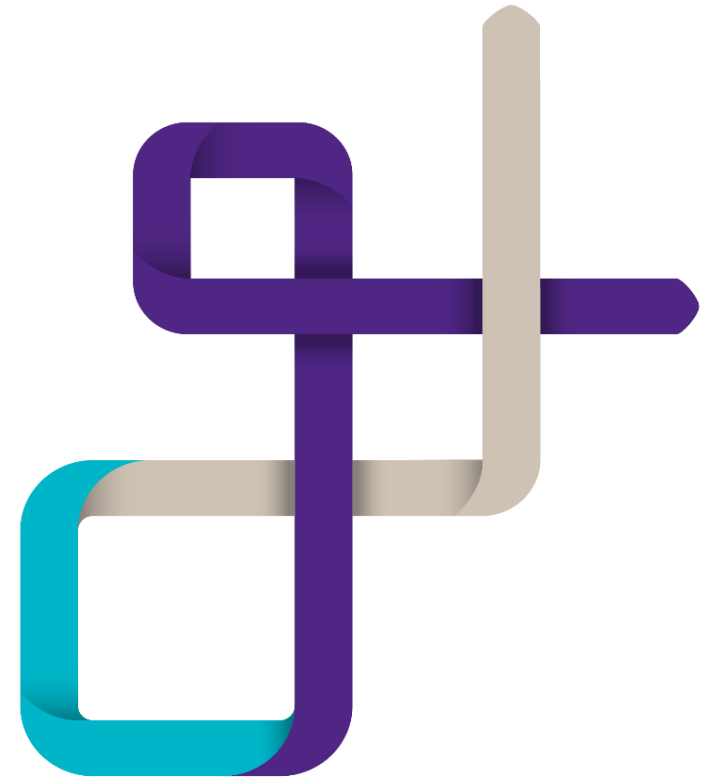
The Audit and Standards Committee are asked to note the progress of 2020/21 audit activity undertaken by Grant Thornton for:

- Joint SCR & SYPTE audits
- SCR MCA audits
- SYPTE audits



# Internal Audit Progress Report

Page 38  
Sheffield City Region Mayoral Combined Authority & South Yorkshire Passenger Transport Executive  
July 2020



# Introduction & headlines

## Purpose

This report provides an update on progress against the 2020/21 internal audit plan. We have delivered 5 of the 79 days in respect of SCRMCAs reviews (6%) and a total of 24 of the 272 days in the joint audit plan, a full detailed breakdown can be found at pages 3 and 4.

## Final reports issued

We have finalised two audit reports since the last Audit Committee meeting, a copy of the reports are attached with the agenda papers:

Audit Completed	Overall Assurance Level
Core Financial Controls (2019/20)	Significant assurance with some improvement required
Governance (2019/20)	Significant assurance with some improvement required

Our assurance levels are shown at appendix 1.

## Work in progress

As at the date of preparing this report we are currently working on the following reviews:

- Capital Programme (2019/20)
- Grant Claim Certification (Growth Hub)
- Public Engagement and Consultation
- Ledger Implementation
- Adult Education Budget

## Resourcing

Due to the outbreak of Covid-19 and the uncertainty of its impact we will keep discussing our progress with management

We confirm that we have sufficient internal audit team members available to deliver the internal audit plan on time. We will flex the plan where needed for emerging priorities and to accommodate timescales requested by management.

## Changes to the audit plan since the last meeting

The audit plan currently reflects the risks discussed and prioritised by the Board earlier in the year. Clearly, this was pre Covid-19 and as such, you may wish to reflect at a future point about how the days within our plan are directed and the timing of some of the work. We still have to complete core reviews and we have a view on the reviews which we still consider to be key for your Board's overall assurance, but will welcome a discussion with you both later in the year to confirm your assessment of risk and make sure that our plan is responsive to your risks post Covid-19.

In light of Covid-19, the Department for Transport have made available a Light Rail Recovery Revenue Grant which requires Head of Internal Audit certification. Clarity around the arrangements and requirements are still being sought. It is still to be decided as to whether we agree additional days or replace a review in the existing plan.

## Additional work undertaken outside of the audit plan

There has been no work undertaken outside of the Audit Plan.

# Progress against 2020/21 Internal Audit Plan

Audit	Planned days	Start date	Scope meeting held	APB agreed	Fieldwork started	Fieldwork completed	Debrief held	Draft report sent	Mgt response received	Final report sent	Days used
<b>Annual Reviews for HOIA opinion and Joint Authority Audits</b>											
Core financial controls	30	Quarter 3									0
Risk Management	12	Quarter 4									0
Governance	12	Quarter 4									0
Climate Emergency	12	Quarter 2									0
Procurement	18	Quarter 4									0
Public Engagement and Consultation	12	Quarter 1									4
Follow up of recommendations	10	Ongoing									1
Attendance at Audit Committee & other client meetings	25	Ongoing									4
<b>Sub-total</b>	<b>131</b>										<b>9</b>
<b>Reviews brought forward from 2019/20</b>											
Capital Programme	12	Ongoing									10



# Progress against 2020/21 Internal Audit Plan

Audit	Planned days	Start date	Scope Meeting held	APB agreed	Fieldwork started	Fieldwork completed	Debrief held	Draft report sent	Mgt response received	Final report sent	Days used
<b>Sheffield City Region Mayoral Combined Authority</b>											
Grant Claims	8	Quarter 1/2									3
Ledger Implementation	8	Quarter 2									1
Adult Education Budget	8	Quarter 1									1
AMP Technology Centre	13	Quarter 2									
Programme Management – Follow up	4	Quarter 2									
Inward Investment	12	Quarter 2									
Travel and Expense Claims	12	Quarter 3									
Back Office Systems	14	Quarter 3									
<b>Sub-total</b>	<b>79</b>										<b>5</b>

# Progress against 2020/21 Internal Audit Plan

Audit	Planned days	Start date	Scope meeting held	APB agreed	Fieldwork started	Fieldwork completed	Debrief held	Draft report sent	Mgt response received	Final report sent	Days used
<b>South Yorkshire Passenger Transport Executive</b>											
Grant Claims	3	Quarter 2									0
Health and Safety Compliance	16	Quarter 1									5
Policy Management Framework	12	Quarter 2									0
Ticketing and Concessions	14	Quarter 1/2									5
Business Continuity, Resilience and Disaster Recovery Planning	12	Quarter 3									0
<b>Sub-total</b>	<b>57</b>										<b>10</b>
<b>Reviews brought forward from 2019/20</b>											
Ticketing and Concessions	18	2019/20									14
<b>Contingency</b>	<b>5</b>										
<b>Total</b>	<b>272</b>										<b>24</b>

# Appendix 1 - Our assurance levels

The table below shows the levels of assurance we provide and guidelines for how these are arrived at. We always exercise professional judgement in determining assignment assurance levels, reflective of the circumstances of each individual assignment.

