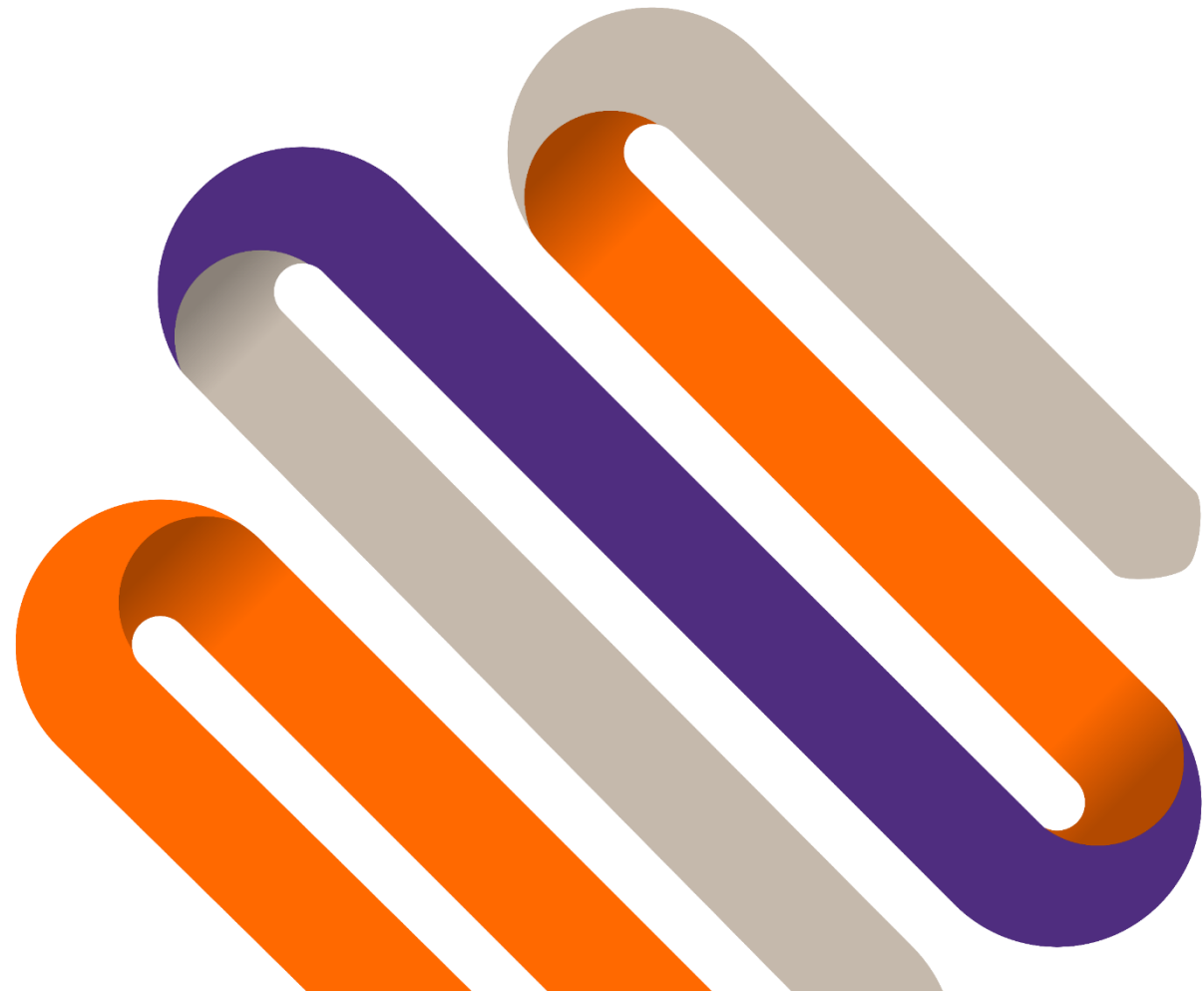**Grant Thornton**
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Sheffield City Region Mayoral Combined Authority

Internal Audit 2020/21
Travel and Expense Claims

July 2021

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Contents

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For Information:

- Dave Smith, Chief Executive
- Ruth Adams, Deputy Chief Executive
- Simon Tompkins, Finance Manager
- Claire James, Senior Governance & Compliance Officer
- Dawn Marshall, Secretary to the Group Finance Director and Deputy Section 73 Officer

This report is confidential and is intended for use by the management and directors of Sheffield City Region Mayoral Combined Authority (MCA) 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.

