

Audit and Standards Committee

15 July 2021

Internal Audit Annual Report and Head of Internal Audit Opinion

Is the paper exempt from the press and public?	No
<i>Reason why exempt:</i>	Not applicable
Purpose of this report:	Discussion
Funding Stream:	Not applicable
Is this a Key Decision?	No
Has it been included on the Forward Plan?	Not a Key Decision

Director Approving Submission of the Report

Ruth Adams, Deputy Chief Executive

Report Author(s):

Internal Audit – Grant Thornton

Executive Summary

This report presents the Internal Audit Annual Report and Head of Internal Audit Opinion 2020/21.

What does this mean for businesses, people and places in South Yorkshire?

Internal Audit supports the organisation in helping to achieve its objectives by giving assurance on its internal control and governance arrangements. Good governance enables the MCA to pursue its ambitions and objectives in the most effective and efficient way, bringing about better outcomes for residents and businesses in South Yorkshire.

Recommendations

The Audit and Standards Committee are asked to consider the Internal Audit Annual Report and Head of Internal Audit Opinion 2020/21.

Sheffield City Region Mayoral Combined Authority

Internal Audit Annual Report and Head of Internal Audit Opinion 2020/21

July 2021

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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. 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 Sheffield City Region Mayoral Combined Authority management and directors to ensure there are adequate arrangements in place in relation to risk management, governance, control and value for money.

Introduction

The Public Sector Internal Audit Standards (PSIAS):

The Public Sector Internal Audit Standards (PSIAS) state that '*The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement*'.

The PSIAS state that the annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

Grant Thornton UK LLP is the appointed Internal Auditor to Sheffield City Region Mayoral Combined Authority for the period 1 April 2020 to 31 March 2021.

This Annual Report summarises our conclusions and key findings from the internal audit work undertaken at Sheffield City Region Mayoral Combined Authority during the year ended 31 March 2021, including our overall opinion on the MCA's internal control system.

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

Our Internal Audit work for 2020/21 has been undertaken through the operational disruptions caused by the Covid-19 pandemic. For 2020/21, the impact has been much more significant and prolonged throughout the year. This may have caused significant issues with the delivery of planned internal audit work and to the organisation's normal control framework, in particular:

- Changes to individual organisations' governance arrangements, including reduced scope and frequency of key committee & board meetings.
- Reduced auditor access to staff and records due to remote working, sickness and other priorities.
- Temporary changes in finance staff roles causing the potential breakdown in segregation of duties and lack of experience or knowledge in undertaking unfamiliar tasks

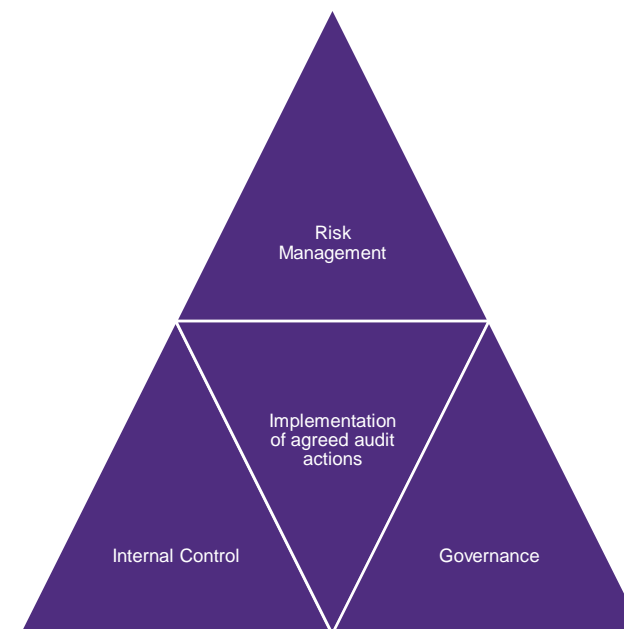
The Public Sector Internal Audit Standards (PSIAS) - continued

- Delays and reprioritisation of planned work due to the pressure on management and the need to address new risks and increased remote working.

As such our Internal Audit Plan may have been reduced or changed to reflect the uncertainty of its impact. There may be weaknesses within the framework of internal control which we may not be aware of, or the MCA may have adapted or made temporary changes to the control framework in ways that we are not aware of or haven't been able to test. Our annual opinion should be read in this context.

Work Programme Areas of Focus:

Our year-end Head of Internal Audit Opinion statement is based upon the findings of our annual work programme which focuses on the key areas outlined below:



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Executive Summary

Introduction

This report is our annual summary of the internal audit work carried out for Sheffield City Region Mayoral Combined Authority this year. Our work in the year was carried out in accordance with our 2020/21 internal audit plan, agreed by the Audit Committee in June 2020.

