



# SOUTH YORKSHIRE MAYORAL COMBINED AUTHORITY

## Annex A

### Fraud Risk Assessment - Skills

Final Internal Audit Report 3.24/25

28 August 2024

This report is solely for the use of the persons to whom it is addressed.

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# AUDIT OUTCOME OVERVIEW

In line with our scope, included at Appendix A, the overview of our findings is detailed below.

**Background:** The undertaking of this Fraud Risk Assessment – Skills review considered the end to end processes followed by the South Yorkshire Mayoral Combined Authority (MCA) in respect of Adult Education Budget (AEB), Adult Skills Fund (ASF) and Bootcamps; including the identification of fraud related risks, controls and assurances in place. We specifically focussed our review across the following areas:

- due diligence;
- contracts; and
- performance monitoring.

The purpose of the review was to provide an overview of the approach MCA takes to fraud risks in this area and whether these are being mitigated through the application of appropriate policy and procedural controls. No organisation is immune from the risk of fraud and, as such, organisations must be proactive in ensuring that their systems, processes, and policies are robust to minimise the risk of fraud from occurring.

The review was also used to assess the findings and key areas highlighted in previously investigated instances of alleged fraud.

**Conclusion:** The MCA have very good procedures around the operation of its AEB, ASF and Bootcamp contracts with providers. The due diligence and performance monitoring framework is a continual process throughout the life of the contract with the provider. The processes and procedures adopted in this area and the recommendations we have included in the report will help in minimising any fraud risks in this area. This review was undertaken as an advisory review, therefore no assurance opinion is provided.

Although we cannot say categorically that issues highlighted previously from alleged instances of fraud will not occur within the AEB/ASF and Bootcamp contracts, the processes and procedures in operation around these contracts at the MCA should help to identify any potential issues within the contracts and enable MCA to deal with them quickly.

**Headline Findings:** The key messages from this review are as follows:

## Due diligence

- The MCA issue a self-assessment due diligence check to providers which asks them to identify whether they have various policies/procedures or certification in process. However, there is no reference to any fraud and bribery procedures that the provider has in place and it would be helpful for these to also be included in the due diligence checklist.
- Robust due diligence arrangements and use of tools is fundamental to the operation and selection of providers for the MCA to work with. Whilst having the experienced team members in place is key to achieving this, it is important that this element of the process remains up to date, current, and uses the most appropriate tools. It's key that those completing the processes are suitably updated and appraised on best practice processes in the area of due diligence.
- Whilst reviewing the MCA "Market Warming Sessions" that are carried out with all interested parties, it wasn't clear whether there was any coverage over expected responsibilities in respect of corporate criminal offences, such as failure to prevent bribery and the failure to prevent fraud offences, which would be helpful to be included.

## Good Practice Recommendations

### Contracts: Sub-contracting

- The MCA make reference to providers having robust procedures in place with regard to sub-contracting arrangements, but do not provide any detail regarding what these are. It would be useful for MCA to detail what they deem robust procedures are with regard to this area, so potential providers are aware from the outset and can use this as a reasonable guide.
- The MCA currently place reliance on the providers checking the documentation of any sub-contractor. It would be good practice for MCA to undertake sample check of sub-contractor documentation/data i.e. DBS checks, qualifications held etc.
- To further strengthen the approach to mitigating fraud risk the MCA could consider implementing the following examples of good practice across the organisation:
  - Fraud related policy checklists – Examples of these will be provided separately to this report; highlighting useful policy content and areas of coverage for consideration.
  - Fraud Awareness Presentation – An example awareness presentation will be provided separately to this report, providing MCA with some template material and content for inclusion in future training and awareness sessions they deliver.
  - Economic Crime and Corporate Transparency Act 2023 (ECCTA) - The Economic Crime and Corporate Transparency Act 2023 covers a range of reforms relating to organisational requirements and enhancements to deliver a suite of wider-ranging reforms to tackle economic crime and improve transparency over corporate entities.

As part of this legislation, the Government has created a new failure to prevent fraud offence to hold organisations to account if they profit from fraud committed by their employees.

The new offence seeks to discourage organisations from turning a blind eye to fraud undertaken by their employees, agents or subsidiaries; which ultimately may benefit the organisation. The legislation will hold organisations to account through prosecutions if they profit from the fraudulent actions of their employees.

The legislation suggests that an organisation will be able to avoid prosecution if it is able to prove that, at the time that the fraud offence was committed, it had 'reasonable procedures' in place to prevent this type of fraud from occurring.

