

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

Internal Audit 2020/21

Governance

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- Claire James, Governance and Compliance Officer (MCA)
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- Dave Smith, Chief Executive (MCA)
- Steve Davenport, Principal Solicitor and Secretary to the Executive (PTE) & Monitoring Officer (MCA)
- Gareth Sutton, Group Finance Director
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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 (MCA) and South Yorkshire Passenger Transport Executive (PTE). 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 Authority's 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

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The aim of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest.

Sheffield City Region Mayoral Combined Authority (MCA) and South Yorkshire Passenger Transport Executive (PTE) are responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, correctly accounted for and used economically and efficiently. It must ensure it has arrangements for the proper governance of its affairs for the effective exercise of its functions and the sound management of risk.

Delivering good governance comprises the following key principles:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social, and environmental benefits
- Determining the interventions necessary to optimize the achievement of the intended outcomes
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management
- Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Accounts and Audit Regulations 2015 requires Authorities to prepare an annual governance statement in order to report publicly on the extent to which they comply with their own code of governance, which, in turn, is consistent with good governance principles. This statement includes how the effectiveness of governance arrangements have been reviewed during the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.

Objectives

The objective of the review was to provide an independent assessment of the design and operational effectiveness of the PTE's and MCA's Governance Arrangements.

Our review focused on the following potential risk areas:

- The inability to demonstrate good governance due to the lack of a Code of Corporate Governance, aligned to the key principles of good governance.
- Inadequate processes for receiving assurance of compliance with the Code of Corporate Governance which may lead to inappropriate decision making.
- Inadequate or unclear processes for the compilation of the Annual Governance Statement which may lead to non compliance with Statutory requirements.

Limitation of scope

Our findings and conclusions are 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 project management.

Where sample testing has been undertaken, our findings and conclusions are 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 processes and controls around the Authority's Governance arrangements. The controls tested are set out in our Audit Planning Brief.

We have concluded that the processes provide **Significant improvement with some improvement required** to the Committee.

Our review has been undertaken to provide assurance in respect of the arrangements in place for the year 2020/21 and up to the period of finalising the Head of Internal Audit Opinion.

However, we acknowledge that both the PTE and MCA are now in a transitional year of integration. Where possible, we have therefore structured our audit recommendations to ensure that where actions may affect the joint governance structures in the future these are designed to be undertaken collaboratively and not in isolation of either organisation.

Good practice

We have identified the following areas of good practice:

- The MCA and PTE have a Code of Corporate Governance in place. These are clearly aligned to the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) Framework Delivering Good Governance in Local Government.
- Annual reviews to assess the effectiveness and compliance with the Code of Corporate Governance are carried out.
- Identified areas for improvement to strengthen governance have been incorporated into action plans for completion, monitoring and oversight.
- There are clear and robust processes in place for the compilation of the Annual Governance Statements.

Areas requiring improvement

PTE

- There are a number of cases where progress in implementing the actions identified as part of the Corporate Governance action plan has slipped. While most cases were supported by commentary for the slippage and revised implementation dates, there were some occasions where this was not provided.
- There were occasions where actions have been reported by the action owner as complete but not supported by evidence.

MCA

- We noted varying levels of attendance within the wider membership of the Audit and Standards Committee. We also noted an instance where, the over-run of the meeting led to the meeting no longer being quorate and subsequently brought to a finish.
- As there are recent changes in membership of the Committee, there is an opportunity for the Authority to carry out refresher training around the role of the Audit Committee and responsibility of membership.
- As part of the wider integration agenda there is also an opportunity for the Audit and Standards Committee to revisit its Terms of Reference and work plan to ensure it effectively discharges its statutory duties.
- We would also recommend the Audit and Standards Committee undertakes a self assessment of its effectiveness to provide assurance it is effectively discharging its statutory duties and to identify any areas for improvement

Recommendations

Based on our findings, we have raised two recommendations, the grading of these is shown below:

Detailed findings	High	Medium	Low	Improvement
PTE	-	-	1	-
MCA	-	1	-	-

Acknowledgement

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

Action Plan - PTE

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>The inability to demonstrate good governance due to the lack of a Code of Corporate Governance, aligned to the key principles of good governance</p>	<p>The PTE demonstrates its compliance with the Code of Corporate Governance within its Local Code of Corporate Governance and Evidence of Compliance report which is published on the PTE's public facing website. The Code has been approved by Management Board and the Transport Officers Board. The Principal Solicitor, in conjunction with the Executive Director and other Directors of the Executive are responsible for the implementation and maintenance of the Code.</p> <p>Our review of the Code confirmed that it is clearly aligned to the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) Framework Delivering Good Governance in Local Government.</p> <p>Compliance to the code is reviewed by the Senior Solicitor on a quarterly basis and by the Management Board and Transport Officers Board (TOB) every six months.</p> <p>As part of our review, we sample tested 5 areas within the code to ensure compliance. In all cases the policies and documentary evidence provided supported the commentary.</p> <p>We have not raised any recommendations.</p>	<p>N/A</p>

