

Annual Report of the Chair of the Audit, Standards & Risk Panel

31 March 2022

1. Introduction

- 1.1 This is the annual report of the Chair of the Audit & Risk Committee (A&RC) for the SYPTE covering the financial year to March 2022. It summarises the A&RC's activities for that period, identifying the main issues the Committee considered in the year and concluding with recommendations for the coming year.
- 1.2 This has been a transition year for both the SYPTE and the committee. The integration programme will bring together the PTE and the MCA into one new and expanded organisation as from 1 April 2022. As part of this programme, the A&RC became a sub-committee of the MCA Audit, Standards & Risk Committee (AS&RC) in July 2021 and is now known as the Audit, Standards & Risk Panel (AS&RP).
- 1.3 Its responsibilities as regards the operations of the PTE remain the same though it now acts as an advisory body to the MCA AS&RC. The responsibilities of the Panel will be reviewed by the AS&RC once the integration of the two organisations is completed to determine the Panel's future role.
- 1.4 Continuing the work of the A&RC, the Panel has a key role in the governance of the PTE. Its principal function now is to assure the AS&RC that the basic processes of financial reporting, internal control, risk management and corporate governance are in place, robust and operating effectively. The scope of its work is defined in its terms of reference that are agreed with and approved by the AS&RC.
- 1.5 The Panel has a work plan from which its agendas are set and this covers not only matters that have to be considered but any matters that the PTE Executive, the AS&RS and the Panel consider to be areas of concern from a risk, assurance or governance perspective as well as any emerging issues or new business arrangements.

2. Membership and Meetings of the Audit & Risk Panel

- 2.1 The A&RC met once in the period to May 2021. The Panel took over its role in July 2021.
- 2.2 From July 2021, the Panel membership became four – the two external independent members, one of whom is the Chair and two Councillors, nominated by the Chair of the AS&RC. The two Councillor members joined the Panel in Sept and Oct respectively.
- 2.3 Although there is no set quorum for the Panel, for decisions it is necessary to have one independent and one AS&RC member present. The July meeting did not meet this criterion, it was only attended by the two independents members.
- 2.4 The Panel has met four times since July 2021 and attendance has been as follows:

Angela Marshall	4/4
Rhys Jarvis	4/4
Cllr Ken Richardson	3/4
Cllr Ben Curran	1/4

It is disappointing not to have had both Councillor members available to provide input and insight to the Panel's reviews.

- 2.5 The Executive Director of the PTE, as the Senior Responsible Officer, attends meetings of the Panel as does the Director of Customer Services and the Senior Finance Manager of the MCA, acting as the Interim Head of Financial Services for the PTE. The Interim Head of Financial Services has oversight of the day-to-day running of financial activities at the PTE and attends each meeting. The Group Finance Director for the MCA, who has oversight of financial activities across the whole group, has a standing invitation to attend the Panel.
- 2.6 Although these officers are not members of the Panel, they provide both context and a full briefing to members on current business issues, as well as contributing to the Panel's deliberations on risk, internal audit and external audit progress.

3. The Panel's Work

- 3.1 The main areas of the Panel's work currently cover:
 - Financial Reporting and External Audit
 - Risk Management
 - Internal Control and Internal Audit
 - Health & Safety reporting for the PTE
 - Integration process with the SCRMCMA.
- 3.2 The Panel's key priority is to seek assurance of the PTE's ability to meet its objectives; maintain effective standards of governance, risk management, financial management and control and to test the reliability and integrity of that assurance.
- 3.3 The work programme has a series of core items that have to be considered each year, building in time to reflect any new issues that may arise and the key risk areas for the business. The Panel are kept up to date by Officers on any new legislation that may impact upon the PTE and ensure that briefings are covered in the work programme as needed.
- 3.4 With the change to become the Panel, we also took on the additional responsibility for the assurance of the governance arrangements of the Integration Programme on behalf of the AS&RC. Another additional item on the agendas from July has been quarterly reporting on H&S matters for the PTE.
- 3.5 The minutes of each meeting are circulated to all those who attended the meeting. They are agreed as a true record at the subsequent meeting. They show the key matters discussed, decisions reached, actions agreed and any items we wish to particularly draw to the AS&R Committee's attention. A copy of the minutes goes to the AS&RC.
- 3.6 The regular catch-up meetings with the Chair had in previous years with the Heads of Internal Audit (IA) and with External Audit (EA) have not continued this year. The independent members of the Panel have catch-up meetings scheduled with the Executive Director of the PTE and other officers as necessary between meetings. These are very useful to keep the independent members in touch with any business developments. The Panel has not met in private with either the internal or the external auditors this year, although the Chair has checked at each meeting if a private meeting is required.