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Executive Summary

Background

Well designed and robust financial controls that are operated consistently and effectively are essential within an organisation and should be supported by robust financial regulations and operating procedures. Failure to implement effective financial controls or weaknesses in the design or application of its internal financial control framework increases the risk of loss due to errors and fraud.

As part of our 2021 Internal Audit Plan, a review of Sheffield City Region Mayoral Combined Authority (MCA) Travel and Expense Claims was to be undertaken. Travel and expenses is an area where the damage to reputation can have a high impact.

It is the MCA/LEP's policy to offer claimants full reimbursement of approved expenses incurred on the MCA/LEP's behalf, providing that the nature of these expenses has been agreed in advance or are covered under the Expenses Policy. To ensure that there is a fair and equitable means for employees to seek reimbursement for travel expenses incurred whilst undertaking work related duties, it is essential that organisations have in place an overarching policy to provide clear guidance and direction for line managers and staff. The expenses policy has been recently reviewed and updated by the Authority.

The Authority currently administers a number of processes for reimbursing or incurring expenditure in respect of employee travel and expense claims:

- Manual travel and expense claim forms, reimbursed via the Payroll System,
- Expenses processed through Clarity Travel Management,
- Expenditure made via general purchase cards, and
- Travel and subsistence associated with overseas trade missions processed through accounts payable.

It was noted that during 2020/21 and in light of the COVID-19 pandemic, the volume of expenditure and number of claims made were reduced significantly, our review therefore covered the period April 2019 to December 2020.

Objectives

The aim of the review was to provide an independent assessment of the key risks and the design and operational effectiveness of the MCA's financial controls in relation to travel and expense claims.

Our review will focused on the following potential risk areas:

- Policy and Procedures do not adequately set out the guidelines that govern travel and expense claims, leading to inaccurate or inappropriate claims being made, inconsistency or loss due to error or fraud.
- Inefficient processes in place leading to ineffective working practices, inconsistency or loss due to error or fraud.
- Lack of segregation of duties or inadequate oversight and authorisation arrangements leading to inaccurate or inappropriate claims being made, inconsistency or loss due to error or fraud.
- Operational non-compliance with policy and procedures leading to inaccurate or inappropriate claims being made or loss due to error or fraud.
- The Authority does not meet its requirements arising from COVID-19 for its employees, or changes to internal and financial controls in response to the pandemic have not been documented or approved by the MCA.

The findings and conclusions from this review will feed into our annual opinion to the Audit Committee on the adequacy of the MCA's overall internal control environment.

Limitation of scope

Our findings and conclusions were 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 Travel and Expenses Claims.

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 processes and controls around the MCA's Financial and Internal Control associated with Travel and Expenses Claims. The controls tested are set out in our Audit Planning Brief. We have concluded that the processes provide **Significant assurance with some improvement required** to the Committee.

Our work covered financial year 2019/20 up to December in 2020 in the financial year 2020/21. As expected and due to travel restrictions since the start of the Covid-19 outbreak in March 2020, there were a smaller number of claims in financial year 2021/20 with a decrease of 69% in monetary value.

Examples of where recommended practices are being applied

- The MCA has an approved Expenses Policy which provides comprehensive guidance to staff for reclaiming expenses incurred as part of delivering their duties. Our review confirmed that expected information is being provided.

- The Expenses Policy provides clarity on the requirement to travel in the most cost-efficient way with public transport being the first option and clearly stating that only in exceptional circumstances can an employee's car be used without advance approval.

- The policy has been updated to include the process and circumstances for re-claiming expenditure in respect of Business Entertainment – a recommendation made in a previous Internal Audit report.

- The Expenses Policy is available and accessible to staff through the intranet.