Objective	Key Observations
Planned Audit Coverage and Output	<ul style="list-style-type: none"> • Due to the outbreak of Covid-19 and the uncertainty of its impact we have kept the audit plan under review for the duration of the 2020/21 year and have reflected on the scope of each review to include any emerging issues. • All outcomes arising from our completed reviews have been reported to the Audit and Standards Committee.
Performance of Internal Audit	<ul style="list-style-type: none"> • Our internal audit service has complied with Public Sector Internal Audit Standards (PSIAS) throughout 2020/21.
Head of Internal Audit Opinion	<ul style="list-style-type: none"> • Our Head of Internal Audit' Opinion is set out in pages 9 to 11 of this report. • Our work has been carried out in accordance with Grant Thornton's internal audit methodology, which conforms to the requirements of the NHS Internal Audit Standards and Public Sector Internal Audit Standards (PSIAS) (1 April 2017). Our work and reports are not designed to comply with the International Framework for Assurance Engagements (IFAE) or the International Standard on Assurance Engagements (ISAE) 3000. • We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control. • There have not been any "no assurance" reports issued during the year. We have focussed our attention on the high risk areas where our work can have the most significant impact. All reviews are agreed with Management as part of the Internal Audit Plan.
Recommendations	<ul style="list-style-type: none"> • From the 9 reviews completed to date, we have raised 31 recommendations. All recommendations were accepted by management. • We have raised 1 high priority recommendation relating to the AMP Technology Centre. There were a further 5 medium risk, 17 low risk and 8 improvement points raised during the 2020/21 year. • During the year we have reported progress in implementing outstanding actions at each meeting of the Audit and Standards Committee. We have also reported the length of time taken to implement actions. 28 actions have been confirmed as implemented during the year. We have calculated the end of year % implementation rate at 94%.

Executive Summary

Audit plan and actual input

The initial draft Internal Audit Plan for 2020/21 was presented to the Audit Committee in June 2020. The plan was formulated prior to the outbreak of the Covid-19 pandemic and was agreed with frequent reviews to be undertaken. The plan was developed from a comprehensive set of meetings with the Executive Team and a review of key documentation, including the Business Plan, Risk Registers and Board papers.

The 2020/21 Group Annual Audit Plan included a budget of 272 days (250 days from the annual plan with 22 days brought forward from 2019/20). 13 days have been carried forward to be delivered as part of the 2021/22 Audit Plan.

Changes to the plan

During the year we have flexed the plan to take into account the disruptions caused by Covid-19 and to consider the overall risk and control environment. The following changes, specifically relating to the Group and MCA were made:

- The review of Climate Emergency was cancelled as the original risk is mitigated through the strategy. A wider review of how Climate Emergency features in the MCA's decision making processes was included within the Governance review. 12 days moved to contingency.
- The review of the ledger implementation was cancelled as this was planned to be undertaken by External Audit. 8 days moved to contingency.
- The Inward Investment Business Plan was not fully developed and due to Covid-19 there had been no overseas activity. The review was therefore cancelled and 12 days moved to contingency.
- At the request of the Authority, an additional review was carried out in respect of contract standing orders compliance.
- The scope of the AEB review was wider than the original readiness checklist therefore additional resource of 10 days was allocated from the contingency budget to cover this additional work.
- 35 days from the contingency budget were utilised to complete an advisory review of the Group's IT service and systems, this review also incorporated the planned review of Back Office Systems.

Quality control

Our aim is to provide a service that not only meets your needs but also maintains consistently high standards. This is achieved through the following internal processes:

- preparation of a detailed audit plan which is reviewed by the Head of Internal Audit, and agreed with Management prior to submission to the Audit Committee for approval;
- regular review of progress against the plan to ensure we are delivering the work we have promised;
- a tailored audit approach using a defined methodology and assignment control documentation which is subject to our internal review protocol;
- the use of qualified, highly trained and experienced staff;
- monitoring of performance against targets;
- review of all audit files and reports by the Head of Internal Audit and Internal Audit Manager

Staffing

You want us to make a positive contribution. To ensure this we use people with an appropriate level of expertise. We have summarised below our team that has worked for you in 2020/21. All staff working on the MCA's audit have received training on our Internal Audit Manual during 2020/21.