- 3.7 The financial year has again been dominated by the recovery of the business from the impact of the Covid-19 pandemic and managing the timing and availability of Government funding to support this. The return of patronage has been slow and intermittent and has been dogged by other issues such as shortage of drivers on bus and conductors on tram; industrial action and the short-term nature of the government funding horizons. Though latterly funding has been confirmed through to October 2022.
- 3.8 One of the key areas for the business this year has been work on the Enhanced Bus Partnership with operators alongside the Bus Improvement Plan that was submitted to DfT in October, in line with the National Bus Strategy. The Enhanced Partnership is due to come into operation from 1 April 2022.
- 3.9 For Light Rail the main area of concern has been the levels of continued government funding for the service whilst patronage tries to recover to its pre-pandemic levels. The business continues to work with SYSL on performance and improvements to the service whilst at the same time preparing for the 2024 end date for the contract and a new strategy for light rail.
- 3.10 In July the DfT issued its Decarbonising transport: a better greener Britain – the government’s commitment and the actions needed to decarbonise the entire transport system in the UK and deliver net zero by 2050. The report calls on devolved government and local councils to work jointly in accomplishing the net zero goal. It identifies Local Transport Plans as the mechanism for delivering quantifiable reductions in transport emissions at a local level and makes funding conditional on this.
- 3.11 The requirement to comply with this report is referenced within the guidance document for the City Region Sustainable Transport Settlement (CRSTS) and will frame any future discussions on transport.
- 3.12 Internally, the integration project, bringing together the PTE and the MCA into one new organisation has been a priority to complete to by 1 April 2022. Although the parliamentary timetable cannot accommodate the order necessary to dissolve the PTE before that 1 April date, the project is on target to deliver one operating unit from 1 April though there will continue to be two legal entities until a firm date is agreed for the dissolution of the PTE.

4. Financial Reporting and the External Audit

- 4.1 A key area of work for the Panel is the Final Accounts. The Panel usually carry out a review of the key assumptions, narrative and disclosures underpinning the financials prior to the final year-end numbers being available. The unaudited accounts are required to be published by 31 May and the external audit then commences in June leading to accounts sign-off in July. However, in 2021/22, as a result of the pandemic, the accounting deadline for signing off the accounts was again extended to November thus moving the other deadlines back in sequence. The Finance team, however, planned to complete their work to the original deadlines for the accounts and did their utmost to complete the accounting process accordingly. The Panel reviewed the draft unaudited accounts before their publication, as usual, in May 2021.
- 4.2 The EA Plan for the year ended 31 March 2021 was presented to the A&RC at the May meeting. The plan summarised the team’s initial assessment of the key risks to the organisation and outlined the planned audit strategy in response to those risks plus any other areas for audit focus.

4.3 The main risks to be considered again this year were:

(i) Fraud in revenue and expenditure recognition;

(ii) Misstatement due to fraud or error;

(iii) Valuation of Property, Plant and Equipment – the PTE has a material asset base, valuation is subject to management judgements – this is considered an area of inherent risk.

(iv) Pension Liability Valuation – The pension deficit is a material estimated balance and this balance has to be disclosed on the balance sheet. The auditors are required to review the assumptions underlying any value estimates. This area is considered one of inherent risk.

