

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

Core Financial Controls

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- Finance Staff

Responsible Executives:

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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) 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 entities 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

Well designed and robust key financial systems, operating efficiently and effectively, are essential for good quality financial information used for both internal and external reporting. It is therefore necessary that the Authority identifies and addresses operational and financial risks and ensures that robust arrangements are in place to manage them, including effective systems of internal control.

Controls around core financial systems are required to support the production of accurate and timely financial reports and financial statements. For these controls to be effective, they need to be applied consistently throughout the Authority and be supported by robust standing financial instructions and operating procedures. Failure to implement effective financial controls can expose an organisation to risk.

Objectives

Our review focused on the following potential risk areas:

- General ledger:
 - the Authority could be exposed to financial risks including fraud or manipulation of financial information where controls are inadequate or segregation of duties insufficient; and
 - Journal entries or other adjustments that were recorded without proper documentation or explanation.
 - The Authority do not have adequate back up procedures
 - Inaccurate or incomplete migration of data from the old to the new ledger system.
- Accounts payable:
 - inadequate authorisation procedures & payments not made in line with procedures; and
 - Delays in payments, leading to difficulties in dealing with suppliers in the future.

- Accounts receivable:
 - ineffective debt collection procedures; and
 - ineffective invoice raising procedures.
- Cash & bank:
 - Bank accounts are not reconciled on a regular and timely basis and that the methodology used is not robust.
- Payroll (to include HR for leavers/ joiners/ changes):
 - inadequate segregation of duties; and
 - controls over starters, changes, leavers (permanent and temporary staff) are inadequate
- Capital Accounting:
 - Fixed asset acquisitions, disposals, and transfers are not identified and recorded in the Fixed Asset Register.

Limitations of 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. In addition, our assurance on the completeness of the declarations recorded in the register of interest is limited to the findings from our sample testing.

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

Executive Summary

Conclusion

Significant assurance with some improvement required

We have reviewed the key controls around the core financial systems for both SYPTE and SCRMCA. The scope of the audit is set out in our Audit Planning Brief.

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

We noted that the majority of the core financial processes across both organisations have robust controls in place and our testing has found that these controls were generally operating effectively.

Appendix 3 provides a breakdown of assurance levels by core financial process for each organisation.

Good practice

We have identified the following areas of good practice:

- The design of controls around the majority of key financial processes for both organisations contains both preventive and detective controls where possible. Having both types of controls in place significantly reduces the risk of fraud or error.
- Generally, controls were being performed well and in accordance with policies and procedures.
- The process of transferring data from the old ledger to the new ledger for SYPTE was well planned, mitigating risk where possible. The implementation of a trial run before and performance of ledger reconciliations after the transfer, highlight good practice and the transfer was assessed to be complete and accurate.

Areas for development

We have identified the following areas which require improvement including:

- Whilst there are controls in place limiting the ability to post journals to appropriate personnel, we found there are limited controls in place within the SCRMCA around the authorisation of journals, no user limits on the value of journals posted and no formal review of journals posted on a periodic basis.
- There were a number of instances where supporting audit evidence and documentation could not be provided at the time of the audit. This was generally where manual, paper based records are maintained and held within the office, which, due to the COVID-19 pandemic had become inaccessible. In light of this situation, both the SYPTE and SCRMCA have taken the opportunity to review their current processes and procedures and wherever possible have moved from using paper based filing systems that were in place until the end of March 2020, and replaced these with electronic filing. PDF documents are now held containing digital signatures, which are filed on the network in a secure location only accessible by appropriate, authorised staff.

Recommendations

Based on our findings, we have raised seven risk recommendations, the grading are as follows:

