

South Yorkshire Mayoral Combined Authority

Internal Audit 2022/23

Adult Education Budget

June 2023

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Report Distribution

Executive Lead:

- Gareth Sutton, Executive Director of Resource and Investment

For action:

- Sue Sykes, Assistant Director, Procurement, Contracts & Programme Controls

For Information:

- Martin Swales, Chief Executive
- Steve Davenport, Chief Legal and Monitoring Officer
- Tom Bousfield, Corporate Director Growth, Business, and Skills
- Adam Greenwood, Assistant Director, Skills and Employment
- Mike Thomas, Deputy Section 73 Officer
- Claire James, Head of Corporate Governance
- Audit, Standards and Risk Committee

Executive summary



Background

Devolution is about securing money and powers from central Government, so that more decisions are made locally. Certain functions of the Secretary of State which relate to adult education under the Apprenticeships, Skills, Children and Learning Act 2009 ('ASCAL 2009'), and the associated adult education budget ('AEB') have been transferred to specified Combined Authorities (CA) by way of Orders made under the Local Democracy, Economic Development and Construction Act 2009. Each relevant order transfers to the specified CA adult education functions under section 86 to 88 of ASCAL 2009 and requires the CA to have regard to the statutory guidance issued by the Secretary of State when exercising the specified functions. This guidance provides support to the CAs and should be considered alongside the Memorandum of Understanding (MOU) that will be agreed between each CA, the Department for Education (DfE) and the Education Skills Funding Agency (ESFA). The MOU sets out the detail of the operational relationship that will underpin the successful devolution of the adult education functions, alongside the functions and conditions under each section that are exercisable by the CA instead of by the Secretary of State.

As part of South Yorkshire Mayoral Combined Authority (SYMCA) Devolution Deal, the authority has responsibility for £39 million of devolved Adult Education Budget (AEB). The SYMCA has also been allocated an additional £2.7 million for Level 3 provision. The AEB supports adults aged 19+ in undertaking the learning they need to prepare them for work, an apprenticeship, or further training. The budget covers elements of adult education in colleges, councils, private training providers and community groups. It does not cover apprenticeships and traineeship funding.

During 2021 the MCA commissioned adult skills provision, which included a mix of both grant funding agreements and procured activity, for the residents of Barnsley, Doncaster, Rotherham and Sheffield.

In July 2021, we carried out a review of the Authority's readiness position. We concluded that the processes in place provided 'Significant assurance with some improvement required' but recognised there was still further work required to support delivery from 1st August 2021, being the start of the 2021/22 academic year. The Authority had invested significant time and resource into ensuring there were appropriate arrangements in place to support the devolution of the AEB, from readiness through to commissioning and ultimately delivery.

The Authority has now completed a full year's provision and has commenced its second academic year.

Executive summary



Objectives

Our review focussed on the following key risks:

- Inadequate or ineffective contract management and monitoring arrangements which may lead to ineffective reporting, compliance failures or poor quality provision.
- Poor data quality and accuracy compromising the assessment of future funding objectives by government.
- File review processes are not sufficiently robust to identify possible compliance issues or breaches to allow mitigating actions to be taken.
- Inefficient reconciliation and budget monitoring processes may lead to the loss of income to the MCA.



Limitations in scope

Please note that our conclusion is limited by scope. It is limited to the risks outlined above. Other risks exist in this process which our review and therefore our conclusion has not considered. Where sample testing has been undertaken, our findings and conclusions are limited to the items selected for testing.

This report does not constitute an assurance engagement as set out under ISAE 3000.



Acknowledgement

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

Headline messages



Conclusion

Partial assurance with improvement required

We have reviewed the controls in place and have concluded that the processes have provided a **PARTIAL ASSURANCE WITH IMPROVEMENT REQUIRED** opinion. This was confirmed through testing in specific areas of the organisation and through discussions with management.

During 2021, the MCA commissioned adult skills provision which included a mix of both grant funding agreements and procured activity, with delivery to commence at the start of the 2021/22 academic year.

In July 2021, we carried out a review of the Authority's readiness position. Our audit identified several areas where the MCA could improve its control framework.