Action Plan - PTE

Issue	Findings and Recommendation	Action Plan
<p>Inadequate processes for receiving assurance of compliance with the Code of Corporate Governance which may lead to inappropriate decision making.</p>	<p>The Code includes reference to documents, policies, procedures and expected behaviours that it has in place to help deliver its objectives.</p> <p>There is an annual review of the Code via a workshop held in February each year. The review assesses compliance and an action plan prepared to address any gaps identified. Our review of the action plan confirmed there were a number of actions identified, and the inclusion of SMART actions.</p> <p>The action plan is reviewed on a quarterly basis with oversight provided through the Audit and Risk Committee. The Senior Solicitor liaises with the Non-Executive Directors (NEDs) of the Audit and Risk Committee prior to the Transport Officers Board (TOB) and Management Board. Due to the reporting and meeting cycle of the Board meetings, a verbal update is provided back to the Audit and Risk Committee. There is an opportunity as part of the wider integration programme to review the reporting and meeting cycle to allow for the updated action plan to be formally received for comment and approval.</p> <p>We confirmed that quarterly reviews have been undertaken in accordance with the defined process and in most cases, includes detailed commentary in respect of progress made. Where there was slippage, this was recorded and supported by the reason for slippage and in most cases (but not all) revised implementation dates have been recorded. However we noted that not all actions were supported by adequate commentary and progress updates are not always received to allow for timely oversight and reporting. For example, there are two actions which were due for implementation in December 2020 that are recorded as “outstanding – no data received” within the quarterly update. These have now been rolled forward into the 2021/22 action plan.</p> <p>Our review also noted that it was not always clear if actions were actually complete, for example the Quarter 3 review records that a number of policies had been “reported as complete but not uploaded to SharePoint”. Updates are reported based on the information received from the action owners. Our review of the 2021/22 action plan still recorded these as outstanding actions.</p> <p>Progress with implementing actions and receiving timely and accurate quarterly updates has been minuted as part of TOB discussions.</p> <p>We acknowledge that a number of actions had slipped due to the Covid-19 pandemic and also that original actions may now be impacted or superseded by the impending integration.</p>	

Action Plan - PTE

Issue	Findings and Recommendation	Action Plan
<p>Inadequate processes for receiving assurance of compliance with the Code of Corporate Governance which may lead to inappropriate decision making.</p>	<p>Issue identified: Progress in implementing the actions identified within the Corporate Governance action plan has slipped in a number of cases.</p> <p>Risk: Actions not completed or not completed to time may lead to the Executive not being fully compliant with the Code.</p> <p>Recommendations:</p> <p>To ensure the Executive remains fully compliant with the code, ensure:</p> <ul style="list-style-type: none"> • Identified actions are completed on a timely basis as agreed. Where slippage occurs this is fully recorded and revised implementation dates approved based on priority and risk to the Executive. • Action owners provide timely and accurate update reports to allow for quarterly reporting. • Where actions are reported as complete, action owners to ensure this is appropriately evidenced for example uploading policies to Sharepoint. 	<p>Actions:</p> <p>All recommendations accepted to be implemented by PTE Senior Managers/Action Owners. The PTE's Management Board is now disbanded in readiness for integration, future reports will go to the MCA Management Board.</p> <p>Responsible Officer:</p> <p>Steve Davenport, Principal Solicitor and Secretary to the Executive</p> <p>Executive Lead:</p> <p>Stephen Edwards, Executive Director</p> <p>Due date: 30/04/2022</p>

Action Plan - PTE

Issue	Findings and Recommendation	Action Plan
<p>Inadequate processes for receiving assurance of compliance with the Code of Corporate Governance which may lead to inappropriate decision making.</p>	<p>As part of our review we assessed the arrangements in place demonstrate how the Executive is considering climate change and environmental impact as part of its decision making processes.</p> <p>The PTE has identified in its Business Plan, a priority to provide services that minimise the impact on the environment. This is detailed in Section 6.2 of the plan “A cleaner and greener Sheffield City Region”.</p> <p>The template for reports to be prepared for a decision by the TOB includes the implication for a number of factors, including how the proposal contributes to Business Plan Delivery and any Environment Strategy Implications i.e.. 'Do the recommendations in this paper change SYPTE’s environmental impact.</p> <p>Our review of TOB minutes evidenced the consideration of these implications within its report to seek contract award approval for the Provision of Lease Vehicles. The report records its contribution to Business Plan Delivery to “reduce the impact public transport has on Air Quality and the Environment” and its environmental strategy implication as “Vehicles are being replaced with electric or hybrid in support of reducing emissions in line with the Mayoral climate emergency action plan.</p> <p>We acknowledge that there may be scope to further embed</p> <p>We have not raised any recommendations.</p>	<p>N/A</p>
<p>Inadequate or unclear processes for the compilation of the Annual Governance Statement which may lead to non compliance with Statutory requirements.</p>	<p>The AGS is integrated within the PTE’s final accounts and signed off as part of the annual accounts process. The responsibility for producing the AGS lies with the Interim Head of Financial Services/ Deputy Section 73 Officer. This responsibility is documented within the PTE’s Standing Orders.</p> <p>Our review confirmed the process in place for the compilation of the AGS and noted the alignment with the CIPFA/SOLACE GOVERNANCE FRAMEWORK and reference to the Executive’s review of compliance with the Code.</p> <p>We have not raised any recommendations.</p>	<p>N/A</p>