Rating	Description
<b>Significant assurance</b>	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are suitably designed to achieve the risk management objectives required by management.</p> <p>These activities and controls were operating with sufficient effectiveness to provide significant assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by no weaknesses in design or operation of controls and only IMPROVEMENT recommendations.</p>
<b>Significant assurance with some improvement required</b>	<p>Overall, we have concluded that in the areas examined, there are only minor weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by minor weaknesses in design or operation of controls and only LOW rated recommendations.</p>
<b>Partial assurance with improvement required</b>	<p>Overall, we have concluded that, in the areas examined, there are some moderate weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide partial assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by moderate weaknesses in design or operation of controls and one or more MEDIUM or HIGH rated recommendations.</p>
<b>No assurance</b>	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are not suitably designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were not operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review</p> <p>Might be indicated by significant weaknesses in design or operation of controls and several HIGH rated recommendations.</p>



**Audit & Standards Committee**

**16<sup>th</sup> July 2020**

**Internal Audit Reports**

**Purpose**

This report presents the Internal Audit Report for 'Governance'.

**Freedom of Information & Section 12A of the Local Government Act 1972**

Under the Freedom of Information Act this paper and any appendices will be made available under the Mayoral Combined Authority Publication Scheme. This scheme commits the Authority to make information about how decisions are made available to the public as part of its normal business activities.

**Recommendations**

The Audit and Standards Committee are asked to consider the findings and recommendations of the internal audit on 'Governance' (Appendix A)

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# Sheffield City Region Mayoral Combined Authority & South Yorkshire Passenger Transport Executive

## Governance Review

July 2020

Page 47

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## Report distribution:

- Dave Smith, Managing Director (SCRMCA)
- Stephen Edwards, Executive Director (SYPTTE)
- Ruth Adams, Deputy Managing Director (SCRMCA)
- Steve Davenport, Principal Solicitor and Secretary to the Executive (SYPTTE) & Monitoring Officer (SCRMCA)
- Noel O'Neill, Interim Group Chief Financial Officer
- Stephen Batey, Head of Governance and Compliance (SCRMCA)
- Mike Thomas, Head of Financial Services
- Claire James, Senior Governance and Compliance Officer (SCRMCA)
- Lorraine Gandy, Senior Solicitor (SYPTTE)
- Dawn Marshall - Secretary to Head of Financial Services (SYPTTE)

## For action:

- Claire James, Governance and Compliance Officer (SCRMCA)
- Lorraine Gandy, Senior Solicitor (SYPTTE)

## Responsible Executives:

- Steve Davenport, Principal Solicitor and Secretary to the Executive (SYPTTE)
- Stephen Batey, Head of Governance and Compliance (SCRMCA)

This report is confidential and is intended for use by the management and directors of Sheffield City Region Mayoral Combined Authority (SCRMCA) and South Yorkshire Passenger Transport Executive (SYPTTE). It forms part of our continuing dialogue with you. It should not be made available, in whole or in part, to any third party without our prior written consent. We do not accept responsibility for any reliance that third parties may place upon this report. Any third party relying on this report does so entirely at its own risk. We accept no liability to any third party for any loss or damage suffered or costs incurred, arising out of or in connection with the use of this report, however such loss or damage is caused.

It is the responsibility solely of the Authority's management and directors to ensure there are adequate arrangements in place in relation to risk management, governance, control and value for money.



# Executive Summary

## Background

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The aim of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest.

Sheffield City Region Mayoral Combined Authority (SCRMCA) and South Yorkshire Passenger Transport Executive (SYPTTE) are responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, correctly accounted for and used economically and efficiently. It must ensure it has arrangements for the proper governance of its affairs for the effective exercise of its functions and the sound management of risk.

Delivering good governance comprises the following key principles:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social, and environmental benefits
- Determining the interventions necessary to optimize the achievement of the intended outcomes
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management
- Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Accounts and Audit Regulations 2015 requires Authorities to prepare an annual governance statement in order to report publicly on the extent to which they comply with their own code of governance, which, in turn, is consistent with good governance principles. This statement includes how the effectiveness of governance arrangements have been reviewed during the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.

## Objectives

The objective of the review was to provide an independent assessment of the design and operational effectiveness of the SYPTTE's and MCA's Governance Arrangements.

Our review focused on the following potential risk areas:

- The inability to demonstrate good governance due to the lack of a Code of Corporate Governance, aligned to the key principles of good governance.
- Inadequate processes for receiving assurance of compliance with the Code of Corporate Governance which may lead to inappropriate decision making.
- Inadequate or unclear processes for the compilation of the Annual Governance Statement which may lead to non compliance with Statutory requirements.

## Limitation of scope

Our findings and conclusions are limited to the risks identified above. The scope of this audit does not allow us to provide an independent assessment of all risks and controls associated with project management.

Where sample testing has been undertaken, our findings and conclusions are limited to the sample tested only. Please note that there is a risk that our findings and conclusions based on the sample may differ from the findings and conclusions we would reach if we tested the entire population from which the sample is taken.

# Executive Summary

## Conclusion

### Significant assurance with some improvement required

We have reviewed the processes and controls around the Authority's Governance arrangements. The controls tested are set out in our Audit Planning Brief.

We have concluded that the processes provide **SIGNIFICANT ASSURANCE WITH SOME IMPROVEMENT REQUIRED** to the Committee.

## Good practice

We have identified the following areas of good practice:

- The SCRMCAs and SYPTs have a Code of Corporate Governance in place. These are clearly aligned to the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) Framework Delivering Good Governance in Local Government.
- Annual reviews to assess the effectiveness and compliance with the Code of Corporate Governance are carried out.
- Identified areas for improvement to strengthen governance have been incorporated into action plans for completion, monitoring and oversight.
- There are clear and robust processes in place for the compilation of the Annual Governance Statements.

## Areas requiring improvement

We have identified a couple of areas to further enhance control:

- Areas for improvement, arising from the annual assessment of compliance with the Code of Corporate Governance, have been developed into and SCRMCAs AGS Governance Improvement Plan. This is presented to the Audit and Standards Committee as part of the draft Annual Governance Statement and again for oversight in January. To provide the Audit and Standards Committee with oversight of progress during the year, we have recommended that plan also be presented to the Committee at its meetings held in October each year.
- The Local Code of Corporate Governance published on the SYPT's website is encompassed by the live operational action plan. However, this document does not fully demonstrate where compliance is achieved for each of the principles, which is common practice across the Local Government Sector. The Evidence of Compliance Report does show in detail how compliance is achieved for each of the principles and we have recommended how this may be adapted to become the Code.
- Not all actions within the SYPT action plan are SMART and, in some cases, it is not clear what action is required to be undertaken.

## Recommendations

Based on our findings, we have raised three risk recommendations:

	High	Medium	Low	Improvement
Detailed findings	-	-	2	1

## Acknowledgement

We would like to take this opportunity to thank your staff for their co-operation during this internal audit.

# Action Plan - SCRMCAs

In this section we set out the detailed findings arising from our work. Details of what each of the ratings represents can be found in Appendix 2.