Our 2022/23 audit work identified that although some contract management was carried out during the year, the contract reviews lacked detail and bi-annual meetings with providers were not conducted due to resource and capacity issues. However, the MCA has developed a resource plan to address these challenges and has allocated budget resources to recruit four additional team members to strengthen contract management and monitoring. Our risk assessment is based on the Authority's available resources at the time of the review.

Initial due diligence checks for each provider were found to be sound, but we identified a gap in the control framework as there was no evidence of formal review or approval of completed checks. We have recommended increasing the frequency of sample checking of files and adding a layer of control to mitigate the risk.

The objectives reviewed are set out on the following page with the assurance rating we have assessed for each one and the number of recommendations raised. We have reported by exception against the areas where we consider that Management should focus their attention.



Headline messages



Conclusion

We have raised five recommendations. The grading of these recommendations based on risk, is summarised in the table below.

Objectives	Assurance rating	Number of recommendations			
		High	Medium	Low	Imp
Inadequate or ineffective contract management and monitoring arrangements which may lead to ineffective reporting, compliance failures or poor quality provision.	Partial assurance with improvements required	-	2	-	-
Poor data quality and accuracy compromising the assessment of future funding objectives by government.	Significant assurance	-	-	-	-
File review processes are not sufficiently robust to identify possible compliance issues or breaches to allow mitigating actions to be taken.	Significant assurance with some improvement required	-	-	1	-
Inefficient reconciliation and budget monitoring processes may lead to the loss of income to the MCA.	Significant assurance	-	-	-	-

Detailed findings & action plan

1	Partial assurance with improvement required	Inadequate or ineffective contract management and monitoring arrangements which may lead to ineffective reporting, compliance failures or poor quality provision.
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Finding and implication	Audit recommendation	Management response, including actions
<p>Based on our sample testing, we were able to observe that some level of contract management had been carried out during the year. However, upon examining the contract reviews included in our sample, we found that they could have contained more detailed information.</p> <p>During our discussions with key officers, it was brought to our attention that the organisation had been facing challenges in focusing on crucial areas, such as contract management and monitoring, as well as conducting regular meetings with Heads of Providers. We were informed that due to resource and capacity issues, these key areas had not been given adequate attention. It was noted that although the initial plan was to conduct bi-annual meetings with providers, this had not been possible.</p>	<p>Recommendation 1:</p> <p>To improve contract management and monitoring, the Authority should establish clear and achievable timelines for regular meetings with Heads of Providers. These meetings should be documented and should cover performance against agreed targets, financial management, and any issues or concerns arising during the contract period.</p>	<p>Actions:</p> <p>The Authority has taken action to integrate the contracts team responsible for managing contracts within the skills team. Regular meetings with providers have been established that have increased in number throughout 2022/23 since the findings of the report. A schedule of reviews is in place leading into 2023/24.</p> <p>Responsible Officer:</p> <p>Adam Greenwood, Assistant Director, Skills and Employment</p> <p>Executive Lead:</p> <p>Tom Bousfield, Corporate Director Growth, Business, and Skills</p> <p>Due Date:</p> <p>Implemented on report issue</p>

Detailed findings & action plan

2	Partial assurance with improvement required	Inadequate or ineffective contract management and monitoring arrangements which may lead to ineffective reporting, compliance failures or poor quality provision.
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Finding and implication	Audit recommendation	Management response, including actions
<p>The Authority has identified AEB Workforce as a high-risk area and is closely monitoring it through the directorate risk register. To address the challenges, a resource plan has been developed, which includes an increase in the number of employees devoted to skills and employment (including AEB) within the organisational structure. To strengthen contract management and monitoring, the Authority has allocated budget resources to recruit four additional team members. However, due to recruitment challenges and limited workforce availability, the recruitment process has been delayed, and the new team members are expected to be in place by Q1 2023/24. As the team expands, the Authority is confident that it will be better equipped to improve its contract monitoring processes.</p>	<p>Recommendation 2:</p> <p>The Authority must prioritise the implementation of robust contract monitoring processes, supported by clearly defined roles and responsibilities, adequate capacity, and sufficient resources to ensure compliance. It is crucial to establish a strong framework for monitoring contracts to mitigate risks associated with non-compliance and to ensure that contractual obligations are met efficiently and effectively.</p>	<p>Actions:</p> <p>The Authority has taken action to integrate the contracts team responsible for managing contracts within the skills team. Regular meetings with providers have been established that have increased in number throughout 2022/23 since the findings of the report. A schedule of reviews is in place leading into 2023/24.</p> <p>Responsible Officer:</p> <p>Adam Greenwood, Assistant Director, Skills and Employment</p> <p>Executive Lead:</p> <p>Tom Bousfield, Corporate Director Growth, Business, and Skills</p> <p>Due Date:</p> <p>Implemented on report issue</p>

