

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

Core Financial Controls

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- Finance Staff

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;
 - journal entries or other adjustments that were recorded without proper documentation or explanation;
 - items posted to suspense accounts are not reviewed and cleared in a timely manner; and
 - the Authority do not have adequate back up procedures.
- Accounts payable:
 - inadequate authorisation procedures & payments not made in line with procedures; and
 - Inadequate coding of COVID-19 related expenses.

- 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:
 - 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.
- Budgetary Control
 - Ineffective review of the budget to verify its completeness and accuracy; and
 - Inadequate budget monitoring processes in place.

Limitations of scope

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

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

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.

Based on our review and testing of the Authority's core financial controls we have concluded that, subject to the findings in this report and the limitations of sample testing, the Authority has a well-designed internal control framework which is operating mainly as expected. From our sample testing, control activities are performed consistently and are carried out in compliance with financial standards, processes and delegated scheme of authority. Control activities include segregation of duties, formal and documented approvals, verifications and reconciliations, all of which mitigate the risk of intentional or unintentional financial misstatements.

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

Good practice

We have identified the following areas of good practice:

- The design of controls around the majority of key financial processes for both entities contains both preventive and detective controls where possible. Having both types of controls in place significantly reduces the risk of fraud or error.
- Generally key financial controls that have been subjected to testing are operating well and in accordance with policies and procedures.
- There are strong controls in place around budget setting and budget monitoring and this has been effectively integrated into the accounting software, improving the efficiency and ease in monitoring.

Areas for development

We have identified the following areas which require improvement including:

- The implementation of the new ledger system has enabled a number of automated controls to be introduced such as limiting user access rights to appropriate officers. However our review has noted some areas where officers have the ability to carry out multiple roles which could potentially put segregation of duties at risk. This was particularly evident where officers preparing the monthly bank reconciliations also post journals. We also noted that authorisation of journals is not an automated control, this is performed manually outside of the system. Officers have the ability and access to perform both tasks of posting and authorising journals. However we do acknowledge that our audit testing did not evidence any occasions where this had taken place.
- Following the Internal Audit review carried out in respect of financial year 2019/20, it was agreed that Management would undertake a high level review of MCA GJ type journals posted. We noted that the review would be periodic however our review of the June and September Journals reports noted that this review did not take place until January 2021.

Recommendations

Based on our findings, we have raised 16 risk recommendations, the gradings are as follows:

	High	Med	Low	Imp
PTE	0	0	3	6
MCA	0	0	2	5

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.</p> <p>Journal entries or other adjustments that were recorded without proper documentation or explanation.</p> <p>Items posted to suspense accounts are not reviewed and cleared in a timely manner.</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 tested a sample of journal postings to ensure the controls that had been documented had been performed in an effective manner. ▪ The Journals posting process includes both preventive and detective controls. These controls include restricting the ability to post journals to appropriate personnel, required authorisation of journals, maintaining signed journals for record keeping and reviewing monthly journal files against journal reports. ▪ We reviewed the System Security Report to confirm appropriate user access rights and noted that the ability to post journals is restricted to appropriate finance staff and system support. However we did note that the Interim Group Chief Financial Officer, who has since left the Authority is still showing as a current user. ▪ Our review of the journals listings list noted that 1 user appeared to have to accounts where 24 out of 171 journals have been posted by JulieA and 33 by JullieA. However, our review of the System Security Report did not show 2 users. ▪ Our sample testing of 20 journals found these had been appropriately input and authorised by another member of the Finance team. However, we did note that 2 journals from our sample had not been signed as authorised. We also noted that the date of authorisation was retrospective with a review date of 1-Dec-20. It is acknowledged that the actual control had been performed throughout the year, however documenting the check was implemented in December 2020. ▪ Authorisation of journals is not automated within the ledger, this control is performed manually outside of the system. We noted that finance officers have the ability to perform both tasks, although we did not evidence through our testing any journals that had been input and authorised by the same officer. ▪ We also noted that officers carrying out the bank reconciliation procedures have access to post and authorise journals. However, we do recognise that officers completing the bank reconciliations are not involved in other duties relating to cash and bank therefore the risk is reduced. Our review of the journals listing report noted that the officer preparing the reconciliation has posted 30 out of 171 journals. Our sample testing of 20 journals noted that 15 of these had been authorised by the same officer. 	