(v) The continuing impact of Covid-19 and Going Concern – although there is a basic presumption that the PTE will continue as a going concern in view of its status and funding, however, in light of the continued impact of Covid-19 and the unpredictability of the current environment, there is a risk to income sources and thus disclosures made in the accounts. Therefore, EA is required to review the going concern assessment including a cashflow forecast to ensure that it is thorough and appropriately comprehensive.

(vi) An additional item for audit focus this year was an assessment of the accounting treatment for the new and additional Covid-19 grants that have been received from central government

4.4 EA are also required to consider whether the PTE has put in place “*proper arrangements to secure economy, efficiency and effectiveness in its use of resources*”; this is the value for money conclusion. Under the revised 2020 Code, there is no longer overall evaluation criteria for this aspect of the audit. The auditors have to design the work in relation to the organisation, to provide themselves with sufficient assurance to enable them to report. If significant risks are identified then additional evidence may be required to follow up those risk areas.

4.5 The areas of focus for the VFM review this year were:

- Governance changes as a result of the merger of the MCA and the PTE;
- Arrangements for managing major capital projects; and
- Arrangements for the administration of financial and non-financial support to public transport operators as a result of the Covid 19 pandemic.

A separate commentary on the VFM arrangements has to be produced in a newly titled Auditor’s Annual Report for 2020/21. There were no matters to report this year.

4.6 The audit was concluded with the financial accounts being given an unqualified audit opinion in September 2021. The final audit completion letter, now the Auditor’s Annual Report, was delayed a further four months because this was the first year of the new format. The report was delivered to the Panel in January 2022.

4.7 As regards the audit fee this year, again further work had been identified as necessary in relation to the impact of Covid-19; going concern and in relation to the new revised VFM assessment. EA also identified an addition to the scale fee that they considered necessary as a result of the increase in professional and regulatory requirements on external auditors; this they called pricing for quality.

4.8 The proposed additional fees on top of the scale fees payable were broken down for the Panel over the different categories as follows:

- Pricing for quality £17,867
- Additional work on pensions valuation £2,500
- Additional work for the VFM opinion £2,500

- 4.9 It was disappointing that extra work was needed again this year on the pensions' valuation. In addition, the additional testing that EY requested from Deloitte, the SYPA auditors, resulted in the SYPA charging additional fees to the PTE. It is hoped to work with EY in the coming year to clarify exactly what additional testing is still necessary and to minimise any additional work required.
- 4.10 The Panel agreed the variations for the pensions' valuation work and VFM work; these now go to the PSAA for final approval as additional work required above the scale fees. However, we did not agree the additional fee for "pricing for quality" as this is a change to the scale fees and should be referred to the PSAA as the contract manager and the body that sets the scale fees. EY have referred this element to the PSAA for consideration.
- 4.11 On last year's fee invoice, we had queried the additional fees charged for the pensions' valuation work undertaken of £2,500. Whilst we understood the reason for the additional work, we considered that we could not accept that the PTE was responsible for payment for Deloitte's delay in providing the information needed by EY. This was referred to PSAA and the decision was this element was due for payment by the PTE.

5. Risk Management and Corporate Governance

- 5.1 Effective risk management processes are central to providing the Board with assurance that the organisation is achieving objectives. It is a fundamental element of the organisation's governance framework and system of internal control. The Panel review the risk management report including the risk register at each meeting. There are currently no risks that do not have either mitigating controls or actions in place.
- 5.2 During the year it became clear that the number of identified and significant transport operational risks being reported was increasing. This was a reflection of the day-to-day challenges that were emerging as a result of the impact of Covid-19 on BAU and future planning and developments. The Panel agreed it was appropriate to undertake a Deep Dive of Operational Transport risks and the two independent members undertook to do this.
- 5.3 Two deep dives sessions have thus far been completed into Tram, then Bus and other Transport matters. Both were very useful and informative in providing assurance to the Panel on the management of the key operational risks. This has left outstanding two further areas that warrant consideration to ensure a comprehensive review is completed, these are:
- (i) Post-implementation review of the scope of Enhanced Partnership obligations, what new risks exist as a result of these (and what old risks no longer apply);
 - (ii) Review of our processes and approach to the management of the capital programme delivery (funding, approval, award, implementation and outcomes).
- This final review has yet to be arranged.