The offence applies to all sectors. However, to ensure burdens on organisations are proportionate, only large organisations are in scope – defined (using the standard Institutions Act 2006 definition) as organisations meeting two out of three of the following criteria: more than:

- 250 employees;
- more than £36 million turnover; and
- more than £18 million in total assets.

The organisation may be prosecuted with the potential for an unlimited fine. If resources held across a parent organisation and its subsidiaries cumulatively meet the size threshold, that group of institutions will be in scope of the failure to prevent fraud offence.

# Summary of Actions for Management

# 01



# SUMMARY OF MANAGEMENT ACTIONS

The action priorities are defined as\*:

**High**

Immediate management attention is necessary.

**Medium**

Timely management attention is necessary.

**Low**

There is scope for enhancing control or improving efficiency.

Ref	Recommendation	Priority	Responsible Owner	Date
1	The MCA should revise the due diligence checklist issued to providers to request copies of their fraud and bribery policy/policies	Medium	Quality and Compliance Manager	30 September 2024
2	The MCA should research what due diligence courses are available that staff undertaking the role can attend, to increase their understanding and knowledge of new processes available.	Low	Quality and Compliance Manager	30 September 2024
3	The MCA to include references to their requirements with regards to fraud within the "Market Warming" sessions.	Medium	Head of Contracts and Performance	30 September 2024
4	The MCA to include within future contracts, what constitutes robust procedures with regard to sub-contracting	Low	Head of Contracts and Performance	30 September 2024
5	The MCA to undertake sample checks on prime contractor's annual assurance of subcontractors documentation i.e. DBS checks, qualifications etc	Low	Quality and Compliance Manager	31 March 2025

# Detailed Findings and Recommendations

# 02



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## DETAILED FINDINGS AND RECOMMENDATIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all audit testing undertaken.

### Area: Due Diligence

<b>Control</b>	<ol style="list-style-type: none"><li><b>1. Clear policies and procedures:</b> The MCA should have clear guidelines in place outlining the due diligence process, including who is responsible for conducting due diligence, what information needs to be collected, and how it should be documented.</li><li><b>2. Training and education:</b> Staff members involved in due diligence should receive training on how to conduct thorough and effective due diligence, including how to identify red flags and potential risks.</li><li><b>3. Documentation:</b> All due diligence activities should be well-documented, including the information collected, analysis conducted, and decisions made. This documentation can help demonstrate compliance with regulations and internal policies.</li><li><b>4. Third-party verification:</b> The MCA should verify the information provided by third parties through independent sources, such as public records, government databases, and third-party due diligence providers.</li><li><b>5. Ongoing monitoring:</b> Due diligence should not be a one-time activity. The MCA should establish processes for ongoing monitoring of business relationships to identify any changes in risk factors and take appropriate action.</li></ol>
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<b>Findings / Summary</b>	<p>The MCA have clear due diligence processes and procedures in operation around AEB/ASF and Bootcamps. The MCA involve all key parties within the organisation (procurement, finance and quality and compliance) working together from the the initial engagement with providers through their "market warming" sessions to detail the contract requirements and what the MCA expect from providers delivering the contract through to the award of the contract to the successful provider(s).</p>
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We found no references or guidance was made during the sessions as to what the MCA expect from providers with regard to fraud, such as the provider's procedures for dealing with any instances of fraud/bribery and the escalation procedures if fraudulent activity/bribery is suspected.

Initial due diligence "self declarations" are utilised, which detail what the MCA require from providers. Providers complete and provide the required evidence to support it. Due diligence continues throughout the whole process with the quality and finance teams carrying out final due diligence checks based on the self assessment and utilising third party verification sources. If no issues are identified, a contract will be awarded. All documentation relating to this process is retained to ensure compliance with regulations and the MCA procedures.

In respect of the initial checklist, we identified that there is no reference to the provider's fraud and bribery related policies in place. Linked with this, how the MCA are sighted on the approach provider organisations are taking in respect of new legislative requirements such as the corporate offence of 'failure to prevent fraud' which came into force with the Economic Crime and Corporate Transparency Act 2023. It is important that the MCA are aware of and have sight of how providers working with them, respond to fraud and bribery related matters and that they remain up to date with related legislative requirements.

The MCA have a very experienced team who are involved with carrying out due diligence for the providers they deal with, however, there is no reference to any specific training undertaken by staff who carry out this role. Due to the importance of this role, it would be beneficial for both updated/refresher training of staff to be sought whilst also ensuring the MCA has access to the most appropriate tools and techniques available in respect of their due diligence needs and level of sophistication and insights required.