Issue	Findings and Recommendation	Action Plan
<p>Inadequate processes for receiving assurance of compliance with the Code of Corporate Governance which may lead to inappropriate decision making.</p>	<p><b>MCA</b></p> <p>Our review confirmed that an annual assessment of compliance with the Code of Corporate Governance is carried out to gain assurance in respect of the effectiveness of current arrangements and to identify any opportunities for improvement.</p> <p>During the assessment of 2018/19 compliance, three key areas were identified where there are opportunities to strengthen compliance, these are:</p> <ul style="list-style-type: none"> <li>• stakeholder engagement;</li> <li>• performance monitoring and;</li> <li>• skills and knowledge.</li> </ul> <p>These key areas of focus for strengthening governance in 2019/20 were incorporated into an action plan and included within the 2018/19 Annual Governance Statement. Progress against the action plan is reported to the Audit and Standards Committee.</p> <p>Our review of Audit and Standard Committee minutes show that the AGS Governance Improvement Plan Actions is presented to the Audit and Standards Committee as part of the draft Annual Governance Statement and again for oversight in January. It is acknowledged that this is in accordance with the Authority's current process, However, reporting in January may not provide assurance that adequate progress is being made during the year, or highlight any slippage or issues that may arise.</p> <p><b>Issue identified:</b></p> <p>Reporting to the Audit and Standards Committee in January may not provide assurance that adequate progress is being made during the year.</p> <p><b>Risk:</b></p> <p>The Audit and Standards Committee does not receive timely assurance that action is being taken in accordance with identified milestones and deadlines.</p> <p><b>Recommendations:</b></p> <p>The Authority to consider reporting to the Audit and Standards Committee meetings held in October, in addition to January.</p>	<p><b>Actions:</b></p> <p>Progress being made against the actions identified within the Governance Improvement Plan will also be reported to the Audit and Standards Committee meetings held in October each year.</p> <p><b>Responsible Officer:</b></p> <p>Claire James, Senior Governance and Compliance Officer</p> <p><b>Executive Lead:</b></p> <p>Stephen Batey, Head of Governance and Compliance</p> <p><b>Due date:</b></p> <p>31<sup>st</sup> October 2020</p>

# Action Plan - SYPTE

In this section we set out the detailed findings arising from our work. Details of what each of the ratings represents can be found in Appendix 2.

Issue	Findings and Recommendation	Action Plan
<p>The inability to demonstrate good governance due to the lack of a Code of Corporate Governance, aligned to the key principles of good governance.</p>	<p><b>PTE</b></p> <p>The PTE has a Code of Corporate Governance in place, clearly aligned to the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) Framework Delivering Good Governance in Local Government.</p> <p>Two documents are maintained to support the Code:</p> <ul style="list-style-type: none"> <li>• Evidence of Compliance Report</li> <li>• Local Code of Corporate Governance and action plan</li> </ul> <p>The Local Code of Corporate Governance published on the SYPTE’s website is encompassed by the action plan. The introductory report clearly sets out the Executives systems and approach and is supported by a robust Governance Structure diagram. However the action plan, is a live operational plan, which is updated on a quarterly basis. The plan does not show in detail how compliance is achieved for each of the principles of the Code.</p> <p>The Evidence of Compliance report fully demonstrates where compliance is achieved for each of the principles and is aligned to common practice reporting across the Local Government Sector. This report may be more suited to be the actual Code of Corporate Governance to be published, supported by the introductory overview and governance structure diagram currently reported within the action plan report.</p> <p><b>Issue identified:</b></p> <p>The report published on the PTE’s website is an operational plan of action.</p> <p><b>Risk:</b></p> <p>The format of the action plan does not demonstrate all evidence of compliance with the principles of the Code, only those areas where action required has been identified or being taken.</p> <p><b>Recommendations:</b></p> <p>The Executive to consider the format of the information reported within the Code of Corporate Governance published on the website and whether the Evidence of Compliance Report is better suited.</p>	<p><b>Actions:</b></p> <p>The recommendation is accepted. The PTE will determine how best to address the issue raised when we publish the next version in April 2021.</p> <p><b>Responsible Officer:</b></p> <p>Lorraine Gandy, Senior Solicitor</p> <p><b>Executive Lead:</b></p> <p>Steve Davenport, Monitoring Officer</p> <p><b>Due date:</b></p> <p>30<sup>th</sup> April 2021</p>

# Action Plan - SYPTE

In this section we set out the detailed findings arising from our work. Details of what each of the ratings represents can be found in Appendix 2.

Issue	Findings and Recommendation	Action Plan
<p>Inadequate processes for receiving assurance of compliance with the Code of Corporate Governance which may lead to inappropriate decision making.</p>	<p><b>PTE</b></p> <p>The PTE’s Code of Governance includes those documents, policies, procedures and expected behaviours that it has in place to help it deliver its objectives. The PTE has assessed the effectiveness of its Code of Governance and has identified areas that need to be improved, which have been captured in an Action Plan and approved by the Executive Board. The action plan is reviewed on a quarterly basis with oversight and input from the Board and Audit and Risk Committee.</p> <p>However, from our review of the action plan we did note that not all actions are SMART and, in some cases, it is not clear what action is required to be undertaken. For example:</p> <ul style="list-style-type: none"> <li>• <i>“Principle: Managing service users’ expectations effectively with regard to determining priorities and making the best use of the resources available.</i> <ul style="list-style-type: none"> <li>– <i>The action states: Effective scoping of School Service tenders.</i></li> </ul> </li> <li>• <i>Principle: Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets.</i> <ul style="list-style-type: none"> <li>– <i>Assets Review”</i></li> </ul> </li> </ul> <p><b>Issue identified:</b></p> <p>Not all actions within the action plan are SMART and, in some cases, it is not clear what action is required.</p> <p><b>Risk:</b></p> <p>It may not be clear what is required to be undertaken to demonstrate compliance with the Code of Corporate Governance.</p> <p><b>Recommendations:</b></p> <p>The Executive to ensure that the actions required to be undertaken are clearly stated and align to SMART principles.</p>	<p><b>Actions:</b></p> <p>The recommendation is accepted and will be implemented when we publish the next full action plan in April 2021.</p> <p><b>Responsible Officer:</b></p> <p>Management Board / Senior Managers</p> <p><b>Executive Lead:</b></p> <p>Steve Davenport, Monitoring Officer</p> <p><b>Due date:</b></p> <p>30<sup>th</sup> April 2021</p>

# Appendices

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# Appendix 1 – Staff involved and documents reviewed

## Staff involved

- Claire James, Governance and Compliance Officer (SCRMCA)
- Lorraine Gandy, Senior Solicitor (SYPTTE)

## Documents reviewed

- MCA Code of Corporate Governance
- PTE Code of Corporate Governance & Action plan (including Quarterly reviews)
- PTE Evidence of Compliance
- MCA Monitoring Spreadsheet
- Audit Committee and Board papers
- Annual Governance Statements

# Appendix 2 - Our assurance levels

The table below shows the levels of assurance we provide and guidelines for how these are arrived at. We always exercise professional judgement in determining assignment assurance levels, reflective of the circumstances of each individual assignment.

Rating	Description
<b>Significant assurance</b>	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are suitably designed to achieve the risk management objectives required by management.</p> <p>These activities and controls were operating with sufficient effectiveness to provide significant assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by no weaknesses in design or operation of controls and only IMPROVEMENT recommendations.</p>
<b>Significant assurance with some improvement required</b>	<p>Overall, we have concluded that in the areas examined, there are only minor weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by minor weaknesses in design or operation of controls and only LOW rated recommendations.</p>
<b>Partial assurance with improvement required</b>	<p>Overall, we have concluded that, in the areas examined, there are some moderate weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide partial assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by moderate weaknesses in design or operation of controls and one or more MEDIUM or HIGH rated recommendations.</p>
<b>No assurance</b>	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are not suitably designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were not operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review</p> <p>Might be indicated by significant weaknesses in design or operation of controls and several HIGH rated recommendations.</p>



# Appendix 2 - Our assurance levels (cont'd)

The table below describes how we grade our audit recommendations.