- Andrew Smith, CPFA, Director: has overall responsibility for the delivery of our internal audit service to you. Andy has attended Audit Committee meetings, monitored overall progress of the delivery of the audit plan, and liaised with the Group Finance Director, other Executive Officers and Audit Committee Chair on matters arising.
- Lisa MacKenzie, CMIIA, Internal Audit Manager has been the key liaison with you, planning and co-ordinating and quality reviewing work and personally undertaking higher-level and more complex reviews.
- We have also used specialist staff from our technology and risk services team in selected reviews. All other staff completing the onsite work are CCAB or CMIIA qualified or are expert in the area under review.

Responsibilities and audit approach

Responsibilities

It is the responsibility of the Management Board and management to ensure that Sheffield City Region Mayoral Combined Authority has adequate and effective risk management, control and governance processes.

In fulfilling its responsibilities, the Board is responsible for determining the nature and extent of the significant risks to achieving its strategic objectives. The Board should maintain sound risk management and internal control systems and should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the MCA's auditors.

Our role as internal auditor to Sheffield City Region Mayoral Combined Authority is to provide an independent and objective opinion to the Board and the Executive Director as Accounting Officer on risk management, control and governance processes.

Independence

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

We can confirm that the staff members involved in each 2020/21 internal audit review were independent of Sheffield City Region Mayoral Combined Authority's operational processes and their objectivity was not compromised in any way.

Internal audit approach

We have conducted our audit in compliance with best professional practice, in particular, the Public Sector Internal Audit Standards.

We have reviewed the controls and activities established by Sheffield City Region Mayoral Combined Authority to manage the risks that it has identified to its business objectives as set out in the 2020/21 Annual Internal Audit Plan, approved by the Audit Committee.

This report is made solely in relation to those business areas and risks reviewed in the year, and does not relate to any of the other operations of the MCA

Internal audit approach - Continued

We adopted a risk based approach to our work which required us to:

- establish the controls and activities in place to address the key business risks in each area under review,
- interview key staff to gain an understanding of the adequacy of controls and activities in place to manage the risks in each area under review,
- review certain key documents to confirm the existence and operation of the controls and activities identified, and
- where applicable, perform tests to determine whether the controls and activities have operated as expected during the period.

Together these and other such procedures as we considered necessary, enabled us to evaluate whether the control policies and procedures were suitably designed to meet the risk objectives and whether these control policies were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that those risk management objectives were achieved during the period reviewed. Some of our conclusions are based on samples selected from the year's transactions. However, our conclusions should not be taken to mean that all transactions have been properly authorised and processed.

In common with most organisations, the control environment at Sheffield City Region Mayoral Combined Authority depends on the competence of its staff and compliance with procedures. Changes in staff, staff absences and, in extreme cases, collusion and/or deliberate actions by key individuals can corrupt it. The day-to-day maintenance of the control environment therefore depends on management control and supervision.

Recommendation

We are pleased to present this report to the Audit and Risk Committee and recommend its acceptance by the Board.

Planned Audit Coverage and Output

Overview of Internal Audit Coverage during 2020/21

Review	Overall level of assurance provided	Number of risk rated recommendations			
		High	Medium	Low	Improvement
Annual Reviews for HOIA opinion and Joint Authority Audits:					
Core Financial Controls	Significant assurance with some improvement required	-	-	2	5
Risk Management	Significant assurance with some improvement required	-	-	1	1
Governance	Significant assurance with some improvement required	-	1	-	-
Procurement	Significant assurance with some improvement required	-	-	2	-
Public Engagement and Consultation	Significant assurance with some improvement required	-	1	4	-
Risk Based Reviews					
Grant Claims: • Growth Hub • Local Transport Capital Funding	Not Applicable	-	-	-	-
Adult Education Budget	Significant assurance with some improvement required	-	1	1	1
AMP Technology Centre	Partial assurance with improvement required	1	2	5	-
Programme Management – Follow Up	Significant assurance with some improvement required	-	-	1	-
Travel and Expense Claims	Significant assurance with some improvement required	-	-	1	1
Total		1	5	17	8

Summary of High Risk Recommendations

During the year we have raised 1 high risk recommendation:

AMP Technology Centre

We were unable to demonstrate that expenditure related controls at the AMP Technology Centre were operating as expected and in line with public procurement good practice. There is a risk of fraudulent or inappropriate purchases if authorisation processes and checks and balances are not robust.

We recommended that good procurement practices should be adopted to ensure that requirements as set in the MCA management agreement are being followed, including:

- Documenting the procurement procedure at the AMP Technology Centre and ensuring clear segregation of duties between the management involved so that those raising purchase orders are not approving payment to suppliers.
- Develop a process that provides a robust audit trail of all procurement and expenses including documented authorisation, documented purchase orders, POs approval in line with the Management Agreement, receipt of goods/ services, supplier invoices, deviations from original values on purchase orders to that then invoiced, and when payments are finally made. Management should consider implementing an electronic module to their finance system, SAGE, to support this process.
- Checks on total supplier spend to ensure that the predicted annual spend does not exceed national public sector procurement limits.
- The MCA should seek assurance through monthly reporting that the CSM Finance Team have completed the necessary checks on expenses are in line with their Management Agreement.