## Area: Due Diligence

The whole process from the initial "market warming" sessions through to delivery of the contract is a continuous process across the procurement, finance and quality team where providers are monitored to identify changes with regard to potential risks with the provider and that these are identified in a timely manner and thus enabling appropriate and timely mitigating action to be taken.

<b>Recommendation 1</b>	The MCA should revise the due diligence checklist issued to providers to request copies of their fraud and bribery policy.	<b>Responsible Owner:</b> Quality and Compliance Manager	<b>Date:</b> 30 September 2024	<b>Priority:</b> Medium
<b>Recommendation 2</b>	The MCA should research what due diligence courses are available that staff undertaking the role can attend to increase their understanding and knowledge of new processes available.	<b>Responsible Owner:</b> Quality and Compliance Manager	<b>Date:</b> 30 September 2024	<b>Priority:</b> Low
<b>Recommendation 3</b>	The MCA to include references to their requirements with regards to fraud within the "Market Warming" sessions.	<b>Responsible Owner:</b> Head of Contracts and Performance	<b>Date:</b> 30 September 2024	<b>Priority:</b> Medium

## Area: Contracts

**Control**

- 1. Clear and detailed terms and conditions:** Contracts should clearly outline the rights and obligations of each party involved in the agreement. This includes defining the scope of work, payment terms, timelines, and any other relevant details.
- 2. Approval process:** Contracts should go through a formal approval process within the organisation to ensure that they are in line with organisational policies and procedures. This can help prevent unauthorised agreements from being made.
- 3. Monitoring and enforcement:** It is important to have processes in place to monitor the performance of contracts and enforce their terms if necessary. This can help ensure that all parties are fulfilling their obligations under the agreement.
- 4. Risk management:** Contracts should be carefully reviewed to identify and mitigate any potential risks or liabilities. This will help protect the MCA from financial or legal exposure.
- 5. Regular review and updates:** Contracts should be regularly reviewed and updated to ensure that they remain relevant and effective. This can help prevent any outdated or inaccurate information from causing problems in the future.

**Findings Summary** Review of the contracting procedures and documentation identified that the MCA contracts used in the AEB/ASF processes detail the responsibilities of both the provider and the MCA and includes all details regarding deliverables expected by the MCA and also what the provider should expect from MCA with regard to the contract.

## Area: Contracts

All contracts go through a formal review process to ensure that they align to the MCA policies and procedures. The MCA continually review and monitor contracts throughout the term of their engagement with providers to review evidence which demonstrates that providers are delivering their agreed objectives under the contract and also to ensure that they remain effective for the delivery of the provision.

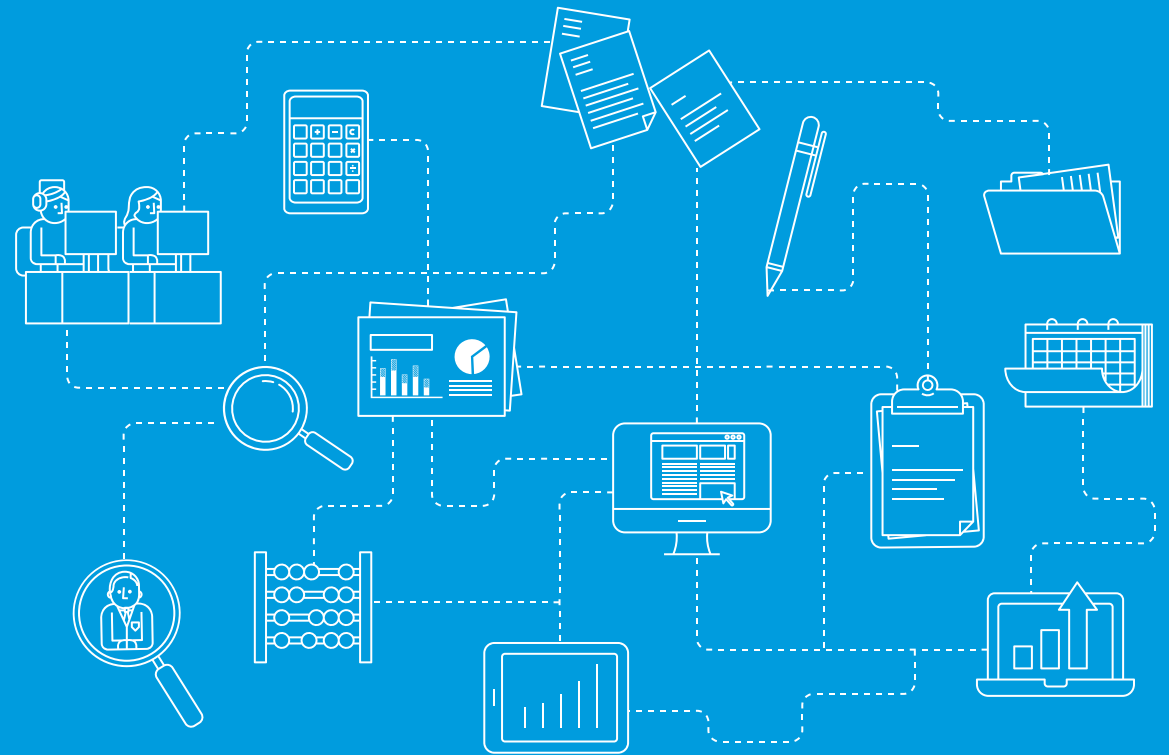
We identified that references to subcontracting, which the MCA have identified as a risk, illustrate that the MCA will seek assurance that robust procedures are in place to manage the quality of delivery. However, there is no reference to what is defined and regarded as robust procedures.