Rating	Description	Possible features
<b>High</b>	Findings that are fundamental to the management of risk in the business area, representing a weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>▪ Key activity or control not designed or operating effectively</li> <li>▪ Potential for fraud identified</li> <li>▪ Non-compliance with key procedures / standards</li> <li>▪ Non-compliance with regulation</li> </ul>
<b>Medium</b>	Findings that are important to the management of risk in the business area, representing a moderate weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>▪ Important activity or control not designed or operating effectively</li> <li>▪ Impact is contained within the department and compensating controls would detect errors</li> <li>▪ Possibility for fraud exists</li> <li>▪ Control failures identified but not in key controls</li> <li>▪ Non-compliance with procedures / standards (but not resulting in key control failure)</li> </ul>
<b>Low</b>	Findings that identify non-compliance with established procedures, or which identify changes that could improve the efficiency and/or effectiveness of the activity or control but which are not vital to the management of risk in the business area.	<ul style="list-style-type: none"> <li>▪ Minor control design or operational weakness</li> <li>▪ Minor non-compliance with procedures / standards</li> </ul>
<b>Improvement</b>	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none"> <li>▪ Information for management</li> <li>▪ Control operating but not necessarily in accordance with best practice</li> </ul>



**AUDIT & STANDARDS COMMITTEE**

**16<sup>th</sup> July 2020**

**Internal Audit Recommendations Tracker Report**

**Purpose of Report**

The Audit and Standards Committee is responsible for overseeing and reviewing the Authority's internal audit strategy, and receiving reports, as appropriate, from the Internal Auditor. This report presents an update on the implementation of the recommendations made by Internal Audit.

**Freedom of Information & Section 12A of the Local Government Act 1972**

Under the Freedom of Information Act this paper and any appendices will be made available under the Mayoral Combined Authority Publication Scheme. This scheme commits the Authority to make information about how decisions are made available to the public as part of its normal business activities.

**Recommendations**

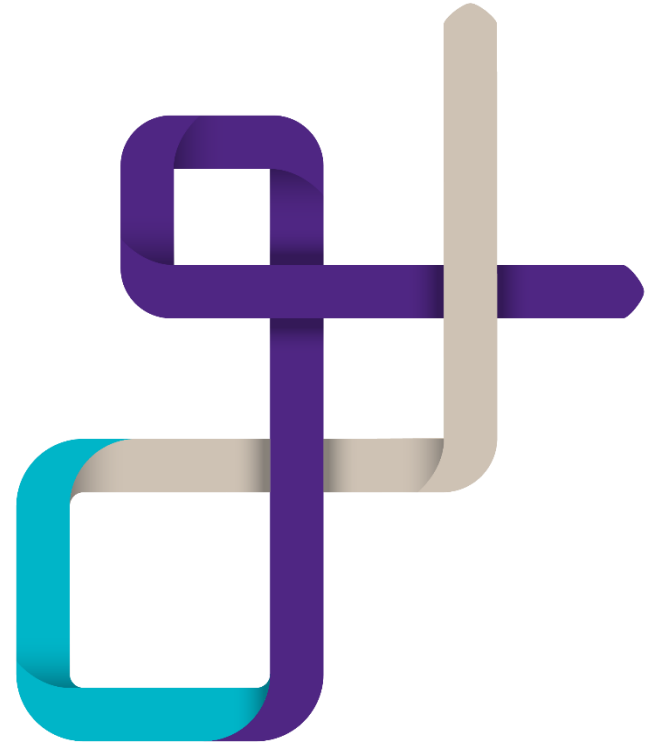
Members are asked to review the progress of the implementation of internal audit recommendations.



# Internal Audit Recommendation Tracker

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Sheffield City Region Mayoral Combined Authority  
July 2020



# Introduction & headlines

## Purpose

This document provides an overview of the status of internal audit recommendations that were due for implementation prior to this Audit Committee meeting.

## Respective responsibilities

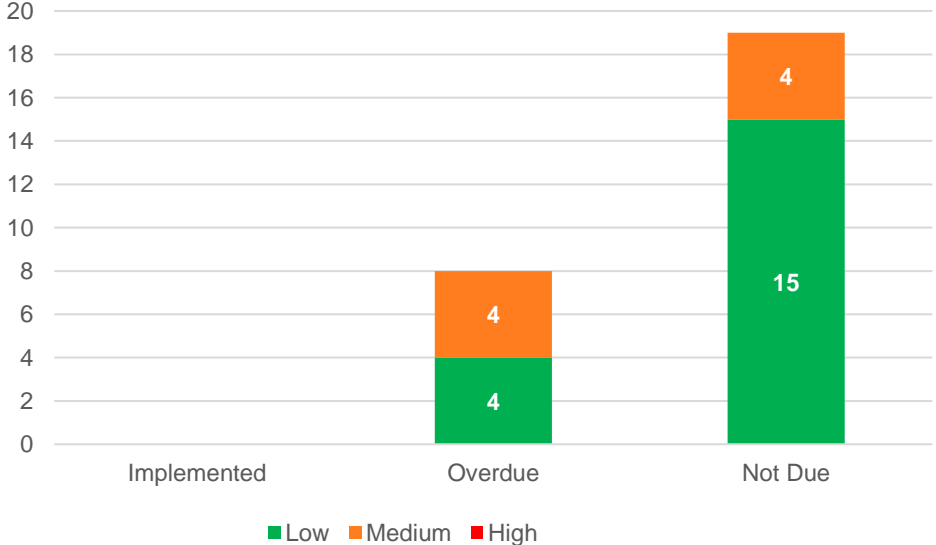
We follow up recommendations and report progress to the Audit Committee. It is the responsibility of management to implement audit recommendations on time and provide updates for the Action Tracker.

This report also identifies the progress made in respect of the outstanding recommendations agreed with the Authority's previous Internal Auditors.

## Analysis of outstanding recommendations

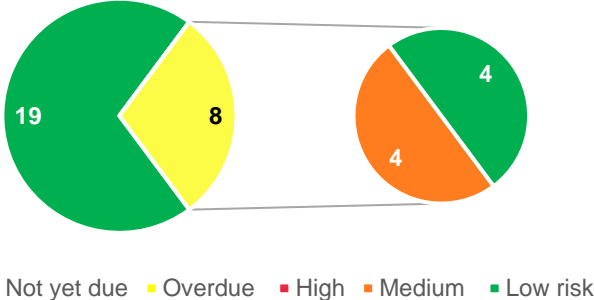
As at the date of finalising this report, there were eight overdue recommendations agreed with management which remain outstanding. There are 19 recommendations that are not yet due.

We have summarised below the current status of all outstanding recommendations.