	High	Med	Low	Imp
Detailed findings	-	1	4	2

Acknowledgement

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

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

Risk Issue	Findings and Recommendation	Action Plan
<p>General Ledger – SYPTE</p> <p>The Authority could be exposed to financial risks including fraud or manipulation of financial information where controls are inadequate or segregation of duties insufficient; and</p> <p>Journal entries or other adjustments that were recorded without proper documentation or explanation.</p> <p>The Authority do not have adequate back up procedures</p>	<p>Key findings</p> <ul style="list-style-type: none"> • We reviewed the process of posting journals to the General Ledger and documented the controls in place. We note that the Journals posting process is relatively robust and includes both preventive and detective controls. These controls include limiting the ability to post journals to appropriate personnel, required authorisation of journals by appropriate personnel, maintaining signed journals for record keeping and reviewing monthly journal files against journal reports. • We tested a sample of 20 journal postings to ensure the controls that had been documented had been performed in an effective manner. We sample tested across both Ledger systems; 15 from the old and 5 from the new. • Our sample testing found that most of the controls in place are operating effectively. Journals had been input and authorised by appropriate personnel with a clear segregation of duties in place. Hand signed journal templates had been maintained and monthly journals report reviews were undertaken. • From our sample testing, we identified one sample that had not been signed as authorised. We also noted that 16 had not been dated when authorised. • The five journal samples selected from the new system were unavailable for review at the time of the audit. The outbreak of COVID-19 and subsequent lockdown has provided the Executive with the opportunity to review its current authorisation processes and has implemented a new system which requires an electronic signature or initial on a PDF, with a Sharepoint site where all journal records are held. • The journal documentation has now been provided and verified as appropriately authorised. • The Authority have robust backup procedures in place. The SQL server is backed up daily, copied to an offsite server (MS Azure) and periodically a third copy is moved into an offnet backup repository. SQL logs are truncated every hour and backups are tested annually, however new software is being implemented that will have automated test plans built in which will advise if the backups are successful or not. The process is also the same for the new EPICORE system. No issues relating to backups were reported in the period. 	

Action Plan - SYPTE

Risk Issue	Findings and Recommendation	Action Plan
<p>General Ledger – SYPTE</p> <p>The Authority could be exposed to financial risks including fraud or manipulation of financial information where controls are inadequate or segregation of duties insufficient; and</p> <p>Journal entries or other adjustments that were recorded without proper documentation or explanation.</p> <p>The Authority do not have adequate back up procedures</p>	<p>Issues Identified:</p> <ul style="list-style-type: none"> We identified one sample which had not been signed as authorised. <p>Risk:</p> <ul style="list-style-type: none"> The authorisation of journals and segregation of duties in this process is a key anti-fraud control. Without authorisation, there is a risk that fraudulent journals could be posted to the ledger. <p>Recommendation:</p> <ul style="list-style-type: none"> The Executive should ensure that this control is being performed for all journals which are posted and is reviewed as part of the month end journals reconciliation process. 	<p>Agreed Action:</p> <p>All journals will be authorised by electronic signature or initial on a PDF and stored within a dedicated Sharepoint site.</p> <p>Responsible Officer: Mike Thomas, Deputy Section 73 Officer</p> <p>Executive Lead: Gareth Sutton, Group Finance Director</p> <p>Due date: This action has already been implemented</p>
	<p>Issues Identified:</p> <ul style="list-style-type: none"> From the sample of 20, 16 were not dated when authorised. <p>Risk:</p> <ul style="list-style-type: none"> Journals may not be authorised in a timely manner leading to a delay in the posting of journals. <p>Recommendation:</p> <ul style="list-style-type: none"> Journal authorisers should ensure they date the authorisation signature to ensure there is a clear audit trail which reflects timely authorisation. 	<p>Agreed Action:</p> <p>We will ensure all journals are dated when authorised.</p> <p>Responsible Officer: Mike Thomas, Deputy Section 73 Officer</p> <p>Executive Lead: Gareth Sutton, Group Finance Director</p> <p>Due date: 31 December 2020</p>