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.</p> <p>Journal entries or other adjustments that were recorded without proper documentation or explanation.</p> <p>Items posted to suspense accounts are not reviewed and cleared in a timely manner.</p> <p>The Authority do not have adequate back up procedures.</p>	<ul style="list-style-type: none"> ▪ Electronically signed journal templates had been maintained and monthly journals report reviews were undertaken. However the monthly review of journals posted is not currently signed and dated to evidence the control is being performed by appropriate personnel in a timely manner. We also noted that the review is undertaken by an officer with access to post and authorise journals. ▪ 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. No issues relating to backups were reported in the period. <p>Issues Identified:</p> <ul style="list-style-type: none"> ▪ Finance officers have the ability perform multiple roles for example, post and authorise journals and prepare and review the bank reconciliation procedures. <p>Risk:</p> <ul style="list-style-type: none"> ▪ Fraudulent or erroneous journals could be posted to the ledger. <p>Recommendations:</p> <ul style="list-style-type: none"> ▪ To strengthen controls around segregation of duties, review and consider individual roles and user access rights to prevent officers having access to perform multiple roles. We acknowledge the limitations of roles and size of the organisation, and recognise there may be an opportunity to consider this in collaboration with the PTE as part of the wider integration agenda. 	<p>Agreed Action:</p> <p>We will continue to prioritise segregation of duties for journal authorisation in respect of those areas with the highest potential risk for fraud, for example bank and payroll. We do not consider that authorisation is required for other areas, partly because the fraud risk level is relatively low, and furthermore there are compensating controls in place, such as balance sheet reconciliations.</p> <p>In the medium term, we will review individual roles as part of integration.</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 2021</p>

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.</p> <p>Journal entries or other adjustments that were recorded without proper documentation or explanation.</p> <p>Items posted to suspense accounts are not reviewed and cleared in a timely manner.</p> <p>The Authority do not have adequate back up procedures.</p>	<p>Issues Identified:</p> <ul style="list-style-type: none"> Two journals had not been signed as authorised and the remaining journals within our sample showed a retrospective authorisation date of 1-Dec-20. <p>Risk:</p> <ul style="list-style-type: none"> Fraudulent or erroneous journals could be posted to the ledger. <p>Recommendations:</p> <ul style="list-style-type: none"> The Executive to ensure all journals are authorised in a timely manner. 	<p>Agreed Action:</p> <p>As per the previous recommendation, we will prioritise prompt authorisation of journals for banking and payroll.</p> <p>Responsible Officer: Mike Thomas, Deputy Section 73 Officer</p> <p>Executive Lead: Gareth Sutton, Group Finance Director</p> <p>Due date: 30 June 2021</p>
	<p>Issues Identified:</p> <ul style="list-style-type: none"> An officer who has left the Executive still has user access to the Ledger. Another officer appeared to have a duplicate user account. <p>Risk:</p> <ul style="list-style-type: none"> Fraudulent or erroneous journals could be posted to the ledger. <p>Recommendations:</p> <ul style="list-style-type: none"> The Interim Group Chief Financial Officer user access to be removed from the system. To investigate the potential duplicate user access of JulieA. The Executive to ensure user access rights are promptly removed for all leavers. Introduce periodic review of all user access to ensure these remain appropriate to the individual and role. 	<p>Agreed Action:</p> <p>These issues will be investigated and resolved forthwith. An amendment to current working practices will be introduced, namely the removal of leavers and a quarterly review of user access.</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 2021</p>
	<p>Improvement Point:</p> <ul style="list-style-type: none"> Monthly reviews of the journals report to be signed and dated as evidence of the check being carried out. 	<p>Management has noted this finding.</p>