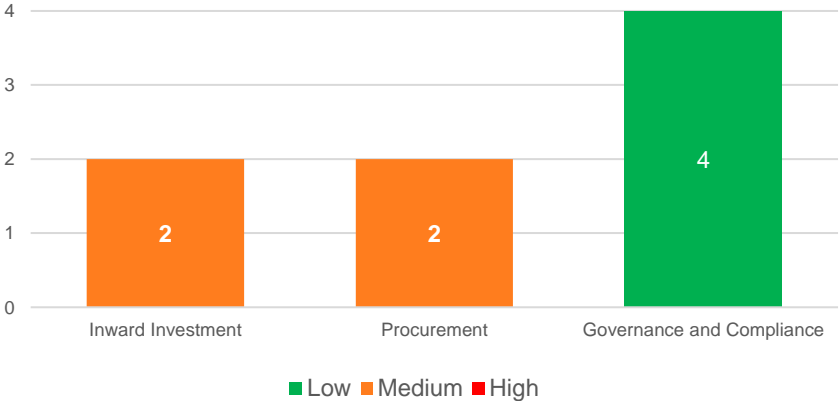
## Recommendations due for implementation

An analysis of the eight recommendations that were required to be implemented prior to this Audit Committee meeting is shown below. Of the eight recommendations that are overdue, none are high risk, four are medium risk and four are low risk. The four medium risk recommendations were agreed with the Authority's previous Internal Auditors



## Overdue recommendation by department

An analysis of the eight overdue recommendations by department is shown below. On the remaining pages of this report, we provide the responses provided by management on the progress being made to implement overdue recommendations. We do acknowledge that progress with implementation may have been impacted due to the disruptions of Covid-19 and due dates may need to be revised further.



# Status of Overdue Recommendations.

Audit area	Risk rating	Agreed management action	Responsible officer	Due Date	Status	Management comment
<b>Inward Investment (2018/19)</b>	Medium	The International Trade and Investment Plan should include agreed implementation dates against each of the detailed objectives (actions) and also targets against each of the outcomes (key performance indicators), to enable the delivery of plan to be proactively managed and monitored during the year.	Rachel Clark Director of Trade and Investment	31/12/2019  Revised – 31/05/2020	<b>On Hold</b>	Client Update, January 2020:  Due to be implemented by 31st December 2019. Currently on hold whilst a new Plan, aligned to the new Strategic Economic Plan (SEP), is developed. The findings of the consultation will be considered by the LEP Board in March and a final SEP published in May 2020.  Client Update, July 2020:  The launch of the SEP has been delayed due to the pandemic. This recommendation will be considered as and when a new Trade and Investment Plan is developed in line with the new SEP.
<b>Inward Investment (2018/19)</b>	Medium	Key performance Indicators should be set for the Inward Investment Team and performance measured against these reported to the Trade and Investment Advisory Board on a regular basis to enable challenges to be made if applicable.	Rachel Clark Director of Trade and Investment	31/12/2019  Revised – 31/05/2020	<b>On Hold</b>	Client Update, January 2020:  Due to be implemented by 31st December 2019. Currently on hold whilst a new Plan, aligned to the new Strategic Economic Plan (SEP), is developed. The findings of the consultation will be considered by the LEP Board in March and a final SEP published in May 2020.  Client Update, July 2020:  The launch of the SEP has been delayed due to the pandemic. This recommendation will be considered as and when a new Trade and Investment Plan is developed in line with the new SEP.
<b>Procurement (2018/19)</b>	Medium	The Contract Procedure Rules and other procurement related documentation should be reviewed and updated in conjunction with the Operational Contracts Team at the earliest opportunity. All officers should be notified of the updated documentation, upon the completion of the review and signposting provided to its location.	Sue Sykes Assistant Director, Programme and Performance Unit	31/03/2020  Revised – 30/06/2020	<b>In Progress</b>	Client Update, January 2020:  A specific piece of work has been commissioned, to develop the SCRMCA's procurement function and strategy will address the two outstanding actions. This is due to be completed by 30th June 2020.  Client Update, July 2020:  This piece of work is still on-going and new procurement documentation is currently being drafted

# Status of Overdue Recommendations.

Audit area	Risk rating	Agreed management action	Responsible officer	Due Date	Status	Management comment
<b>Procurement (2018/19)</b>	<b>Medium</b>	A business entertainment and foreign travel policy should be drafted and approved, to confirm the type and level of expenditure that is acceptable to the SCRMCAs when attending meetings and other commercial (business) related events. The policy should be published on the Intranet Site.	Mike Thomas Senior Finance Manager	31/03/2020  Revised – 30/06/2020	<b>In Progress</b>	Client Update, January 2020: A specific piece of work has been commissioned, to develop the SCRMCAs's procurement function and strategy will address the two outstanding actions. This is due to be completed by 30th June 2020.
<b>GDPR (2019/20)</b>	<b>Low</b>	Review the way in which the Information Security Classifications are being used across both organisations to support GDPR/DPA2018 compliance to ensure that they are being used consistently, in line with Cabinet Office guidance on Government Security Classifications, both from a classification and protection of data perspective.	Stephen Batey Head of Governance and Compliance	31/03/2020	<b>Revised Due Date to be Agreed</b>	Client Update, June 2020: The action has exceeded its implementation date. This is due to disruption to business activities caused by the Covid-19 lockdown. Timeframes will be revised.
<b>GDPR (2019/20)</b>	<b>Low</b>	The public facing websites will be updated and a new IT Policy will be implemented in April 2020.	Christine Marriott, Scrutiny Officer	01/04/2020	<b>Revised Due Date to be Agreed</b>	Client Update, June 2020: The action has exceeded its implementation date. This is due to disruption to business activities caused by the Covid-19 lockdown. Timeframes will be revised.

# Status of Overdue Recommendations.

Audit area	Risk rating	Agreed management action	Responsible officer	Due Date	Status	Management comment
Risk Management (2019/20)	Low	The Authority to ensure that the 2020 review and refresh of the Risk Management policy reflects the current structure of the Authority, in particular including roles and responsibilities related to risk management of the Thematic Boards.	Claire James Senior Governance and Compliance Officer	30/06/2020	Revised Due Date to be Agreed	Client Update, July 2020: Due to the disruption to activities caused by the pandemic this piece of work has not progressed as anticipated and therefore the original deadline for this action has not been met. New deadline to be agreed.
Risk Management (2019/20)	Low	The Authority to define its level of scrutiny and oversight, supported by a clear escalation and de-escalation processes.	Claire James Senior Governance and Compliance Officer	30/06/2020	Revised Due Date to be Agreed	Client Update, July 2020: Due to the disruption to activities caused by the pandemic this piece of work has not progressed as anticipated and therefore the original deadline for this action has not been met. New deadline to be agreed.





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**AUDIT & STANDARDS COMMITTEE**

**16<sup>th</sup> July 2020**

**Internal Audit Annual Report and Head of Internal Audit Opinion**

**Purpose of Report**

This Annual Report summarises the conclusions and key findings from the internal audit work undertaken at Sheffield City Region Mayoral Combined Authority during the year ended 31<sup>st</sup> March 2020 and includes the Chief Audit Executives overall opinion on Sheffield City Region Mayoral Combined Authority's internal control system.

**Freedom of Information & Section 12A of the Local Government Act 1972**

Under the Freedom of Information Act this paper and any appendices will be made available under the Mayoral Combined Authority Publication Scheme. This scheme commits the Authority to make information about how decisions are made available to the public as part of its normal business activities.

**Recommendations**

Members are asked to consider the Annual Report and Head of Internal Audit Opinion.