Action Plan - SYPTE

Risk Issue	Findings and Recommendation	Action Plan
<p>General Ledger – SYPTE</p> <p>Inaccurate or incomplete migration of data from the old to the new ledger system.</p>	<p>Key findings</p> <ul style="list-style-type: none"> • We reviewed the process around the Ledger system change, specifically examining and reperforming the work undertaken by the Executive to ensure the complete and accurate migration of data. We found the project to be well managed and the transfer to be considerate of the key risks involved, and thorough in addressing these risks from both a preventive and detective manner. • The Ledger system was changed part way through the year, increasing the complexity of the process, however this was mitigated by the risk averse approach which was undertaken. The transfer of data only involved opening balances at the date of system change as well as open sales and purchase invoices, with historical data being kept accessible on the old system. Whilst this meant that the finance team would have to manage two systems within the year, the risk of incomplete or inaccurate data transfer was significantly reduced. • A trial transfer run was undertaken in December 2019 and key learning points were identified, such as missing General Ledger accounts with zero balances, despite movements in year. The transfer was completed in three parts; the General ledger, Purchase Ledger and Sales Ledger. The actual transfer took place in January 2020 with reconciliations undertaken for each ledger comparing all the closing balances on the old ledger to the opening balances on the new ledger and no issues were identified. • We have reviewed and reperfomed the reconciliations undertaken by the Executive and no issues were identified relating to incomplete or inaccurate migration of data. However, the original reports for the opening Purchase Ledger balances on the new system were not stored as there were no issues, therefore we could not completely review this aspect of the performance of the control, although there were no issues identified when we reconciled the old reports back to the opening balances on the new system. • We also note that the External Auditors also completed a comprehensive check as part of the External Audit and were satisfied with the data submitted and did not raise any issues or concerns. 	

Action Plan - SYPTE

Risk Issue	Findings and Recommendation	Action Plan
<p>Accounts Payable – SYPTE</p> <p>Inadequate authorisation procedures & payments not made in line with procedures; and</p> <p>Delays in payments, leading to difficulties in dealing with suppliers in the future.</p>	<p>Key findings</p> <ul style="list-style-type: none"> • We reviewed the Accounts Payable process from raising requisitions through to payment of suppliers, specifically documenting the controls in the process. We then tested a sample of expenditure transactions to ensure the controls that had been documented had been performed in an effective manner. We sample tested across both the new and old Ledger systems. • We note that the Accounts Payable process is relatively robust and includes both preventive and detective controls. These controls include appropriate requisition authorisation, three-way matching, authorised payment runs and periodic account reconciliations. • Our sample testing of 20 invoices found that the controls in place are operating effectively. Requisitions and payments are authorised in a timely manner by appropriate personnel, including the involvement of segregation of duties, improving the effectiveness of these controls and reducing the risk of fraud. We also verified that the accounting system requires and correctly completes three-way matches and corroborated that monthly reconciliations have been performed to date, comparing the Accounts Payable account to the General Ledger. • BACS payment runs are made on a weekly basis with relevant payments matched off by due date. This ensures that the Executive effectively manages cash flows whilst still meeting payment deadlines. • For two samples that we tested, we were unable to gain assurance over requisition approval as the relevant documentation was paper based and stored in the office, which was inaccessible due to working situations as a result of the COVID-19 pandemic. 	

Action Plan - SYPTE

Risk Issue	Findings and Recommendation	Action Plan
<p>Accounts Receivable – SYPTE</p> <p>Ineffective debt collection procedures; and</p> <p>Ineffective invoice raising procedures.</p>	<p>Key findings</p> <ul style="list-style-type: none"> • We reviewed the Accounts Receivable process from raising invoices through to receiving payment, specifically documenting the controls in the process. We then tested a sample of income transactions to ensure the controls that had been documented had been performed in an effective manner. We sample tested across both the new and old Ledger systems. • We note that the Accounts Receivable process is relatively robust and includes both preventive and detective controls. These controls include required completion of invoice request forms, restricting invoice raising to appropriate personnel, daily cash statements and weekly reviews of debtor’s listings. • Our sample testing of 20 invoices found that the controls in place are operating effectively. Invoice request forms have been completed where necessary, invoices have been raised in a timely manner by appropriate personnel, daily cash statements have been completed matching income in the bank to sales invoices and weekly debtors reports have been run to reduce aged debtors. • A debt recovery database is maintained which highlights outstanding debtors and at which stage of the reminders process the debt is in, ensuring appropriate escalation of outstanding debtors. • For three samples that we tested, we were unable to gain assurance over the completion of invoice request forms as the relevant documentation was paper based and stored in the office, which was inaccessible due to working situations as a result of the COVID-19 pandemic. 	