- 5.4 The Risk Management Framework is again part of the 2021/22 annual audit plan for review as it forms part of the annual audit opinion. At the time of writing, the audit has not yet concluded. Last year, it was given a significant assurance with some improvement required opinion. The audit will consider what progress has been made in developing and embedding the framework since last year. However, it has been recognised that in view of Integration with the MCA a new, combined approach to risk management is under development and will be implemented in the new financial year, therefore, currently this is a WIP.
- 5.5 The Panel would have liked to see the conclusion of the work started some 4 years ago to improve reporting from the risk register and to complete an assurance map. However, further improvements to risk reporting for the PTE have essentially been put on hold this year whilst work concentrated on the risk management work stream of the Integration project. The Interim Risk Manager has been working upon combining the two risk management processes and registers for the PTE and the MCA. In this transitional phase, the emphasis has been to ensure that all current significant risks from the PTE operations are effectively reported through to the Group Management Board for visibility; information and awareness. This combined risk reporting is an interim step to the development and implementation of the new risk framework for the integrated body.
- 5.6 This interim stage and the new framework, should meet one of the Panel's concerns on the escalation route for PTE high rated risks where there appeared to be no further mitigating actions available to the PTE alone, to reduce the level of the risk. The Panel appreciate that this still may mean that there are no further actions within the powers of the combined organisation that can reduce the level of the risk. However, it will mean that the full risk picture is visible to the Board when decisions are taken.
- 5.7 The risk management framework has been subject to a full review and new risk framework designed for the integrated organisation. The strategic risks of the two organisations have been built around the following categories of risk:
- Policy - relates to the setting of interventions to tackle specific matters to developing the strategic objectives of the MCA.
 - Financial - relates to the establishment and maintenance of financial health and wellbeing in order that the organisation achieves its strategic and financial objectives.
 - Organisational - relates to the structure and makeup of the organisation that is designed to deliver the objectives and the corporate plan.
 - Operational - incorporates the delivery of programmes and projects that will meet the objectives set for the region.
 - Compliance and Regulation - relates to the obligations the MCA is required to adhere to including the upholding of laws, statutes and regulations e.g. professional standards, laws relating to ethics, bribery, corruption and fraud.
 - Transport – all operational transport related matters that would have historically formed part of the Passenger Transport Executive risk register.

- 5.8 High rated risks will be escalated to Group Management Board according to an agreed timetable. Included within this report will be material Health & Safety risks which are escalated to Group Management Board for visibility, direction and to determine the frequency of reporting. Work is now underway to compare the existing risks against the business plan for the organisation for 22/23 to ensure any new or revised risks are included, to maintain a close link between risk management and the purpose and objectives of the organisation.
- 5.9 Risks will be regularly reported at a number of different levels throughout the new integrated organisation with a full report going to the Mayor and leaders, as the MCA Board, annually. The new system is to be rolled out throughout the organisation after 1 April, after approval by the MCA Board in July 2022.
- 5.10 Compliance with the CIPFA Code of Corporate Governance is a key element for the Annual Governance Statement (AGS) and one upon which EA is required to report. One of the roles of an audit committee, as set out in this code, is to provide essential support for the approval of the AGS by reviewing governance with reference to the Code and ensuring it is embedded across the organisation.
- 5.11 The Panel keep track of compliance with the Code by reviewing the overall assessment that feeds into the Action Plan each year and the quarterly monitoring of work completed against that plan. The Panel is provided with a copy of the full compliance assessment report, the resulting annual Action Plan and key quarterly reviews for comment before these reports are submitted to Management Board for approval. As the timescale for these reports is often outside of the Panel's meetings, this matter is usually dealt with in correspondence, the updated reports are then on the agenda at the next meeting for note. This process ensures that any concerns that the Panel may have can be taken into account before the reports are approved.