# Sheffield City Region Mayoral Combined Authority

## Internal Audit Annual Report and Annual Head of Internal Audit Opinion 2019/20

Page 68

July 2020

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This report is confidential and is intended for use by the management and directors of Sheffield City Region Mayoral Combined Authority (SCRMCA). It forms part of our continuing dialogue with you. It should not be made available, in whole or in part, to any third party without our prior written consent. We do not accept responsibility for any reliance that third parties may place upon this report. Any third party relying on this report does so entirely at its own risk. We accept no liability to any third party for any loss or damage suffered or costs incurred, arising out of or in connection with the use of this report, however such loss or damage is caused.

It is the responsibility solely of the Authority's management and directors to ensure there are adequate arrangements in place in relation to risk management, governance, control and value for money.

# Introduction

## The Public Sector Internal Audit Standards (PSIAS) state that:

“The Chief Audit Executive (Head of Internal Audit) must deliver an annual internal audit opinion and report that can be used by the Authority to inform its governance statement”.

“The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the Authority’s framework of governance, risk management and control”.

To meet the above requirements, this Annual Report summarises our conclusions and key findings from the internal audit work undertaken at Sheffield City Region Mayoral Combined Authority during the year ended 31 March 2020, including our overall opinion on Sheffield City Region Mayoral Combined Authority’s internal control system.

## Acknowledgement

We would like to take this opportunity to thank all members of management and staff for the help, courtesy and co-operation extended to us during the year.

# Internal Audit Summary

## Scope and responsibilities

It is management's responsibility to establish a sound internal control system. The internal control system comprises the whole network of systems and processes established to provide reasonable assurance that organisational objectives will be achieved, with particular reference to:

- risk management;
- the effectiveness of operations;
- the economic and efficient use of resources;
- compliance and applicable policies, procedures, laws and regulations;
- safeguards against losses, including those arising from fraud, irregularity or corruption; and
- the integrity and reliability of information and data.

## Internal audit

Internal Audit assists management by examining, evaluating and reporting on the controls in order to provide an independent assessment of the adequacy of the internal control system. To achieve this, Internal Audit should:

- analyse the internal control system and establish a review programme;
- identify and evaluate the controls which are established to achieve objectives in the most economic and efficient manner;
- report findings and conclusions and, where appropriate, make recommendations for improvement;
- provide an opinion on the reliability of the controls in the system under review; and
- provide an assurance based on the evaluation of the internal control system within the organisation as a whole.

## Good practice

In order to provide an annual assurance statement supporting the Governance Statement, we consider all of Sheffield City Region Mayoral Combined Authority activities and systems, as aligned to key risks, within the scope of our internal audit reviews.

Our internal audit plans are designed to provide the Audit and Standards Committee with assurance that the Sheffield City Region Mayoral Combined Authority internal control system is effective in managing the organisation key risks and value for money is being achieved. Our plans are therefore linked to the Authority's strategic risk register.

The three-year Strategic Internal Audit Plan was agreed in consultation with senior management and formally approved by the Audit and Standards Committee in June 2019.

# Internal Audit Summary

## Internal Audit planning

The Annual Internal Audit Plan is subject to revision throughout the year to reflect changes in your risk profile. We have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. However, internal audit can never guarantee to detect all fraud or other irregularities and cannot be held responsible for internal control failures.

## Internal Audit Coverage

The Joint Internal Audit Plan comprises 250 days per annum. In 2019/20 this was allocated as follows:

- Annual Reviews for HOIA opinion and Joint Authority Audits: 98 days
- Sheffield City Region Mayoral Combined Authority: 65 days
- South Yorkshire Passenger Transport Executive: 87 days

During the year, we flexed the plan to take account of emerging risks and additional requests with the agreement of Audit and Risk Committee:

- Following initial scoping discussions with the Senior Finance Manager and Director of Transport, Housing and Infrastructure, it was proposed to postpone the review of Capital Programme until Quarter 4 to enable the actions agreed as part of the 2018/19 review to be fully implemented and embedded. It was also proposed that the initial number of planned days be reduced from 25 to 12 to complete a follow up of the original report. Four days of the saved budget to be used to complete a readiness review of the Adult Education Budget checklist and the remaining placed into contingency. This change to the Audit Plan was approved by the Audit and Standards Committee at its meeting in October 2019.
- Following initial scoping discussions with the Deputy Chief Executive, it was proposed to postpone the review of Back-Office Transformation to enable a wider piece of work to be carried out in 2020/21. This change to the Audit Plan was approved by the Audit and Standards Committee at its meeting in January 2020.
- The Audit and Standards Committee agreed in March 2020 to carry forward the audit of AEB readiness into the 2021 Internal Audit Plan.

We can confirm that no restrictions were placed on our work by management.

## Reports

We have prepared a report for each of the seven internal audit reviews completed and presented these reports to the Audit and Standards Committee .

Where relevant, all reports contained management action plans detailing responsible Directors/Management and implementation dates. The reports were fully discussed and agreed with management prior to submission to the Audit and Standards Committee. We made no critical or high risk recommendations that were not accepted by management.



# Summary of reports by overall opinion

Seven internal audit reports have been issued plus two grant claims certified in 2019/20, as summarised in the table below.

Review	Report conclusion	No. of recommendations raised			
		High risk	Medium risk	Low risk	Improvement
<b>Annual Reviews for HOIA opinion and Joint Authority Audits</b>					
Core Financial Controls	Significant assurance with some improvement required	-	2	9	2
Risk Management	Significant assurance with some improvement required	-	1	12	-
Governance	Significant assurance with some improvement required	-	-	-	1
Information Governance / GDPR	Significant assurance with some improvement required	-	-	5	9
Capital Programme	Significant assurance with some improvement required	-	2	-	-
<b>Risk Based Reviews</b>					
Resource Management / HR Systems	Partial assurance with improvement required	-	3	1	-
Grant Claims	Not applicable	-	-	-	-
Programme Management	Significant assurance with some improvement required	-	-	2	-
<b>Total</b>		<b>-</b>	<b>8</b>	<b>29</b>	<b>12</b>

The definitions used to provide conclusions on reports, and the risk assessment of individual actions are set out in Appendix 1

# Summary of reports by overall opinion

## Audit recommendations

During the year we have raised 49 recommendations, all were accepted by management. We have not reported any high risk recommendations during 2019/20.

We report to Audit and Standards Committee meetings, management's progress in implementing internal audit recommendations. We have calculated the Authority's implementation rate for the year 2019/20 at 83%. This includes any outstanding legacy recommendations made by the previous Internal Audit providers.

Full details of recommendation tracking are shown within the Head of Internal Audit Opinion at Appendix 1.

# Performance of Internal Audit

## Independence

PSIAS require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We can confirm that the staff members involved in each 2019/20 internal audit review were independent of Sheffield City Region Mayoral Combined Authority operational processes and their objectivity was not compromised in any way.

## Conformance with Public Sector Internal Audit Standards

Based upon our ongoing assignment and client review processes, together with the results of any Quality Assurance inspections, we believe that we have complied with the Public Sector Internal Audit Standards.