Action Plan - SYPTE

Risk Issue	Findings and Recommendation	Action Plan
<p>Cash & Bank – SYPTE</p> <p>Bank accounts are not reconciled on a regular and timely basis and the methodology used is not robust</p>	<p>Key findings</p> <ul style="list-style-type: none"> We reviewed the processes involved in managing Cash & Bank accounts, specifically documenting the controls in the process. We then reviewed and reperformed a sample of bank reconciliations to ensure the control had been documented and performed in an effective manner. We note that the Cash & Bank management process is relatively robust and includes both preventive and detective controls. These controls include; required approval of weekly BACS payments, restricting bank access to appropriate personnel, completion of daily cash statements and monthly bank reconciliations. Our sample testing around bank reconciliations found that they are operating effectively, with relevant reconciling items between the bank and General Ledger being recorded. Reconciliations are prepared and reviewed by appropriate personnel in a timely manner and there is a segregation of duties between the preparer and reviewer. However, whilst the reconciliation templates show the names of the officers completing and reviewing the reconciliation, these are not signed. We note that the new system of electronic signatures adopted during lockdown has now been applied to authorising bank reconciliations. Our sample testing also noted that the reconciliation templates incorrectly recorded the date as 2018 instead of 2019. This was acknowledged by the Executive as a typographical error. <p>Issue identified:</p> <ul style="list-style-type: none"> Reconciliations were not signed by the officers completing and reviewing the reconciliations. <p>Risk:</p> <ul style="list-style-type: none"> There is a lack of assurance that reconciliations are being reviewed as names and dates of reviewers are not signed, thereby increasing the risk of fraud. <p>Recommendation:</p> <ul style="list-style-type: none"> Reconciliations should be electronically signed and dated when reviewed. The spreadsheet should be locked and protected to prevent any further changes to the reconciliation once the review is complete. 	<p>Agreed Action:</p> <p>We will continue with the paperless approach adopted during lockdown. We will ensure all bank reconciliations are electronically signed by the officers completing and reviewing the reconciliation.</p> <p>Responsible Officer: Mike Thomas, Deputy Section 73 Officer</p> <p>Executive Lead: Gareth Sutton, Group Finance Director</p> <p>Due date: This action has already been implemented</p>

Action Plan - SYPTE

Risk Issue	Findings and Recommendation	Action Plan
<p>Capital Accounting – SYPTE</p> <p>Fixed asset acquisitions, disposals, and transfers are not identified and recorded in the Fixed Asset Register.</p>	<p>Key findings</p> <ul style="list-style-type: none"> • We reviewed the Capital Accounting process, including the treatment of additions, disposals and transfers of assets as well as the maintenance of the Fixed Asset Register. We then tested a sample of additions to ensure the controls that had been documented had been performed in an effective manner. • We note that the Capital Accounting process is relatively robust and includes both preventive and detective controls. These controls include required authorisation for payments relating to capital spend, agreement of payments to the Capital programme and a yearly reconciliation of the Fixed Asset Register to the General Ledger. • Our controls sample testing found that the controls in place are operating effectively. All capital invoices tested have been approved by appropriate personnel and agreed to the Capital programme before payment. Invoices were paid in a timely manner and additions were appropriately recorded in the Fixed Asset Register. 	

Action Plan - SYPTE

Risk Issue	Findings and Recommendation	Action Plan
<p>Payroll – SYPTE</p> <p>Inadequate segregation of duties; and</p> <p>Controls over starters, changes, leavers (permanent and temporary staff) are inadequate</p>	<p>Key findings</p> <ul style="list-style-type: none"> • We reviewed the Payroll process, specifically documenting the controls in place around the administration of starters and leavers. We then tested a sample of starters and leavers to ensure the controls that had been documented had been performed in an effective manner. • We note that the Payroll process includes controls such as required completion of Employee Administration forms, New Starter Induction Checklists and Leavers Checklists. There is also strong management oversight of the recruitment process, with establishment reports outlining planned recruitment for the year having to be approved by board with any additional recruitment requests having to be approved by the Human Resources Standards Committee. • Our sample testing of new starters confirmed that Employee Administration forms, signed by the HR Business Partner and New Starters Induction checklists had been completed in all cases • Our sample testing of leavers confirmed that Employee Administration forms, signed by the HR Business Partner have been completed in all cases. We did note once case where the form had been completed after the employee had left. The Executive have confirmed that this was an exceptional case was where the employee resigned with immediate effect after their last shift. The employee left on 05/08/19, and the leaver administration form was completed on 08/08/19. There was no financial implication. • We were unable to verify that leavers checklists were completed for our sample selected as the relevant documentation was paper based and stored in the office, which was inaccessible due to working situations as a result of the COVID-19 pandemic. However we do acknowledge that these are not used to determine the cessation of salary as the Employee Administration Forms are used for this purpose. • There were no issues identified around starters being incorrectly paid before they joined or leavers after they left. 	