Action Plan - MCA

Issue	Findings and Recommendation	Action Plan
<p>The inability to demonstrate good governance due to the lack of a Code of Corporate Governance, aligned to the key principles of good governance</p>	<p>The MCA Code of Corporate Governance is included as part of the Authority's constitution which is published on its public facing Website.</p> <p>The Code is reviewed annually and approved by the Audit and Standards Committee.</p> <p>Our review of the Code confirmed that it is clearly aligned to the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) Framework Delivering Good Governance in Local Government.</p> <p>As part of our review, we sample tested 5 areas within the code to ensure compliance. In all cases the policies and documentary evidence provided supported the commentary.</p> <p>We have not raised any recommendations.</p>	<p>N/A</p>

Action Plan - MCA

Issue	Findings and Recommendation	Action Plan
<p>Inadequate processes for receiving assurance of compliance with the Code of Corporate Governance which may lead to inappropriate decision making.</p>	<p>Our review confirmed that an annual assessment of compliance with the Code of Corporate Governance is carried out to gain assurance in respect of the effectiveness of current arrangements and to identify any opportunities for improvement.</p> <p>Key areas of focus identified for strengthening governance are incorporated into a Governance Improvement Plan included within the Annual Governance Statement. Progress in respect of the implementation of the actions identified is reported to the Audit and Standards Committee. However, due to the Covid-19 pandemic and changes to the Final Accounts timetable the Governance Improvement Plan incorporating the key areas of focus for 2020/21 was not reported to the Audit and Standards Committee until October 2020 and thus may not allow for adequate oversight and assurance throughout the year. However, our review of the plan progress report to Audit and Standards Committee in January and March 2021 confirmed robust reporting on progress.</p> <p>We have not raised any recommendations.</p>	<p>N/A</p>

Action Plan - MCA

Issue	Findings and Recommendation	Action Plan
<p>Inadequate processes for receiving assurance of compliance with the Code of Corporate Governance which may lead to inappropriate decision making.</p>	<p>As part of our review of the Audit and Standards Committee meeting minutes, we reviewed attendance and meeting quoracy for the period January 2020 and March 2021. The Committee Terms of Reference (TOR) require at least two-thirds of the total number of members of the Audit and Standards Committee to be present at a meeting before any business may be transacted.</p> <p>Although meetings were generally quorate we noted that the meeting held in March 2021 did not run to time which subsequently led to members leaving the meeting prior to the completion of business. The meeting was no longer quorate on this occasion and therefore the Committee was unable to continue with its business and the meeting brought to a finish.</p> <p>We carried out an analysis of individual member attendance over the period and noted that 7 members attended 100% of expected meetings. However, there were varying levels of attendance within the wider membership with 3 members not having attended any meetings and another only attending 1 out of 6 meetings. We noted a total of 15 instances of non-attendance over the period reviewed, of these apologies were only noted in 5 cases.</p> <p>Full details of our attendance analysis is shown at appendix 2.</p> <p>We also carried out a review of the Committee's work plan and TOR to ensure it is discharging its duties as expected. We noted that there is a work plan provided to each meeting of the Committee however we did not see evidence that the Committee had reviewed its Terms of Reference within the past 2 years. We did acknowledge there was a report to the Committee in July 2019 providing alignment of how the Committee were discharging its duties against its TOR. Following the changes to Committee Governance in preparation for integration, there is an opportunity to review and refresh the TOR.</p> <p>We note that following the recent elections there may be new membership of the Committee and therefore the opportunity to undertake training and guidance on the role of the Audit and Standards Committee and the commitment and responsibilities of membership. To further inform areas of development and training we would also recommend the Committee undertakes a self assessment review to gain membership opinion on the effectiveness of the Committee.</p>	