- Sample testing of reimbursed expense claims confirmed that those claims tested had been submitted and approved in compliance with the Policy.

- The MCA governance framework for expense claims includes segregation of duties between the submission and approval of expense claims.

- We confirmed operational compliance with the MCA's expense policy for claims in our sample. This included compliance with segregation of duties.

- Expense claims are submitted by email, as a result minimal changes have been required to the submission and approval process to accommodate working during the national lockdowns.

Areas requiring improvement

- The MCA currently relies upon a manual system for submitting, approving and processing expense claims through payroll. Manual systems do not offer the most efficient processes and by their nature attract a higher risk of loss due to error or fraud. We acknowledge that our sample testing of expense claims verified that the claim had been correctly recorded, authorised and processed. However, we have recommended that the Authority explore the options available for implementing an electronic Travel & Expenses system for the submission and approval of travel and expenses.

Recommendations

Based on our findings, we have raised 2 recommendations, the grading of these is shown below:

	High	Medium	Low	Improvement
Detailed findings	0	0	1	1

Acknowledgement

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

Action Plan

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	Findings and Recommendation	Action Plan
Policy and Procedures do not adequately set out the guidelines that govern travel and expense claims, leading to inaccurate or inappropriate claims being made, inconsistency or loss due to error or fraud.	The MCA's Expenses Policy provides comprehensive information to employees on the rules for reclaiming necessary expense incurred as part of performing their role. We confirmed the policy has been reviewed in the last 12 months with the most recent review documented as October 2020. The policy is accessible to staff through the MCA intranet. Overall the guidance is well laid out and easy to understand. By comparison to the expense policies of other clients we noted some improvement suggestions that would further strengthen the policy. **Improvement Point:** To further strengthen the Expenses Policy: • A version control sheet is added which records the approving body, and the date of approval. • The heading "Car User Allowance" is made clearer. The term allowance implies monetary compensation. Whereas in the context of the policy it relates to car use approval. • Clarifying what "home office" means in the context of working lunches.	Management will take these points into consideration when reviewing this policy, either as part of the integration project or on the anniversary of its previous review, whichever comes first.

Action Plan

Risk	Findings and Recommendation	Action Plan
Inefficient processes in place leading to ineffective working practices, inconsistency or loss due to error or fraud.	We tested a sample of expense claims made in 2019/20 and 2020/21 and in all cases verified that the claim had been correctly recorded, authorised and processed. The MCA currently has a manual system for submitting, approving and processing expense claims through payroll. If the employee/elected member does not hold a corporate credit card and the travel is not booked through the booking partner, they would have to fill out a manual claim form, have this approved as per the Travel & Expenses claims before emailing the form to payroll for processing. There are management control advantages from moving the processing of expenses to an electronic system, these include: • Faster and more efficient processing of claims • Potential for fewer errors • Improved visibility and reporting • Enhanced fraud protection • More detailed and timely reporting **Issues identified:** The Authority is reliant upon a manual system to administer travel and expense claims. **Risk**: Manual systems by their nature attract a higher risk of loss due to error or fraud. There is a risk that inaccurate or inappropriate claims are made. Manual systems also do not offer the most efficient processes and there is also a risk of duplication, lost paperwork and lack of supporting documentation etc. **Recommendations:** The Authority to explore the options available for implementing an electronic Travel & Expenses system for the submission and approval of expenses.	**Agreed Action:** In light of present and future travel restrictions, the quantum of expenditure on travel and expenses is likely to remain immaterial. Furthermore, as the internal audit review has demonstrated, the sample testing results have demonstrated that internal controls are working effectively. The risk of loss due to error or fraud is therefore deemed to be extremely low. However, as part of their commitment to continuous improvement and adoption of the latest technology, Finance and HR officers will explore options for automation of the expenses approval process, taking into account available resources and capacity in the context of the MCA's strategic priorities. **Responsible Officer**: Mike Thomas, Deputy Section 73 Officer **Executive Lead:** Gareth Sutton, Group Finance Director **Due Date:** 31 March 2022