6. Internal Audit

- 6.1 This is the final year of the initial three-year audit contract with Grant Thornton. As this is a transitional year, in view of the integration programme, it has been agreed that the contract should be extended for a further year after which a full tendering exercise will be undertaken for the new Integrated body.
- 6.2 Progress against the plan has been good with 77% of the plan having been delivered by the March meeting. The final audits are underway and their findings will be delivered in the first quarter of the new financial year.
- 6.3 The annual group plan for 21/22 had a total of 250 days plus 13 days carried forward from the previous year. This was to cover MCA audits; 6 group audits and then 55 days for 3 specific PTE audits as follows:

<u>Joint Audits</u>	<u>PTE Audits (became Group/ Joint audits)</u>
(i) Core Financial Controls	(i) Grant Claims
(ii) Risk Management	(ii) Asset Management
(iii) Governance	(iii) Supplier Resilience
(iv) Critical IT Controls	
(v) Assessing the Risk of Fraud	
(vi) Integration Programme	

- 6.4 For the PTE audits, the Grants Claims Certification work had nothing to report. In view of the integration project and the relevance of the two PTE audits to the wider organisation, it was decided that both Asset Management and Supplier Resilience audits should become group-wide audits. As a result, there are no specific PTE audits for this financial year as all audits are for the group and will be reported to both the Panel and the AS&R Committee.
- 6.5 The Panel sought assurance from the Head of Internal Audit that the impact of making this change did not mean that the audit cover for the PTE was in any way diminished. The Panel was assured by both IA and officers that this was not the case. For each group audit the review considered both the PTE and the MCA processes. Findings and recommendations are grouped under each organisation and require management responses from both organisations. Implementation of all recommendations will be followed up as agreed by IA.
- 6.6 As part of the mid-year review of the audit plan, it was considered by IA and officers that as assurance on the Integration project was already being provided by both internal and external bodies, the internal audit in this area, at this time would add no value. The recommendation to the Panel was that this was a review that would be better undertaken post implementation and the time should be reallocated to another audit that would be value-added.
- 6.7 The Panel approved the re-allocation of audit days from the Integration project, twenty-four days of audit time, to a VFM review of Community Transport. This audit does not form part of the audit opinion for the year and the results of the review will be reported in the next financial year.
- 6.8 As a Panel, we must ensure that we monitor progress on the implementation of outstanding audit recommendations on to completion. The Panel reviews a Tracker Report, produced by IA, on progress of outstanding recommendations at each meeting. We seek explanations where implementation is overdue or where any barriers to implementation have been identified. At the March meeting there were three overdue recommendations which the Panel were assured would be implemented by the end of the financial year.
- 6.9 This year, the Panel followed up on twenty-four recommendations that had been closed at the beginning of the year. The Panel was concerned that in some areas the recommendations had been closed because of the length of time they had been outstanding and that there may still be issues that needed to be tracked. This was followed up in a review session by the two independents.
- 6.10 On review it was found that the majority of the recommendations had indeed been overtaken by events and time thus making the implementation redundant. The one exception was the recommendations related to the Clean Air Zone where the key issues were still very much alive and currently being reconsidered. The Panel received reassurance that it had been appropriate to close these recommendations at the time but that where risks remained for the organisation, these were now included in the risk register.
- 6.11 The Audit Opinion for the year, we are advised by IA will be issued by the time of the next meeting in May, subject to finalising the remaining Core audits.