Action Plan - SCRMCMA

Risk Issue	Findings and Recommendation	Action Plan
<p>General Ledger – SCRMCMA</p> <p>The Authority could be exposed to financial risks including fraud or manipulation of financial information where controls are inadequate or segregation of duties insufficient; and</p> <p>Journal entries or other adjustments that were recorded without proper documentation or explanation.</p> <p>The Authority do not have adequate back up procedures</p>	<p>Key findings</p> <ul style="list-style-type: none"> • We reviewed the process of posting journals to the General Ledger and documented the controls in place. We then tested a sample of 20 journal postings to ensure the controls that had been documented had been performed in an effective manner. • Whilst there are controls in place limiting the ability to post journals to appropriate personnel, there are limited controls in place around the authorisation of journals, no user limits on the value of journals posted and no formal review of journals posted on a periodic basis. The lack of segregation of duties as a result of no requirement for authorisation is emphasised further due to the work performed by a third party, Sheffield City Council, as part of the journals posting process. • We also noted that there were three members of senior management with the ability to post journals. The ability to post journals was role specific in the old finance system and as an “Approver” role this would have had the ability to post journals. Whilst it would be unusual for these employees to post journals, a review of journals postings to M9 indicated 11 journal lines. Upon further review, it was identified that these lines actually related to the Senior Finance Manager approving on the finance system that a credit note be issued to cancel a debt. The system then automatically posts the credit note journal once approved. We acknowledge that the cancellation of debt by credit note can only be authorised by a senior member of Finance. • It has been confirmed that there is segregation of duties in place between the completion of bank reconciliations and inputting of cash management journals which are performed and reviewed separately. However, we noted that, while, within the Integra system there was segregation of duties in practice, the system rights did not enforce the segregation of duties. In other words, the person who prepares the bank reconciliation could post a cash journal if they wanted to as the system rights would not prevent that from happening. This weakness in the design of controls provided a potential opportunity for fraud and error. • The Authority has confirmed that all bank reconciliations undertaken in 2019/20 were completed and reviewed by appropriate officers, independent of those responsible for inputting and posting cash management journals. Our sample testing of two bank reconciliations confirmed this process. Both were prepared and authorised by appropriate independent officers. • Our sample testing found that all journals tested had been posted by appropriate personnel with journals templates being completed correctly. We also confirmed that the officers preparing and authorising bank reconciliations did not appear on the journals posted spreadsheet. 	

Action Plan - SCRMCAs

Risk Issue	Findings and Recommendation	Action Plan
<p>General Ledger – SCRMCAs</p> <p>The Authority could be exposed to financial risks including fraud or manipulation of financial information where controls are inadequate or segregation of duties insufficient; and</p> <p>Journal entries or other adjustments that were recorded without proper documentation or explanation.</p>	<ul style="list-style-type: none"> We note that, the move from Integra to the Epicor system allows for more enhanced controls and segregation of duties for example by giving an individual user access to a specific feature in another ledger if they require it. Similarly, by removing access for a particular user to one or more features within a ledger, whilst still allowing them access to the rest. These controls will be tested as part of the 2020/21 Internal Audit Review. <p>Issues Identified:</p> <ul style="list-style-type: none"> A lack of both preventive and detective controls in place around the authorisation of journals. <p>Risk:</p> <ul style="list-style-type: none"> There is an increased risk that fraudulent journals or journals in error could be posted due to the lack of authorisation at a transactional level and a lack of oversight in monitoring postings periodically. We note that officers responsible for preparing and authorising the bank reconciliations are independent of those responsible for inputting and posting cash management journals, which helps to reduce control risk around cash journals. The move to the Epicor System will help to further mitigate this risk pending the implementation of appropriate automated controls and segregation of duties. <p>Recommendation:</p> <ul style="list-style-type: none"> The Authority to ensure appropriate segregation of duties including role specific access is appropriately implemented within the new system to enable the requirement for authorisation of all journals by appropriate staff members, as well as requiring a high level review of journals posted on a periodic basis. The Authority could also consider the implementation of appropriate user and authoriser limits on high value journal postings. 	<p>Agreed Action:</p> <p>Role-specific access will be appropriately implemented within the new system. A high level review of GJ type journals posted will be undertaken periodically.</p> <p>Responsible Officer: Simon Tompkins, Finance Manager</p> <p>Executive Lead: Mike Thomas, Deputy Section 73 Officer</p> <p>Due date: 30 September 2020</p>