## Quality control

Grant Thornton's aim is to provide a service that not only meets the Authority's needs but also maintains consistently high standards. This is achieved through the following internal processes:

- Preparation of a detailed audit plan which is reviewed by the Head of Internal Audit prior to submission to the Audit and Standards Committee for approval;
- Regular review of progress against the plan to ensure we are delivering the work we have promised. In 2019/20, we completed all audit work as required;
- A tailored audit approach using a defined methodology and assignment control documentation which is subject to the firm's review protocol;
- The use of qualified, highly trained and experienced staff;
- The review of all audit files and reports by the Head of Internal Audit and Internal Audit Manager; and
- Reviews of a random sample of files by staff from other offices within the firm to ensure they comply with the Firm's standards of technical excellence and client service

# Appendices

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# Appendix 1

## Head of Internal Audit Opinion

### Basis of Opinion for the year ending 31 March 2020

This report is our annual summary of the internal audit work carried out for Sheffield City Region Mayoral Combined Authority this year. All reports have been presented to the Audit and Standards Committee following their agreement with Management.

Our internal audit work was carried out in accordance with the Grant Thornton Internal Audit methodology, which complies with the Public Sector Internal Audit Standards (PSIAS). Our work was not designed to and therefore it does not comply with the International Framework for Assurance Engagements (IFAE) or International Standard on Assurance Engagements (ISAE) 3000.

In carrying out our work we are required to comply with applicable ethical standards, including being independent from the Authority.

### Respective roles and responsibilities

The Management Board is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Annual Governance Statement (AGS) is an annual statement by the Accountable Officer, on behalf of the Board, setting out:

- how the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- the purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the Assurance Framework process;
- the conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

The Head of Internal Audit is required to provide an annual opinion in accordance with the PSIAS, based upon and limited to the work performed, on the overall adequacy and effectiveness of the Authority's risk management, control and governance processes (otherwise known as the system of internal control).

The purpose of the Head of Internal Audit's Opinion is to contribute to the assurances available to the Accountable Officer and the Board, which underpin the Board's own assessment of the effectiveness of internal control. This Opinion will in turn assist the Board in the completion of the Annual Governance Statement (AGS).

The Opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the Authority. It is achieved through the delivery of a risk-based programme of compliance, assurance and advisory work, agreed with Management and approved by the Audit and Standards Committee .

# Head of Internal Audit Opinion

## Opinion

The basis of our opinion is as follows:

- An assessment of the range of individual assurances arising from our core and risk-based internal audit assignments that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas.
- The extent to which you have responded to audit recommendations.

Our overall opinion for the period 1 April 2019 to 31 March 2020 is that based on the scope of reviews undertaken and the sample tests completed during the period, that:

**Significant assurance with some improvement required** can be given to the overall adequacy and effectiveness of Sheffield City Region Mayoral Combined Authority's framework of governance, risk management and control. The level of non-compliance in certain areas puts some system objectives at risk, however we were able to provide significant assurance over all of our core system reviews and therefore the issues noted are not considered to significantly impact on our overall opinion.

## The range of individual opinions arising from risk-based audit assignments reported throughout the year

Seven internal audit reports have been issued in 2019/20, of which:

- 6 reports were issued with Significant assurance with some improvement required
- 1 report was issued with Partial assurance with improvement required

The partial assurance opinion report relates to a risk-based audit assignment relating to Resource Management / HR Systems. We identified weaknesses which put system objectives at risk. We found that there was no project plan in place and the development of the SCRMCA HR policies and procedures was behind schedule. The HR shared service was running with a 1 FTE vacancy, which may impact on the ability to effectively deliver transactional HR services to both SCRMCA and SYPT in additional to the requirements and demands of transformation. There was also no agreement in place outlining agreed expectations and level of service required.

These issues do not prevent us from issuing a significant with some improvements assurance opinion as the Authority is currently implementing the recommendations raised as a result of our work to address the issues identified.

# Head of Internal Audit Opinion

## Follow up of Internal Audit recommendations

As part of the Public Sector Internal Audit Standards, we are required to consider the appropriateness of the organisation's response to Internal Audit recommendations.

We have summarised below (figure 1), the current status of all recommendations that will be considered as part of the 2019/20 Head of Internal Audit Opinion. Of 69 recommendations rated as either high, medium or low risk, 29 have been implemented and 33 recommendations have not reached their due date. Six recommendations are now due to be implemented. Of 36 recommendations that were due to be implemented during the year, 29 have been completed and one has been confirmed as rejected, which equates to an implementation rate of 83%.

An analysis of the 28 outstanding recommendations is shown below (figure 2). Of the six recommendations that are now due, none are high risk, four are medium risk and two are low risk.

The outstanding medium risk recommendations relate to the following:

- Inward Investment:

1. *“The International Trade and Investment Plan should include agreed implementation dates against each of the detailed objectives (actions) and also targets against each of the outcomes (key performance indicators), to enable the delivery of plan to be proactively managed and monitored during the year.”*
2. *‘Key performance Indicators should be set for the Inward Investment Team and performance measured against these reported to the Trade and Investment Advisory Board on a regular basis to enable challenges to be made if applicable.’*

The two outstanding actions were due to be implemented by 31<sup>st</sup> December 2019. They are currently on hold whilst a new Plan, aligned to the new Strategic Economic Plan (SEP), is developed. The findings of the consultation will be considered by the LEP Board in March and a final SEP published in May 2020.

- Procurement:

1. *“The Contract Procedure Rules and other procurement related documentation should be reviewed and updated in conjunction with the Operational Contracts Team at the earliest opportunity. All officers should be notified of the updated documentation, upon the completion of the review and signposting provided to its location.”*
2. *‘A business entertainment and foreign travel policy should be drafted and approved, to confirm the type and level of expenditure that is acceptable to the SCRMCA when attending meetings and other commercial (business) related events. The policy should be published on the Intranet Site.’*

A specific piece of work has been commissioned, to develop the SCRMCA's procurement function and strategy will address the two outstanding actions. This was due to be completed by 30th June 2020.

# Head of Internal Audit Opinion

Follow up of Internal Audit recommendations continued

Figure 1: Total recommendations raised

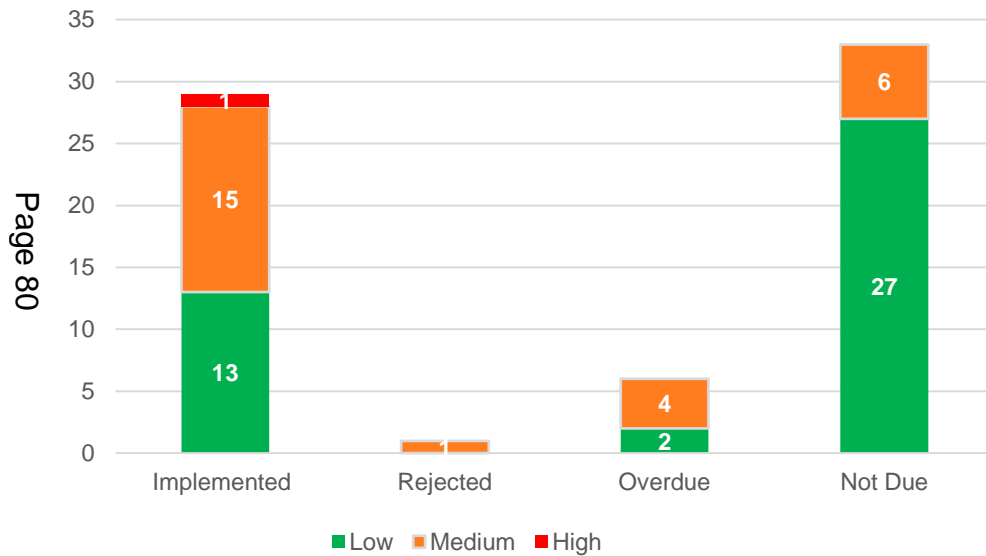
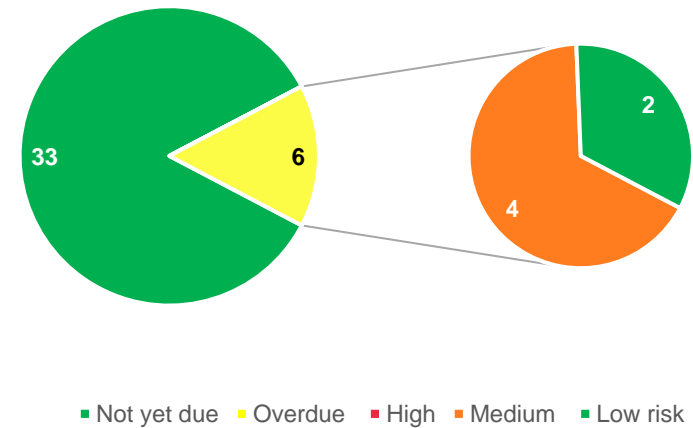