Action Plan - MCA

Issue	Findings and Recommendation	Action Plan
<p>Inadequate processes for receiving assurance of compliance with the Code of Corporate Governance which may lead to inappropriate decision making.</p>	<p>Issue identified: Inadequate attendance at Audit and Standards Committee within the wider membership group.</p> <p>Risk: There is a risk that inadequate attendance or inappropriate membership could lead to the Committee not effectively discharging its statutory duties in accordance with the Authority's constitution.</p> <p>Recommendations:</p> <p>To ensure the Audit and Standards Committee effectively discharges its statutory duties, we recommend that:</p> <ul style="list-style-type: none"> • A self assessment of effectiveness is undertaken to identify any gaps or where improvement may be required. • Inadequate attendance is appropriately escalated and addressed. • Refresher training on the role and responsibilities of the Audit Committee is undertaken. • The Audit Committee Terms of Reference is reviewed on an annual basis to ensure the Committee is covering its order of business. 	<p>Actions:</p> <p>Management accept the need to ensure that attendance and meeting management supports the efficient delivery of the Committee's terms of reference. Management will consult with the Committee regarding attendance issues, and work with Committee members to identify training requirements.</p> <p>Responsible Officer:</p> <p>Ruth Adams, Deputy Chief Executive</p> <p>Executive Lead:</p> <p>Ruth Adams, Deputy Chief Executive</p> <p>Due date:</p> <p>31st December 2021</p>

Action Plan - MCA

Issue	Findings and Recommendation	Action Plan
<p>Inadequate processes for receiving assurance of compliance with the Code of Corporate Governance which may lead to inappropriate decision making.</p>	<p>As part of our review we assessed the arrangements in place demonstrate how the Executive is considering climate change and environmental impact as part of its decision making processes.</p> <p>We reviewed the Net Zero Programme paper approved by the Transport and Environment Board in March 2021 and noted that it includes implications in respect of financial, legal, risk management and equality, diversity and social inclusion but does not include environmental impact of the proposal. However we acknowledge that this is an area that has been recently being developed by the Authority and our review of more recent Board papers confirm a new template has now been developed and includes climate change implications and advice, information and communication technology implications and advice .and communications and marketing implications and advice.</p> <p>The new template has now been rolled out across the governance structure of the Authority.</p> <p>We have not raised any recommendations.</p>	<p>N/A</p>

Action Plan - MCA

Issue	Findings and Recommendation	Action Plan
<p>Inadequate or unclear processes for the compilation of the Annual Governance Statement which may lead to non compliance with Statutory requirements.</p>	<p>The AGS is integrated within the Authority's final accounts and signed off as part of the annual accounts process. The AGS is completed by the Senior Governance & Compliance Manager and approved by the Audit and Standards Committee.</p> <p>Our review confirmed the process in place for the compilation of the AGS and noted the alignment with the CIPFA/SOLACE GOVERNANCE FRAMEWORK and reference to the Authority's assessment of compliance with the Governance Framework and compliance with the Code of Corporate Governance.</p> <p>We also noted the inclusion of the Governance Improvement Plan.</p> <p>We have not raised any recommendations.</p>	<p>N/A</p>

Appendices

Appendix 1 – Staff involved and documents reviewed

Staff involved

- Claire James, Governance and Compliance Officer (MCA)
- Lorraine Gandy, Senior Solicitor (PTE)

Documents reviewed

- MCA Code of Corporate Governance
- PTE Code of Corporate Governance & Action plan (including Quarterly reviews)
- PTE Evidence of Compliance
- MCA Monitoring Spreadsheet
- Audit Committee and Board papers
- Annual Governance Statements

Appendix 2

Attendance at MCA Audit and Standards Committee

Member	23/1/20	11/6/20	16/7/20	29/10/20	21/1/21	18/3/21	% attendance
Allan Jones	Y	Y	Y	Y	Y	Y	100% (6/6)
Rhys Jarvis	Y	Y	Y	Y	Y	Y	100% (6/6)
Angela Marshall	Y	Y	Y	Y	Y	Y	100% (6/6)
Austen White	Apologies	Absent	Y	Absent	Absent	Absent	17% (1/6)
Philip Lofts	N/A			Y	Y	Absent	67% (2/3)
Ken Richardson	Y	Y	Y	N/A			100% (3/3)
Ian Auckland	Y	Y	Y	Y	Y	Y	100% (6/6)
Jeff Ennis	Y	Y	Y	Y	Y	Y	100% (6/6)
Josie Paszek	Y	Y	Apologies	Y	Apologies	N/A	60% (3/5)
Ken Wyatt	Y	Y	Y	Y	Y	Y	100% (6/6)
Allen Cowles	N/A	Absent	Absent	Absent	Absent	Absent	0 (0/5)
Ben Curran	N/A			Apologies			0 (0/1)
Sioned-Mair Richards	N/A			Apologies			0 (0/1)

Appendix 3 - 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 3 - 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