Action Plan - SCRMCAs

Risk Issue	Findings and Recommendation	Action Plan
<p>General Ledger – SCRMCAs</p> <p>The Authority could be exposed to financial risks including fraud or manipulation of financial information where controls are inadequate or segregation of duties insufficient; and</p> <p>Journal entries or other adjustments that were recorded without proper documentation or explanation.</p>	<p>Issues Identified:</p> <ul style="list-style-type: none"> • Our review of journals posted in year found that three members of senior management had the ability to post journals. <p>Risk:</p> <ul style="list-style-type: none"> • Senior management could manipulate financial information without proper overview and approval of their postings. <p>Recommendation:</p> <ul style="list-style-type: none"> • Senior management access should be restricted to authorising journals. 	<p>Agreed Action:</p> <p>Noted the improvement point.</p> <p>Role-specific access will be appropriately implemented within the new system.</p> <p>The Group Chief Financial Officer and Senior Finance Manager’s permissions are set to “reporting” only which does not give them the ability to raise journals</p>
	<p>Issues Identified:</p> <ul style="list-style-type: none"> • The journals report provided identified transactions which were found not to relate to journals, but credit orders instead. The report also identified the authoriser of the credit order as the poster. <p>Risk:</p> <ul style="list-style-type: none"> • The journals report does not provide the appropriate information required for internal and external audit purposes. <p>Recommendation:</p> <ul style="list-style-type: none"> • Journals report should identify parameters which restrict the report to genuine journal postings. 	<p>Agreed Action:</p> <p>Noted the improvement point.</p>

Action Plan - SCRMCAs

Risk Issue	Findings and Recommendation	Action Plan
<p>General Ledger – SCRMCAs</p> <p>The Authority could be exposed to financial risks including fraud or manipulation of financial information where controls are inadequate or segregation of duties insufficient; and</p> <p>Journal entries or other adjustments that were recorded without proper documentation or explanation.</p> <p>The Authority do not have adequate back up procedures</p>	<p>Key findings</p> <ul style="list-style-type: none"> • SCC have a full Managed Service Contract with Capita which places the responsibility on Capita to have appropriate back up and recovery procedures in place over the finance system, which SCR used up until the end of 2019/20. Capita’s backup procedures are considered robust, with backups being verified on a scheduled basis, hot backups are taken daily during the night, daily and weekly backups are held by Capita and full weekly backups are held off-site. No issues relating to backups were reported in the period. 	

Action Plan - SCRMCMA

Risk Issue	Findings and Recommendation	Action Plan
<p>Accounts Payable – SCRMCMA</p> <p>Inadequate authorisation procedures & payments not made in line with procedures; and</p> <p>Delays in payments, leading to difficulties in dealing with suppliers in the future.</p>	<p>Key findings</p> <ul style="list-style-type: none"> • We reviewed the Accounts Payable process from raising requisitions through to payment of suppliers, specifically documenting the controls in the process. We then tested a sample of expenditure transactions to ensure the controls that had been documented had been performed in an effective manner. • We note that the Accounts Payable process is relatively robust and includes both preventive and detective controls. These controls include appropriate requisition authorisation, three-way matching, authorised payment runs and periodic account reconciliations through the master spend tracker. • Our sample testing of 10 invoices found that the controls in place are operating effectively. Requisitions and payments are authorised in a timely manner by appropriate personnel, including the involvement of segregation of duties, improving the effectiveness of these controls and reducing the risk of fraud. We also verified that the accounting system requires and correctly completes three-way matches and corroborated that all samples agree back to the Master Spend Tracker. • There is a team at Sheffield City Council who help in the administration of accounts payable posting to the ledger. Access is restricted to a few individuals and the requirement for authorisation by SCRMCMA staff mitigates any risk of fraud. • At the time the Internal Audit work was performed, of the sample of 10 Purchase Orders selected, only four had reached the point of GRN to confirm that goods and services had been received, leading to payments being made to suppliers. In all four cases, there is evidence that supplier payments were authorised after the relevant department confirmed they were happy with the goods/service. 	