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.</p> <p>Inadequate coding of COVID-19 related expenses.</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 place. We tested a sample of expenditure transactions to ensure the controls that had been documented had been performed in an effective manner. ▪ 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. ▪ We noted from our discussions that there was specific code set up to capture all Covid-19 related expenditure which is monitored as part of budget monitoring processes. We have tested this as part of our work within the ‘Budgetary Control’ section of the report. ▪ 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 entity effectively manages cash flows whilst still meeting payment deadlines. ▪ For one sample we tested, we found that the weekly APT payment report was not dated when it was reviewed. We also identified one monthly reconciliation between the AP Control Account to the Creditors Report and the GL that was not signed as completed. <p>Improvement Point:</p> <ul style="list-style-type: none"> ▪ The Executive to ensure reviews and reconciliations are signed and dated as evidence of checks being carried out in a timely manner. 	<p></p> <p>Management has noted this finding.</p>

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 place. We tested a sample of income transactions to ensure the controls that had been documented had been performed in an effective manner. ▪ 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. Our testing did not identify any issues relating to ineffective debt collection. ▪ Through our sample testing we identified one invoice request form that was not marked as reviewed, one invoice that was issued more than one month after request and one invoice request form that was not fully completed. <p>Improvement Point:</p> <ul style="list-style-type: none"> ▪ The Executive to ensure invoice requests are fully completed, marked as reviewed and promptly issued. 	<p></p> <p>Management has noted this finding.</p>

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 place. We reviewed and reformed 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 of 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 appropriate segregation of duties between the preparer and reviewer. ▪ However, we have noted where officers carrying out the reconciliations also have access to post and authorise journals, see slide 5. 	

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 and the monthly payroll process. We tested a sample of starters and leavers to ensure the controls that had been documented had been performed in an effective manner. We also sample tested the controls in place around the monthly payroll process. ▪ The Payroll process is relatively robust and 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. ▪ Appropriate segregation of duties have been identified within the payroll process, including internally within the HR department when administering starters and leavers as well as between the HR department, Finance department and the external Service Organisation when administering the monthly payroll. ▪ The controls around the processing of the monthly payroll are also considered to be robust and include secure transfer of sensitive data, monthly analytical reviews, sense checks and reconciliations. ▪ Our sample testing found that the controls in place are operating adequately, no issues were identified within the sample reviewed. We found that Employee Administration forms had been completed for all 10 of the starters and leavers samples tested. Analytical reviews, sense checks and reconciliations had also been completed for both the months sampled. ▪ We noted that additional assurance could be gained by having the HR Business Partner review the completed Employment Administration Forms and Leavers Administration Forms. Also, the various analytical reviews and reconciliations performed as part of the payroll process could be improved if they were dated when they were completed and reviewed as this would provide assurance that they were completed in a timely manner. 	

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>Improvement Points:</p> <ul style="list-style-type: none">▪ The Executive should ensure that the monthly analytical reviews and reconciliations are dated when they are completed and reviewed.▪ The Executive to consider Employment Administration Forms and Leavers Administration Forms to be formally documented as reviewed by the HR Business Partner.	<p>Management has noted this finding.</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 tested a sample of additions to ensure the controls that had been documented had been performed in an effective manner. We confirmed that there had not been any disposals of assets during the year of review. ▪ 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. ▪ We noted as a general good practise point, the yearly FAR reconciliation to be performed more frequently than annually to provide greater assurance that all acquisitions, disposals and transfers are being captured and any potential issues are flagged up in a more timely manner 	
	<p>Improvement Point:</p> <ul style="list-style-type: none"> ▪ FAR to GL reconciliation to be completed more frequently than annually. 	<p>Management has noted this finding.</p>