7. Governance and Integration

- 7.1 The decision to formally integrate the PTE and the MCA was made to ensure greater political oversight and involvement in decision-making over passenger transport services in South Yorkshire. Integration as a new area of risk to the organisation was added to the risk register this year, when it became a live and on-going project.
- 7.2 The timing of this work presented an additional risk to the organisation coming as it did whilst the business was balancing maintaining BAU alongside managing the impact of Covid and the Covid restrictions. This was closely monitored as a new, high rated risk. Oversight of the Integration project governance arrangements and their effective working became a new responsibility for the Panel.
- 7.3 The Integration lead and the Project Manager attend each meeting to provide progress reports on the Project to date and any emerging issues as they arise. Regular reports include such areas as progress against the plan to meet critical milestones; slippage against the plan and any change requests; budget update; staff engagement risk review and any emerging issues.
- 7.4 The legislative route to complete the integration is under discussion with DLUHC as to the timing of the required Order of Parliament that will enable the two bodies to formally merge. We now understand that this cannot happen by the 1 April start date that has been planned. The timescale of the legal integration will depend upon DLUHC securing parliamentary time to enact the order. Until that point the PTE and the MCA legally retain independent identities and two separate sets of accounts will be required but the plan is that the two bodies will operate as one organisation as from 1 April.
- 7.5 The project remains within the budget set and a final budget report will be produced at the end of the financial year. A programme closure plan has been developed to ensure the project is closed in a controlled way with a final lesson learnt report being produced.
- 7.6 The Programme Board have identified and endorsed several projects required to drive the longer-term benefits that were aimed to be achieved from integration. These projects are:
- Digital Transformation;
 - Single Intranet;
 - Data Control and IT harmonised working;
 - Business Process alignment
 - Corporate Website
 - Organisation development priorities and culture
- 7.7 These projects will be monitored through the normal project governance arrangements and overseen by Management Board as part of business-as-usual. As part of the closure of the Integration project, the risks remaining from each of the workstreams will be mapped to the new projects established to drive the longer-term benefits or to the relevant business as usual areas. The overall programme risks will be reviewed and mapped against the corporate risk register where there are still relevant.

8. Health and Safety Reporting

- 8.1 This has now become a standard item on the Panel's agenda for the PTE. The quarterly reports record an analysis of accidents and incidents, crime and disorder by location including near misses. This is being further enhanced to make it comprehensive across transport operations by similar data being provided by operators - from SYSL for tram and from First and Stagecoach for bus operations.
- 8.2 The report enables the Panel to be kept up to date on the key H&S risks that have been identified, their assessment, control and/ or resolution and to monitor any emerging risks to the business presented by H&S issues.
- 8.3 There have been no major incidents to report in-year and of the 28 RIDDOR cases in the calendar year, 2 have resulted in claims being made. The statistics also show that there has been an increase in the crime & disorder incidents in interchanges. An action plan is under development, following consultation with the Travelsafe Partnership and interchange security teams. These types of incidents have been successfully managed by joint action previously.

9. A&RC Self-Assessment of Effectiveness

- 9.1 A well-functioning Audit & Risk Committee plays a pivotal role in ensuring that organisations function according to good governance, apply appropriate accounting and auditing standards and adopt appropriate risk management arrangements. It is good practice for the Committee to assess how effective it has been in the work it has undertaken during the year.
- 9.2 In view of the changes that have been made to the governance arrangements and membership of the Panel, it was decided that it would not be useful to do a review this year until the future role of the Panel had been agreed.

10. Looking Forward

- 10.1 In terms of our priorities for the coming year, this will depend upon when the PTE dissolution order can be laid and any role changes agreed with the AS&RC once the PTE is officially dissolved.
- 10.2 At the moment there is no clear timetable for this to happen as the order needs parliamentary time which is not available before 1 April.
- 10.3 Whilst the PTE remains a legal entity, we will work to our current ToRs to ensure that a good governance is maintained and that the basic processes of financial reporting, internal control and risk reporting are in place and operating effectively. During this time, the Panel will continue to draw to the attention of the AS&RC any matters of concern.

29 April 2022