Detailed findings & action plan

3

Significant assurance with some improvement required

File review processes are not sufficiently robust to identify possible compliance issues or breaches to allow mitigating actions to be taken.

Finding and implication	Audit recommendation	Management response, including actions
<p>During our review, we found that the Authority has implemented a sound process for conducting initial due diligence checks on each provider. The checks encompass several aspects, including the provider's policies, health and safety arrangements, quality arrangements, and staffing and financial stability structure. We verified this by conducting a sample checking exercise, which confirmed that the checks were in place. We also noted that the financial stability reviews conducted by the Authority involved scrutinising the provider's 12-month financial plans, models, cash flows, as well as their financial statements for the preceding two years. This information was documented using checklists, which provided us with adequate evidence to support our findings.</p> <p>In addition to completing initial due diligence checks for each provider, the Authority also conducts year-end sample checks to assess provider quality and regulatory compliance. Our sample testing confirmed that funding and performance review funding rules were followed and compliance checklists were in place, including checks on individuals' eligibility for AEB funding, confirmation of eligibility for AEB programs, and checks on learners' attendance consistent with ILR records.</p> <p>However, we identified a gap in the control framework as there was no evidence of formal review or approval of the due diligence and compliance checklists for each provider within our sample. Given the high-risk exposure to fraud and the potential impact on the Authority's reputation, we recommend that the frequency of sample checking of files is increased. Adding an additional layer of control, such as review and approval of the completed checks, will help to mitigate the risk.</p>	<p>Recommendation 3:</p> <p>The Authority should strengthen its control framework by introducing a formal review and approval process for the due diligence and compliance checklists completed for each provider. We suggest increasing the frequency of sample checking of files to ensure compliance with funding and performance review funding rules and to mitigate the high-risk exposure to fraud.</p>	<p>Actions:</p> <p>FMR to implement formal review processes for sampling due diligence and compliance checklists.</p> <p>Responsible Officer:</p> <p>Sue Sykes, Assistant Director, Procurement, Contracts & Programme Controls</p> <p>Executive Lead:</p> <p>Gareth Sutton, Executive Director of Resource and Investment</p> <p>Due Date:</p> <p>31st December 2023</p>

Appendices

Appendix 1: Staff involved and documents reviewed



Staff involved

- Executive Director of Resource and Investment
- Assistant Director Skills and Employment
- Consultant – Skills
- Assistant Director, Programme and Performance Unit



Documents reviewed

Assessment was made by document review and interviews conducted with key staff



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
Significant assurance	<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>
Significant assurance with some improvement required	<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>
Partial assurance with improvement required	<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>
No assurance	<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 recommendation ratings

The table below describes how we grade our audit recommendations based on risks:

Rating	Description	Possible features
High	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"> • Key activity or control not designed or operating effectively • Potential for fraud identified • Non-compliance with key procedures/standards • Non-compliance with regulation
Medium	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"> • Important activity or control not designed or operating effectively • Impact is contained within the department and compensating controls would detect errors • Possibility for fraud exists • Control failures identified but not in key controls • Non-compliance with procedures/standards (but not resulting in key control failure)
Low	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"> • Minor control design or operational weakness • Minor non-compliance with procedures/standards
Improvement	Items requiring no action but which may be of interest to management or which represent best practice advice	<ul style="list-style-type: none"> • Information for management • Control operating but not necessarily in accordance with best practice



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