Action Plan

Risk	Findings and Recommendation
Lack of segregation of duties or inadequate oversight and authorisation arrangements leading to inaccurate or inappropriate claims being made, inconsistency or loss due to error or fraud.	We confirmed that the MCA's governance arrangements for the submission and approval of expense claims. Wherever possible, travel bookings are made through a framework agreement. Previously this service was provided by Sheffield City Council under a framework agreement with Clarity travel. From 2020/21 the MCA are procuring their own travel booking system through Capita, however, due to Covid-19 and the lockdown during the 2020/21 the new booking system has yet to be launched and there has been no activity. Claims for expenses not booked through the framework are made via a standard manual claim form. Our review confirmed the process in place which includes segregation of duties. We confirmed compliance with these arrangements had taken place in our sample testing: • Expense claims are completed by the employee/elected member on a claim form. • Segregation of duties is provided by the approval of the claim form by relevant line-managers and/or Director. • The claim is independently processed by payroll. Expense claims for individuals not on the MCA's payroll for example Consultants, Mayor, LEP Board Chair and Audit Committee members are reclaimed by the submission of an invoice with supporting evidence maintaining an audit trail. The invoices are approved and paid via the Epicor Purchase to Pay system in line with the invoice approval process and controls. Our sample testing of claims confirmed that reimbursement had been made in accordance with the stated process. For Overseas travel, expenses are made through general purchase cards. There are currently six cards in use. We noted that due to the pandemic there had not been any overseas activity during the 2020/21 review period.
Operational non-compliance with policy and procedures leading to inaccurate or inappropriate claims being made or loss due to error or fraud.	From the data export provided by the MCA, our analysis showed that the total claims paid through Accounts Payable in 2019/20 was £26.5k. In terms of materiality this presents a low financial risk to the MCA, but abuse of fraudulent expense claims can cause reputational damage in excess of the lost finances. The risk of inappropriate or unauthorised expense claims being paid increases where there is a culture or acceptance of non-compliance with policy. Our sample testing did not identify any instances of non-compliance with policy, however, assurance can only provided for the sample we reviewed and may not be indicative of all expense claims processed. We have also acknowledged that reliance on manual systems may present a higher risk of loss due to error or fraud.

Action Plan

Risk	Findings and Recommendation
The Authority does not meet its requirements arising from Covid-19 for its employees, or changes to internal and financial controls in response to the pandemic have not been documented or approved by the MCA.	The Expenses policy was updated and approved in October 2020. During the pandemic, most employees worked from home reducing the volume of expense claims requiring processing. However, from our sample testing, we found no evidence that the pandemic has impacted on the MCA's controls for processing expense claims. Expense claims are submitted by email, as a result minimal changes have been required to the submission and approval process to accommodate working during the national lockdowns. The only change we identified is that physical signatures on the claim forms are now replaced by email approvals.

Appendices

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Appendix 1 – Staff involved and documents reviewed

Staff involved

- Gareth Sutton, Group Chief Financial Officer

- Simon Tompkins, Finance Manager

- Matt Bell, Financial Services Manager (SYPTE)

- Richard Howard, Assistant Finance Manager

- Donna Johnson, Assistant Finance Officer

- Claire James, Senior Governance & Compliance Officer

Documents reviewed

- MCA's Travel & Expenses Policy

- Claim form

- Claim for Mileage Expenses form

- Purchase 2 Pay reports relating to 2019/20 and 2020/21 (to December 2020)

- Payroll reports relating to 2019/20 and 2020/21 (to December 2020)

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	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. 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. Might be indicated by no weaknesses in design or operation of controls and only IMPROVEMENT recommendations.
Significant assurance with some improvement required	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. 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. Might be indicated by minor weaknesses in design or operation of controls and only LOW rated recommendations.
Partial assurance with improvement required	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. 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. Might be indicated by moderate weaknesses in design or operation of controls and one or more MEDIUM or HIGH rated recommendations.
No assurance	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. 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 Might be indicated by significant weaknesses in design or operation of controls and several HIGH rated recommendations.

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	▪ 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	▪ 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.	▪ 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	▪ Information for management ▪ Control operating but not necessarily in accordance with best practice

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