Action Plan - SYPTE

Risk Issue	Findings and Recommendation	Action Plan
<p>Budgetary Control – SYPTE</p> <p>Ineffective review of the budget to verify its completeness and accuracy</p> <p>Inadequate budget monitoring processes in place</p>	<p>Key findings</p> <ul style="list-style-type: none"> ▪ We reviewed the Budgetary Control process, specifically documenting the controls in place around setting the budget as well as the monitoring process. We reviewed the supporting evidence to ensure the controls that had been documented had been performed in an effective manner. ▪ The Budgetary Control process is robust and includes controls such as periodic comparison checks against historic performance, comparisons against actual performance. There is also strong management oversight of the budget process, with the yearly budget having to be approved by board with any consequent adjustments having to also be approved by board. ▪ We have tested the key controls for the yearly Budget setting process including confirming timely approval by Board. We have also tested monthly budget monitoring reports for two separate months and one quarterly budget report. No issues were identified as part of our testing. ▪ The integration of software such as ARMS and Epicore in to the budget monitoring process has considerably improved the effectiveness of real time monitoring of performance against budget codes as well as creating automated controls that mitigate the risk of errors in assigning expenditure against the wrong code or codes without the requisite remaining budget. 	

Action Plan - SCRMCA

Risk Issue	Findings and Recommendation	Action Plan
<p>General Ledger – SCRMCA</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.</p> <p>Journal entries or other adjustments that were recorded without proper documentation or explanation.</p> <p>Items posted to suspense accounts are not reviewed and cleared in a timely manner.</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 tested a sample of journal postings to ensure the controls that had been documented had been performed in an effective manner. ▪ The Journals posting process includes both preventive and detective controls. These controls include restricting the ability to post journals to appropriate personnel, required authorisation of journals, maintaining signed journals for record keeping and reviewing monthly journal files against journal reports. ▪ We reviewed the System Security Report to confirm appropriate user access rights and noted that the ability to post journals is restricted to appropriate finance staff and system support. However, we noted that officers carrying out bank reconciliation procedures also have access to post journals. However, we do recognise that officers completing the bank reconciliations are not involved in other duties relating to cash and bank therefore the risk is reduced. Our sample testing of 20 journals noted that 17 of these had been posted by the same officer preparing the bank reconciliation. The officer reviewing the bank reconciliation also carried out the review of the monthly journals report. ▪ Our sample testing of 20 journals found that these had been input accurately by appropriate personnel, electronic journal templates had been maintained. ▪ Authorisation of journals is not automated within the ledger, this control is performed manually outside of the system. Following the Internal Audit review carried out in respect of financial year 2019/20, it was agreed that Management would undertake a periodic high level review of GJ type journals posted. However, the review of monthly journals has not been completed in a timely manner. We selected the June and September Journals reports for testing and noted that this review did not take place until January 2021. We also noted that the review is undertaken by an officer with user access rights to post journals, although we did not evidence within our sample tested any journals that had been posted by this officer. ▪ The monthly review of journals posted could also be strengthened by signing off journal templates individually as this would ensure more granular inspection of journals posted as well as proactively identify any issues.. ▪ 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. No issues relating to backups were reported in the period. 	

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.</p> <p>Journal entries or other adjustments that were recorded without proper documentation or explanation.</p> <p>Items posted to suspense accounts are not reviewed and cleared in a timely manner.</p> <p>The Authority do not have adequate back up procedures.</p>	<p>Issues Identified:</p> <ul style="list-style-type: none"> ▪ The review of monthly journals has not been completed in a timely manner. <p>Risk:</p> <ul style="list-style-type: none"> ▪ The authorisation of journals is a key anti-fraud control. Without timely authorisation, there is a risk that fraudulent or erroneous journals could be posted to the ledger. <p>Recommendation:</p> <ul style="list-style-type: none"> ▪ The Authority to ensure that the review of monthly journals is undertaken in a timely manner. 	<p>Agreed Action:</p> <p>We will prioritise prompt authorisation of journals for banking and payroll.</p> <p>Responsible Officer: Mike Thomas, Deputy Section 73 Officer</p> <p>Executive Lead: Gareth Sutton, Group Finance Director</p> <p>Due date: 30 June 2021</p>