Figure 2: Outstanding recommendations





# Head of Internal Audit Opinion

## The range of individual opinions arising from risk-based audit assignments reported throughout the year

We have not raised any high risk recommendations. The Authority also has in place an agreed plan and timescale for implementing the four overdue medium risk recommendations. As a result, there is nothing which prevents us from issuing significant with minor improvement assurance in our overall opinion.

*Grant Thornton UK LLP*

Grant Thornton (UK) LLP

03 July 2020

# Appendix 2 - Our assurance levels

The table below shows the levels of assurance we provide and guidelines for how these are arrived at. We always exercise professional judgement in determining assignment assurance levels, reflective of the circumstances of each individual assignment.

Rating	Description
<b>Significant assurance</b>	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are suitably designed to achieve the risk management objectives required by management.</p> <p>These activities and controls were operating with sufficient effectiveness to provide significant assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by no weaknesses in design or operation of controls and only IMPROVEMENT recommendations.</p>
<b>Significant assurance with some improvement required</b>	<p>Overall, we have concluded that in the areas examined, there are only minor weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by minor weaknesses in design or operation of controls and only LOW rated recommendations.</p>
<b>Partial assurance with improvement required</b>	<p>Overall, we have concluded that, in the areas examined, there are some moderate weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide partial assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by moderate weaknesses in design or operation of controls and one or more MEDIUM or HIGH rated recommendations.</p>
<b>No assurance</b>	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are not suitably designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were not operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by significant weaknesses in design or operation of controls and several HIGH rated recommendations.</p>

# Appendix 2 - Our assurance levels (cont'd)

The table below describes how we grade our audit recommendations.

Rating	Description	Possible features
<b>High</b>	Findings that are fundamental to the management of risk in the business area, representing a weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>▪ Key activity or control not designed or operating effectively</li> <li>▪ Potential for fraud identified</li> <li>▪ Non-compliance with key procedures / standards</li> <li>▪ Non-compliance with regulation</li> </ul>
<b>Medium</b>	Findings that are important to the management of risk in the business area, representing a moderate weakness in the design or application of activities or control that requires the immediate attention of management	<ul style="list-style-type: none"> <li>▪ Important activity or control not designed or operating effectively</li> <li>▪ Impact is contained within the department and compensating controls would detect errors</li> <li>▪ Possibility for fraud exists</li> <li>▪ Control failures identified but not in key controls</li> <li>▪ Non-compliance with procedures / standards (but not resulting in key control failure)</li> </ul>
<b>Low</b>	Findings that identify non-compliance with established procedures, or which identify changes that could improve the efficiency and/or effectiveness of the activity or control but which are not vital to the management of risk in the business area.	<ul style="list-style-type: none"> <li>▪ Minor control design or operational weakness</li> <li>▪ Minor non-compliance with procedures / standards</li> </ul>
<b>Improvement</b>	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none"> <li>▪ Information for management</li> <li>▪ Control operating but not necessarily in accordance with best practice</li> </ul>



**AUDIT & STANDARDS COMMITTEE**16<sup>th</sup> July 2020**Work Plan for 2020/21****Purpose of Report**

This report presents a draft SCR Audit and Standards Committee work plan for 2020/21.

**Freedom of Information & Section 12A of the Local Government Act 1972**

Under the Freedom of Information Act this paper and any appendices will be made available under the Mayoral Combined Authority Publication Scheme. This scheme commits the Authority to make information about how decisions are made available to the public as part of its normal business activities.

**Recommendations**

Members consider the draft work plan for 2020/21 and agree any changes or additional items to be scheduled.

**1. Introduction**

- 1.1 The Audit and Standards Committee work plan for 2020/21, is required to facilitate the Committee in meeting its accountabilities.
- 1.2 Once agreed, the work plan will be reviewed quarterly to ensure it remains on schedule.

**2. Proposal**

- 2.1 The proposed work plan is attached at appendix A. This document aims to ensure the Audit and Standards Committee are appropriately sighted on key governance issues and activities in a timely manner and ensure that items relevant to their statutory accountabilities are appropriately scheduled.

**3. Consideration of alternative approaches**

- 3.1 A work plan is required to ensure the Audit and Standards Committee is able to meet its accountabilities.

## **4. Implications**

### **4.1 Financial**

None.

### **4.2 Legal**

None.

### **4.3 Risk Management**

Failure to consider this annual work plan could result in ineffective controls of the SCR MCA / LEP.

### **4.4 Equality, Diversity and Social Inclusion**

There are no equality, diversity or social inclusion implications.

## **5. Communications**

5.1 None.

## **6. Appendices/Annexes**

6.1 Appendix A – Work Plan

### **REPORT AUTHOR POST**

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## Appendix A

<b>Date</b>	<b>Agenda items</b>
Proposed new date – 3 <sup>rd</sup> September	Final Accounts & AGS
Thursday 29 <sup>th</sup> October 2020	2020/21 Internal Audit Annual Plan Progress Report Internal Audit Reports - tbc Strategic Risk Monitoring Update on 20/21 AGS Governance Improvement Plan Actions
Training	Treasury Management
Thursday 21 <sup>st</sup> January 2021	Update on 20/21 AGS Governance Improvement Plan Actions 20/21 AGR Process 2020/21 Internal Audit Annual Plan Progress Report Internal Audit Reports - tbc 20/21 Draft Treasury Management Strategy Strategic Risk Monitoring
Thursday 18 <sup>th</sup> March 2021	AGR findings Annual review of Code of Corporate Governance Internal Audit Plan 2021/22 2020/21 Internal Audit Annual Plan Progress Report Internal Audit Reports - tbc External Audit Annual Plan Updated Assurance and Accountability Framework Strategic Risk Monitoring
Training	Scrutinising the Accounts
Thursday 10 <sup>th</sup> June 2021	Draft AGS Draft Accounts 2020/21 Internal Audit Annual Plan Progress Report Strategic Risk Monitoring Internal Audit Reports - tbc
Thursday 15 <sup>th</sup> July 2021	Final AGS Final Accounts IA Annual Report Internal Audit Reports - tbc Strategic Risk Monitoring

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