

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

Governance Review

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- Stephen Batey, Head of Governance and Compliance (SCRMCA)

This report is confidential and is intended for use by the management and directors of Sheffield City Region Mayoral Combined Authority (SCRMCA) and South Yorkshire Passenger Transport Executive (SYPTTE). It forms part of our continuing dialogue with you. It should not be made available, in whole or in part, to any third party without our prior written consent. We do not accept responsibility for any reliance that third parties may place upon this report. Any third party relying on this report does so entirely at its own risk. We accept no liability to any third party for any loss or damage suffered or costs incurred, arising out of or in connection with the use of this report, however such loss or damage is caused.

It is the responsibility solely of the 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 (SCRMCA) and South Yorkshire Passenger Transport Executive (SYPTe) 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 SYPTe'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.

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 ASSURANCE WITH SOME IMPROVEMENT REQUIRED** to the Committee.

Good practice

We have identified the following areas of good practice:

- The SCRMCA and SYPTTE 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

We have identified a couple of areas to further enhance control:

- Areas for improvement, arising from the annual assessment of compliance with the Code of Corporate Governance, have been developed into and SCRMCA AGS Governance Improvement Plan. This is presented to the Audit and Standards Committee as part of the draft Annual Governance Statement and again for oversight in January. To provide the Audit and Standards Committee with oversight of progress during the year, we have recommended that plan also be presented to the Committee at its meetings held in October each year.
- The Local Code of Corporate Governance published on the SYPTTE's website is encompassed by the live operational action plan. However, this document does not fully demonstrate where compliance is achieved for each of the principles, which is common practice across the Local Government Sector. The Evidence of Compliance Report does show in detail how compliance is achieved for each of the principles and we have recommended how this may be adapted to become the Code.
- Not all actions within the SYPTTE action plan are SMART and, in some cases, it is not clear what action is required to be undertaken.

Recommendations

Based on our findings, we have raised three risk recommendations:

	High	Medium	Low	Improvement
Detailed findings	-	-	2	1

Acknowledgement

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

Action Plan - SCRMCAs

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.

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>MCA</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>During the assessment of 2018/19 compliance, three key areas were identified where there are opportunities to strengthen compliance, these are:</p> <ul style="list-style-type: none"> • stakeholder engagement; • performance monitoring and; • skills and knowledge. <p>These key areas of focus for strengthening governance in 2019/20 were incorporated into an action plan and included within the 2018/19 Annual Governance Statement. Progress against the action plan is reported to the Audit and Standards Committee.</p> <p>Our review of Audit and Standard Committee minutes show that the AGS Governance Improvement Plan Actions is presented to the Audit and Standards Committee as part of the draft Annual Governance Statement and again for oversight in January. It is acknowledged that this is in accordance with the Authority's current process, However, reporting in January may not provide assurance that adequate progress is being made during the year, or highlight any slippage or issues that may arise.</p> <p>Issue identified:</p> <p>Reporting to the Audit and Standards Committee in January may not provide assurance that adequate progress is being made during the year.</p> <p>Risk:</p> <p>The Audit and Standards Committee does not receive timely assurance that action is being taken in accordance with identified milestones and deadlines.</p> <p>Recommendations:</p> <p>The Authority to consider reporting to the Audit and Standards Committee meetings held in October, in addition to January.</p>	<p>Actions:</p> <p>Progress being made against the actions identified within the Governance Improvement Plan will also be reported to the Audit and Standards Committee meetings held in October each year.</p> <p>Responsible Officer:</p> <p>Claire James, Senior Governance and Compliance Officer</p> <p>Executive Lead:</p> <p>Stephen Batey, Head of Governance and Compliance</p> <p>Due date:</p> <p>31st October 2020</p>

Action Plan - SYPTE

In this section we set out the detailed findings arising from our work. Details of what each of the ratings represents can be found in Appendix 2.