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.</p> <p>Journal entries or other adjustments that were recorded without proper documentation or explanation.</p> <p>Items posted to suspense accounts are not reviewed and cleared in a timely manner.</p> <p>The Authority do not have adequate back up procedures.</p>	<p>Issues Identified:</p> <ul style="list-style-type: none"> Finance officers have the ability perform multiple roles for example, post and authorise journals and prepare and review the bank reconciliation procedures. <p>Risk:</p> <ul style="list-style-type: none"> Fraudulent or erroneous journals could be posted to the ledger. <p>Recommendations:</p> <ul style="list-style-type: none"> To strengthen controls around segregation of duties, review and consider individual roles and user access rights to prevent officers having access to perform multiple roles. We acknowledge the limitations of roles and size of the organisation, and recognise there may be an opportunity to consider this in collaboration with the PTE as part of the wider integration agenda. 	<p>Agreed Action:</p> <p>We will continue to prioritise segregation of duties for journal authorisation in respect of those areas with the highest potential risk for fraud, for example bank and payroll. We do not consider that authorisation is required for other areas, partly because the fraud risk level is relatively low, and furthermore there are compensating controls in place, such as balance sheet reconciliations.</p> <p>In the medium term, we will review individual roles as part of integration.</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 2021</p>
	<p>Improvement Point:</p> <ul style="list-style-type: none"> Journal templates should be signed as authorised individually as this would ensure more granular inspection of journals posted as well as proactively identify any issues. 	<p>Management has noted this finding.</p>

Action Plan - SCRMCAs

Risk Issue	Findings and Recommendation	Action Plan
<p>Accounts Payable – SCRMCAs</p> <p>Inadequate authorisation procedures & payments not made in line with procedures.</p> <p>Inadequate coding of COVID-19 related expenses.</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 place. We tested a sample of expenditure transactions to ensure the controls that had been documented had been performed in an effective manner. ▪ 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 continuous account reconciliations through the batch book. ▪ We noted from our discussions that there was specific code set up to capture all Covid-19 related expenditure which is monitored as part of budget monitoring processes. We have tested this as part of our work within the ‘Budgetary Control’ section of the report. ▪ 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 all samples agree back to the batch book. ▪ There is a team at Sheffield City Council who help in the administration of accounts payable posting to the ledger. This is restricted to a few individuals and the requirement for authorisation by SCRMCAs staff mitigates any risk of fraud. ▪ BACS payment runs are made on a weekly basis with relevant payments matched off by due date. This ensures that the entity effectively manages cash flows whilst still meeting payment deadlines. 	

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 place. We tested a sample of income transactions to ensure the controls that had been documented had been performed in an effective manner. ▪ 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, matching of income against open invoices within Epicore and monthly reviews of debtor’s listings. ▪ Our sample testing of 11 invoices found that most controls in place are operating effectively. Invoices have been raised by appropriate personnel and these receivables have been monitored through both the daily cash statement as well as a monthly debtors report. Our testing did not identify any issues relating to ineffective debt collection. ▪ There is a team at Sheffield City Council who help in the administration of accounts receivable postings to the ledger. This is restricted to a few individuals and the requirement for authorisation by SCRMCA staff mitigates any risk of fraud. ▪ We did note that when income is matched off against open invoices, this is not currently signed and dated as completed by the relevant officer to appropriately record that this has been completed in a timely manner. 	
	<p>Improvement Point:</p> <ul style="list-style-type: none"> ▪ The Authority to ensure reviews and reconciliations are signed and dated as evidence of checks being carried out in a timely manner. 	<p>Management has noted this finding.</p>

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 place. We reviewed and reformed a sample of bank reconciliations to ensure the control had been documented and performed in an effective manner. ▪ 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, review of monthly bank statements for items that need posting to the ledger and monthly bank reconciliations. ▪ Our sample testing of 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 we have noted where officers carrying out the reconciliations also have access to post and authorise journals, see slide 15. 	