To provide clarity in this area, the MCA should seek to include guidance, within the contract (or supplementary documentation), outlining what 'robust procedures' are. There is also no reference to how the MCA verify that the subcontractor's staff have the relevant qualifications and confirmation that suitable validation has taken place. The MCA undertaking sample checks of the documentation held by subcontractors, in support of the validation processes followed, would be a way to support and provide an insight into the processes followed.

<b>Recommendation 4</b>	The MCA to consider including within the contracts what constitutes robust procedures with regard to subcontracting.	<b>Responsible Owner:</b> Head of Contracts and Performance	<b>Date:</b> 30 September 2024	<b>Priority:</b> <b>Low</b>
<b>Recommendation 5</b>	The MCA to undertake sample checks on subcontractors documentation i.e. DBS checks, qualifications etc.	<b>Responsible Owner:</b> Quality and Compliance Manager	<b>Date:</b> 31 March 2025	<b>Priority:</b> <b>Low</b>

# Appendices

# 03



# APPENDIX A: SCOPE

The scope below is a copy of the original document issued.

## Scope of the review

The scope was planned to provide assurance on the controls and mitigations in place relating to the following objective:

Objective of the risk under review	Risks relevant to the scope of the review	Risk source
Following a fraud within the skills area in a prior year, this review will assess the controls in place for the MCA to protect themselves from fraud risks. This review will be conducted by our Fraud Risk Services specialist.	Inadequate management of fraud risks in skills	Sector theme / risk

## When planning the audit, the following were agreed:

### Areas for consideration:

- The end to end processes followed in respect of AEB and Bootcamps including the identification of fraud related risks, controls and assurances in place. We will specifically review the following areas:
  - due diligence;
  - contracts; and
  - performance monitoring.
- The outcomes of the previous Adult Education Budget internal audit review undertaken and reported in February 2024, to ensure areas of review are not duplicated.
- The findings following previously investigated instances of alleged fraud and any key areas highlighted that need appropriate follow up/consideration.
- We will also consider and report on areas of good practice, where appropriate.

### Limitations to the scope of the audit assignment:

- The scope of the work is limited to those areas outlined above and considered as part of the end to end process review.
- The audit will not confirm the appropriateness of rules associated with AEB and Bootcamp funding.
- We will not seek to confirm whether the providers will achieve their AEB and Bootcamp targets.
- We will not comment on the existence, eligibility, attendance, withdrawal or achievement of learners.
- We will not comment on the accuracy of the data being reported.
- We will not comment on the appropriateness of the payments made.

- This review is an advisory review, and no assurance opinion will be provided.
- Any testing undertaken during the review was performed on a sample basis only
- The findings we provide are an assessment based on the information provided to us as part of this exercise. Additionally, where appropriate, reliance will be placed on previous work undertaken by the MCA, Internal Audit, External Audit and any other assurance gained internally where appropriate to avoid duplication.
- The assessment focuses on the design of the internal arrangements within the MCA, therefore, the results are reflective of the internal arrangements only and not those within third parties and/or business parties;
- The results of our work are reliant on the quality and completeness of the information provided to us.
- Our work will not provide an absolute assurance that material errors, loss or fraud do not exist.

**Debrief held** 15 August 2024  
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**Responses received** 28 August 2024

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