Action Plan - SCRMCA

Risk Issue	Findings and Recommendation	Action Plan
<p>Accounts Receivable – SCRMCA</p> <p>Ineffective debt collection procedures; and</p> <p>Ineffective invoice raising procedures.</p>	<p>Key findings</p> <ul style="list-style-type: none"> • We reviewed the Accounts Receivable process from raising invoices through to receiving payment, specifically documenting the controls in the process. We then tested a sample of income transactions to ensure the controls that had been documented had been performed in an effective manner. We sample tested across both the new and old Ledger systems. • We note that the Accounts Receivable process is relatively robust and includes both preventive and detective controls. These controls include required completion of invoice request forms, restricting invoice raising to appropriate personnel, monthly reviews of Invoice Raised reports and weekly reviews of debtor’s listings. • Our sample testing of 10 invoices found that controls in place are operating effectively. Sales Invoice Request forms have been completed in all cases and invoices have been raised by appropriate personnel. Monitoring is carried through both the weekly Invoice Raised report as well as a weekly debtors report. • There is a team at Sheffield City Council who help in the administration of accounts receivable postings to the ledger. Access is restricted to a few individuals and the requirement for authorisation by SCRMCA staff as well as reviews of monthly Invoice Raised reports mitigates any risk of fraud. 	

Action Plan - SCRMCAs

Risk Issue	Findings and Recommendation	Action Plan
<p>Cash & Bank – SCRMCAs</p> <p>Bank accounts are not reconciled on a regular and timely basis and the methodology used is not robust</p>	<p>Key findings</p> <ul style="list-style-type: none"> • We reviewed the processes involved in managing Cash & Bank, specifically documenting the controls in the process. We then reviewed and reperformed a sample of bank reconciliations to ensure the control had been documented and performed in an effective manner. • We note that the Cash & Bank management process includes both preventive and detective controls. These controls include required approval of weekly BACS payments, restricting bank access to appropriate personnel, review of monthly bank statements for items that need posting to the ledger and monthly bank reconciliations. • Our sample testing around bank reconciliations found that they are operating effectively, with relevant reconciling items between the bank and General Ledger being recorded. Reconciliations are prepared and reviewed by appropriate personnel in a timely manner and there is a segregation of duties between the preparer and reviewer. 	

Action Plan - SCRMCAs

Risk Issue	Findings and Recommendation	Action Plan
<p>Capital Accounting – SCRMCAs</p> <p>Fixed asset acquisitions, disposals, and transfers are not identified and recorded in the Fixed Asset Register.</p>	<p>Key findings</p> <ul style="list-style-type: none"> • We reviewed the Capital Accounting process, including the treatment of additions, disposals and transfers of assets as well as the maintenance of the Fixed Asset Register. • We note that the Capital Accounting process includes both preventive and detective controls. These controls include an approved Capital Programme, required authorisation of requisition requests, submission of quarterly claims which are reviewed by the monitoring officer, authorised payment to suppliers and monthly reconciliation of capital expenditure reviewed to date. • The majority of capital expenditure is Revenue Expenditure Funded by Capital Under Statute and paid as a grant. The money spent on capital programmes by relevant stakeholders is claimed by submitting a grant claim. 	

Action Plan - SCRMCMA

Risk Issue	Findings and Recommendation	Action Plan
<p>Payroll – SCRMCMA</p> <p>Inadequate segregation of duties; and</p> <p>Controls over starters, changes, leavers (permanent and temporary staff) are inadequate</p>	<p>Key findings</p> <ul style="list-style-type: none"> • We reviewed the Payroll process, specifically documenting the controls in place around the administration of starters and leavers. We then tested a sample of starters and leavers to ensure the controls that had been documented had been performed in an effective manner. • We note that the Payroll process includes controls such as required completion of Employee Administration forms, Request to Recruit forms and Leavers Checklists. There is also strong management oversight of the recruitment process, with authorisation required from Head of Service, Business Operations Manager and Deputy Chief Executive. • Our sample testing of five starters and five leavers found that the controls in place are operating effectively. We found that Employee Administration forms had been completed for all but one of the starters and leavers samples and all forms were signed by the HR Business Partner. There were no issues identified around starters being incorrectly paid before they joined or leavers after they left. • Our sample testing of starters identified three cases where we were unable to gain assurance over whether the request to recruit form had been completed. For these samples, the employee started on the BMBC system and the relevant documentation was paper based and stored in the BMBC office. • We identified one sample where the employment administration form for a new starter could not be provided. However, we acknowledge that without an admin form, the new starter would not have been paid or setup on payroll. The form will be stored in a locked filing cabinet in the offices, currently inaccessible. • There were two cases identified where the employee administration form had been completed after the employee start date, in one of these cases the delay was noted to be four weeks after the start date. In one case, the employee administration form was not dated. • For three leavers that we tested, we were unable to verify that leavers checklists were completed as the relevant documentation was paper based and stored in the office, which was inaccessible due to working situations as a result of the COVID-19 pandemic. However we do acknowledge that these are not used to determine the cessation of salary as the Employee Administration Forms are used for this purpose. • There were no issues identified around starters being incorrectly paid before they joined or leavers after they left. 	