Action Plan - SCRMCA

Risk Issue	Findings and Recommendation	Action Plan
<p>Payroll – SCRMCA</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 as well as the monthly payroll process. 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 also sample tested the controls in place around the monthly payroll process. ▪ The Payroll process is relatively robust and 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. ▪ The controls around the processing of the monthly payroll are also considered to be robust and include secure transfer of sensitive data, monthly analytical reviews, sense checks and reconciliations. ▪ Appropriate segregation of duties have been identified within the payroll process, including internally within the HR department when administering starters and leavers as well as between the HR department, Finance department and the external Service Organisation when administering the monthly payroll. ▪ Our sample testing found that the controls in place are mostly operating adequately. We found that Employee Administration forms had been completed for 4 of the 5 starters samples and all leavers samples tested. Also, analytical reviews, sense checks and reconciliations had been completed for both the months sampled. ▪ Through our testing we identified one sample where the Employee Administration Form had not been completed in a timely manner. However, it should be noted that this instance did not lead to any payroll errors and consequently we have not raised a recommendation related to this. ▪ We noted that additional assurance could be gained by having the HR Business Partner formally document reviews of the completed Employment Administration Forms and Leavers Administration Forms. Also, the various analytical reviews and reconciliations performed as part of the payroll process could be improved if they were signed and dated when they were completed and reviewed as this would provide assurance that they were completed in a timely manner by the appropriate personnel. 	

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>	<p>Improvement Points:</p> <ul style="list-style-type: none">▪ The Executive should ensure that the monthly analytical reviews and reconciliations are dated when they are completed and reviewed.▪ The Authority to consider Employment Administration Forms and Leavers Administration Forms to be formally documented as reviewed by the HR Business Partner.	<p>Management has noted this finding.</p>

Action Plan - SCRMCA

Risk Issue	Findings and Recommendation	Action Plan
<p>Capital Accounting – SCRMCA</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. ▪ The Capital Accounting process is relatively robust and 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 stakeholder is claimed by submitting a grant claim. ▪ We noted that the monthly balance sheet reconciliations are not currently signed as completed and reviewed by the relevant officer to appropriately record that this has been completed in a timely manner. 	
	<p>Improvement Point:</p> <ul style="list-style-type: none"> ▪ The Authority to ensure reviews and reconciliations are signed and dated as evidence of checks being carried out in a timely manner. 	<p>Management has noted this finding.</p>

Action Plan - SCRMCMA

Risk Issue	Findings and Recommendation	Action Plan
<p>Budgetary Control – SCRMCMA</p> <p>Ineffective review of the budget to verify its completeness and accuracy</p> <p>Inadequate budget monitoring processes in place</p>	<p>Key findings</p> <ul style="list-style-type: none"> ▪ We reviewed the Budgetary Control process, specifically documenting the controls in place around setting the budget as well as the monitoring process. We reviewed the supporting evidence to ensure the controls that had been documented had been performed in an effective manner. ▪ We note that the Budgetary Control process is robust and includes controls such as periodic comparison checks against historic performance, comparisons against actual performance. There is also strong management oversight of the budget process, with the yearly budget having to be approved by board with any consequent adjustments having to also be approved by board. ▪ We have tested the key controls for the yearly Budget setting process including confirming timely approval by Board and the reconciliation of the budget uploaded onto Epicore to the different budgets approved by the MCA and LEP (Core Ops, Transport Revenue, Revenue Programmes and Capital). No issues were identified as part of our testing. ▪ The integration of software such as ARMS and Epicore in to the budget monitoring process has considerably improved the effectiveness of real time monitoring of performance against budget codes as well as creating automated controls that mitigate the risk of errors in assigning expenditure against the wrong code or codes without the requisite remaining budget. 	

Appendices

Appendix 1 – Staff involved

Staff involved

- Matt Bell, Financial Services Manager – SYPTE
- Geoff Taylor, Management Accountant – SYPTE
- Andy Mumford, Financial and Project Accountant – SYPTE
- Martin Lukey, Senior Revenues Officer – SYPTE
- Rachael Radford, HR Business Partner Manager– SYPTE
- Simon Tompkins, Finance Manager – SCRMC
- Richard Howard, Assistant Finance Manager – SCRMC
- Donna Johnson, Assistant Finance Officer – SCRMC
- Saeed Ahmed Assistant Finance Manager - SCRMC

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 key risk for each entity

Area	SYPTE	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 with some improvement required
Capital Accounting	Significant assurance	Significant assurance
Payroll	Significant assurance	Significant assurance
Budgetary Controls	Significant assurance	Significant assurance
Overall	Significant assurance with some improvement required	Significant assurance with some improvement required