Following completion of the review, management agreed that in the short term, the MCA will enhance the checks in place on expenditure incurred by Creative Space Management (CSM) in running the AMP to obtain assurance that CSM are complying with the procurement standards specified in the contract.

Longer term, a systems based solution would be sought which seeks to apply the same level of financial discipline on purchases made in connection with the running of the AMP as with expenditure incurred directly by the MCA.

AMP Technology Centre - Continued

The Authority has provided confirmation that the high risk issues raised in the report have now been addressed. As part of an upgrade of its finance system, CSM are to enhance controls through the addition of the Purchase Order Control module as a front end to the P2P process. This will enable roles, responsibilities and delegation limits relating to purchase ordering to be defined and provide a clear audit trail of all ordering activity. The finance system upgrade will lead to MCA officers approving all orders above a pre-determined limit currently set at £5k. In conjunction with the system improvements, officers are working with CSM to develop a procurement strategy and guidance which will set out how competitive tendering requirements will be met. This will be incorporated into the management Agreement in due course.

Confirmation of compliance and embeddedness of the new arrangements will be tested as part of the AMP Technology Follow Up review agreed as part of the 2021/2022 Internal Audit Plan.

2020/21 Head of Internal Audit Opinion

Basis of Opinion for the year ending 31 March 2021

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

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

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

Roles and responsibilities

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

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

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

Roles and responsibilities (continued)

The MCA's Assurance Framework should bring together all of the evidence required to support the Annual Governance Statement requirement.

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

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

Operational Assurance

A number of operational matters have been considered as the contextual setting for our Head of Internal Audit Opinion including:

The emergence of Covid-19 pandemic in 2020 and the restrictions on movement and social distancing advised by the Government in March 2020 have impacted on the delivery of work initially planned.

Acknowledgement

This report is our annual summary of the internal audit work carried out for Sheffield City Region Mayoral Combined Authority this year. We would like to thank the Audit Committee and all members of staff who we have worked with during the year. We have received good support from all staff when carrying out our work and following progress against recommendations.

2020/21 Head of Internal Audit Opinion

Opinion

My Opinion is provided primarily on the basis of work undertaken to date within the Internal Audit Plan for the 2020/21 financial year and is limited to the scope of work that has been agreed with the MCA's Executive Officers and as shared with the Audit Committee as detailed within final reports. Any opinion level provided must, therefore, be considered in terms of the agreed review scope only and no inference may be assumed by the MCA or other users of my report, that this opinion extends to the adequacy of controls and processes outside the scope agreed.

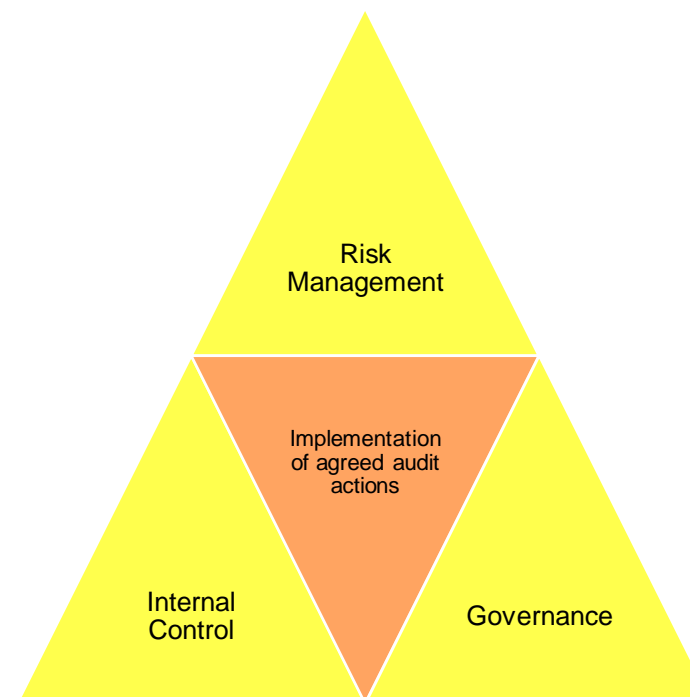
Our overall opinion for the period 1 April 2020 to 31 March 2021 is that based on the scope of reviews undertaken and the sample tests completed during the period, that:

“Our overall opinion for the period 1 April 2020 to 31 March 2021 is that based on the scope of reviews undertaken and the sample tests completed during the period, **Significant assurance with some improvement required** can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The level of non-compliance in certain areas puts some system objectives at risk. We identified weaknesses which put system objectives at risk in relation to the AMP Technology Centre. Otherwise, there are only minor weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management. 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.”