Action Plan - SCRMCAs

Risk Issue	Findings and Recommendation	Action Plan
<p>Payroll – SCRMCAs</p> <p>Inadequate segregation of duties; and</p> <p>Controls over starters, changes, leavers (permanent and temporary staff) are inadequate</p>	<ul style="list-style-type: none"> The outbreak of COVID-19 and subsequent lockdown has provided the Authority with the opportunity to review its current processes and has implemented a new system. They have moved from the paper based filing system that was in place until the end of March 2020, and replaced this with electronic filing. PDF documents are now received from HR with digital signatures, which are then filed on the network in a secure location only accessible by Payroll staff. <p>Issues Identified:</p> <ul style="list-style-type: none"> One sample identified where the employee administration form for a new starter could not be provided at the time of the audit. In one case the form was not dated and in two cases, the form was completed after the employee start date, in one of these cases the delay was noted to be four weeks. <p>Risk:</p> <ul style="list-style-type: none"> Required procedures may not be not undertaken or undertaken in a timely basis leading to payroll issues such as incorrect or late payment of salary. <p>Recommendation:</p> <ul style="list-style-type: none"> The Authority to ensure that new starter employee administration forms are completed for all new starters in a timely manner. 	<p>Agreed Action:</p> <p>The recommendation is already in place. Due to homeworking we have already changed over from the paper based filing system that was in place until the end of March, having replaced it with electronic filing. PDF documents are now received from HR with digital signatures, which are then filed on the network in a secure location only accessible by Payroll staff.</p> <p>Responsible Officer: Mike Thomas, Deputy Section 73 Officer</p> <p>Executive Lead: Gareth Sutton, Group Finance Director</p> <p>Due date: This action has already been implemented</p>

Appendices

Appendix 1 – Staff involved

Staff involved

- Matt Bell – Financial Services Manager – SYPTE
- Andy Mumford – Financial and Project Accountant – SYPTE
- Martin Lukey Senior Revenues Officer – SYPTE
- Catherine Capon – Project Manager – SYPTE
- Liz Lawson - LTP and Capital Accountant - SYPTE
- Geoff Taylor – Financial Accountant – SYPTE
- Rachael Radford – HR Business Partner Manager– SYPTE
- Simon Tompkins – Finance Manager – SCRMCA
- Richard Howard – Assistant Finance Manager – SCRMCA
- Julie Gregory – Assistant Finance Manager – SCRMCA
- Saeed Ahmed Assistant Finance Manager - SCRMCA

Documents reviewed

- Financial Standard Operating Procedures
- Employment Administrations forms and checklists
- Various reconciliations as required
- Monthly monitoring reports
- Ledger reports as required

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 assurance levels (cont'd)

The table below describes how we grade our audit recommendations.

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

Appendix 3 - Assurance level breakdown

The table below shows the levels of assurance we provided for each system:

Area	SYPTÉ	SCRMCA
General Ledger	Significant assurance with some improvement required	Significant assurance with some improvement required
Accounts Payable	Significant assurance	Significant assurance
Accounts Receivable	Significant assurance	Significant assurance
Cash & Bank	Significant assurance with some improvement required	Significant assurance
Capital Accounting	Significant assurance	Significant assurance
Payroll	Significant assurance	Significant assurance with some improvement required
Overall	Significant assurance with some improvement required	Significant assurance with some improvement required



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