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>PTE</p> <p>The PTE has a Code of Corporate Governance in place, 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>Two documents are maintained to support the Code:</p> <ul style="list-style-type: none"> • Evidence of Compliance Report • Local Code of Corporate Governance and action plan <p>The Local Code of Corporate Governance published on the SYPTE's website is encompassed by the action plan. The introductory report clearly sets out the Executives systems and approach and is supported by a robust Governance Structure diagram. However the action plan, is a live operational plan, which is updated on a quarterly basis. The plan does not show in detail how compliance is achieved for each of the principles of the Code.</p> <p>The Evidence of Compliance report fully demonstrates where compliance is achieved for each of the principles and is aligned to common practice reporting across the Local Government Sector. This report may be more suited to be the actual Code of Corporate Governance to be published, supported by the introductory overview and governance structure diagram currently reported within the action plan report.</p> <p>Issue identified:</p> <p>The report published on the PTE's website is an operational plan of action.</p> <p>Risk:</p> <p>The format of the action plan does not demonstrate all evidence of compliance with the principles of the Code, only those areas where action required has been identified or being taken.</p> <p>Recommendations:</p> <p>The Executive to consider the format of the information reported within the Code of Corporate Governance published on the website and whether the Evidence of Compliance Report is better suited.</p>	<p>Actions:</p> <p>The recommendation is accepted. The PTE will determine how best to address the issue raised when we publish the next version in April 2021.</p> <p>Responsible Officer:</p> <p>Lorraine Gandy, Senior Solicitor</p> <p>Executive Lead:</p> <p>Steve Davenport, Monitoring Officer</p> <p>Due date:</p> <p>30th April 2021</p>

Action Plan - SYPTE

In this section we set out the detailed findings arising from our work. Details of what each of the ratings represents can be found in Appendix 2.

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>PTE</p> <p>The PTE’s Code of Governance includes those documents, policies, procedures and expected behaviours that it has in place to help it deliver its objectives. The PTE has assessed the effectiveness of its Code of Governance and has identified areas that need to be improved, which have been captured in an Action Plan and approved by the Executive Board. The action plan is reviewed on a quarterly basis with oversight and input from the Board and Audit and Risk Committee.</p> <p>However, from our review of the action plan we did note that not all actions are SMART and, in some cases, it is not clear what action is required to be undertaken. For example:</p> <ul style="list-style-type: none"> • <i>“Principle: Managing service users’ expectations effectively with regard to determining priorities and making the best use of the resources available.</i> <ul style="list-style-type: none"> – <i>The action states: Effective scoping of School Service tenders.</i> • <i>Principle: Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets.</i> <ul style="list-style-type: none"> – <i>Assets Review”</i> <p>Issue identified:</p> <p>Not all actions within the action plan are SMART and, in some cases, it is not clear what action is required.</p> <p>Risk:</p> <p>It may not be clear what is required to be undertaken to demonstrate compliance with the Code of Corporate Governance.</p> <p>Recommendations:</p> <p>The Executive to ensure that the actions required to be undertaken are clearly stated and align to SMART principles.</p>	<p>Actions:</p> <p>The recommendation is accepted and will be implemented when we publish the next full action plan in April 2021.</p> <p>Responsible Officer:</p> <p>Management Board / Senior Managers</p> <p>Executive Lead:</p> <p>Steve Davenport, Monitoring Officer</p> <p>Due date:</p> <p>30th April 2021</p>

Appendices

Appendix 1 – Staff involved and documents reviewed

Staff involved

- Claire James, Governance and Compliance Officer (SCRMCA)
- Lorraine Gandy, Senior Solicitor (SYPTTE)

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 - Our assurance levels

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

Rating	Description
Significant assurance	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are suitably designed to achieve the risk management objectives required by management.</p> <p>These activities and controls were operating with sufficient effectiveness to provide significant assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by no weaknesses in design or operation of controls and only IMPROVEMENT recommendations.</p>
Significant assurance with some improvement required	<p>Overall, we have concluded that in the areas examined, there are only minor weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by minor weaknesses in design or operation of controls and only LOW rated recommendations.</p>
Partial assurance with improvement required	<p>Overall, we have concluded that, in the areas examined, there are some moderate weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were operating with sufficient effectiveness to provide partial assurance that the related risk management objectives were achieved during the period under review.</p> <p>Might be indicated by moderate weaknesses in design or operation of controls and one or more MEDIUM or HIGH rated recommendations.</p>
No assurance	<p>Overall, we have concluded that, in the areas examined, the risk management activities and controls are not suitably designed to achieve the risk management objectives required by management.</p> <p>Those activities and controls that we examined were not operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review</p> <p>Might be indicated by significant weaknesses in design or operation of controls and several HIGH rated recommendations.</p>

Appendix 2 - Our assurance levels (cont'd)

The table below describes how we grade our audit recommendations.

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



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