Opinion - Continued

The basis of our opinion is as follows:

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



Our assurance levels are shown at appendix 1.

2020/21 Head of Internal Audit Opinion

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

9 internal audit reports have been issued in 2020/21, of which:

- 8 reports were issued with significant assurance with some improvement required, and
- 1 report was issued with partial assurance with improvement required

The partial assurance opinion report relates to the risk-based audit assignment of the AMP Technology Centre. We identified weaknesses which put system objectives at risk. We have taken into consideration where reviews which concluded in a Partial Assurance Opinion were a known area of risk and included in our audit plan on this basis.

During the year management requested us to undertake a specific piece of work in respect of compliance with contract standing orders. This work did not provide an assurance opinion as this was carried out as an investigation. Our review confirmed that there had been a breach of controls on this specific occasion and we provided advice to management on a recommended course of action.

The MCA has implemented or is currently implementing the recommendations raised as a result of our work to address the issues identified. Therefore, these issues do not prevent us from issuing a significant with some improvement assurance opinion.

Audit recommendations

As part of the Public Sector Internal Audit Standards, I am required to consider the appropriateness of the organisation's response to Internal Audit recommendations and action subsequently implemented.

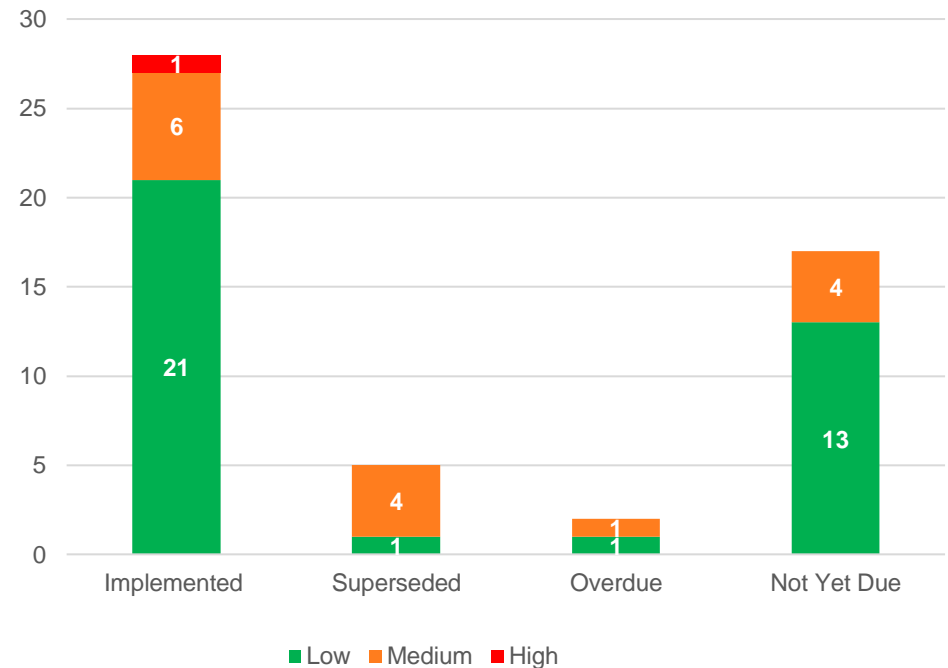
During the year to date, we have raised 31 new recommendations all of which were accepted by management.

We report to all Audit Committee meetings, management's progress in implementing internal audit actions. In issuing our opinion, we have considered the extent to which audit actions have been responded to throughout the year and the length of time taken to implement actions.

Audit Recommendations - Continued

We have reported where there has been a lack of progress in implementing recommendations against agreed deadlines. We acknowledge that progress with implementation may have been impacted due to the disruptions of Covid-19 and a number of implementation dates were revised to reflect this.

We have summarised below, the current status of all outstanding actions. In total, 52 actions rated as medium or low have been followed up during the year. 28 have been confirmed by management as implemented and 5 were considered to be superseded. 17 have not yet reached their due date and 2 actions have now passed the implementation dates. We have calculated the MCA's end of year implementation rate for 2020/21 at 94%.



The outstanding actions relate to actions agreed as part of the Risk AMP Technology Centre review.

Appendices

Appendix 1 - Our assurance levels

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

Rating	Description
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 HGH rated recommendations.</p>

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

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

