

AUDIT & STANDARDS COMMITTEE

16th July 2020

Internal Audit Annual Report and Head of Internal Audit Opinion

Purpose of Report

This Annual Report summarises the conclusions and key findings from the internal audit work undertaken at Sheffield City Region Mayoral Combined Authority during the year ended 31st March 2020 and includes the Chief Audit Executives overall opinion on Sheffield City Region Mayoral Combined Authority's internal control system.

Freedom of Information & Section 12A of the Local Government Act 1972

Under the Freedom of Information Act this paper and any appendices will be made available under the Mayoral Combined Authority Publication Scheme. This scheme commits the Authority to make information about how decisions are made available to the public as part of its normal business activities.

Recommendations

Members are asked to consider the Annual Report and Head of Internal Audit Opinion.

Sheffield City Region Mayoral Combined Authority

Internal Audit Annual Report and Annual Head of Internal Audit Opinion 2019/20

July 2020

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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 (SCRMCA). 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.

Introduction

The Public Sector Internal Audit Standards (PSIAS) state that:

“The Chief Audit Executive (Head of Internal Audit) must deliver an annual internal audit opinion and report that can be used by the Authority to inform its governance statement”.

“The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the Authority’s framework of governance, risk management and control”.

To meet the above requirements, 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 2020, including our overall opinion on Sheffield City Region Mayoral Combined Authority’s internal control system.

Acknowledgement

We would like to take this opportunity to thank all members of management and staff for the help, courtesy and co-operation extended to us during the year.

Internal Audit Summary

Scope and responsibilities

It is management's responsibility to establish a sound internal control system. The internal control system comprises the whole network of systems and processes established to provide reasonable assurance that organisational objectives will be achieved, with particular reference to:

- risk management;
- the effectiveness of operations;
- the economic and efficient use of resources;
- compliance and applicable policies, procedures, laws and regulations;
- safeguards against losses, including those arising from fraud, irregularity or corruption; and
- the integrity and reliability of information and data.

Internal audit

Internal Audit assists management by examining, evaluating and reporting on the controls in order to provide an independent assessment of the adequacy of the internal control system. To achieve this, Internal Audit should:

- analyse the internal control system and establish a review programme;
- identify and evaluate the controls which are established to achieve objectives in the most economic and efficient manner;
- report findings and conclusions and, where appropriate, make recommendations for improvement;
- provide an opinion on the reliability of the controls in the system under review; and
- provide an assurance based on the evaluation of the internal control system within the organisation as a whole.

Good practice

In order to provide an annual assurance statement supporting the Governance Statement, we consider all of Sheffield City Region Mayoral Combined Authority activities and systems, as aligned to key risks, within the scope of our internal audit reviews.

Our internal audit plans are designed to provide the Audit and Standards Committee with assurance that the Sheffield City Region Mayoral Combined Authority internal control system is effective in managing the organisation key risks and value for money is being achieved. Our plans are therefore linked to the Authority's strategic risk register.

The three-year Strategic Internal Audit Plan was agreed in consultation with senior management and formally approved by the Audit and Standards Committee in June 2019.

Internal Audit Summary

Internal Audit planning

The Annual Internal Audit Plan is subject to revision throughout the year to reflect changes in your risk profile. We have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. However, internal audit can never guarantee to detect all fraud or other irregularities and cannot be held responsible for internal control failures.

Internal Audit Coverage

The Joint Internal Audit Plan comprises 250 days per annum. In 2019/20 this was allocated as follows:

- Annual Reviews for HOIA opinion and Joint Authority Audits: 98 days
- Sheffield City Region Mayoral Combined Authority: 65 days
- South Yorkshire Passenger Transport Executive: 87 days

During the year, we flexed the plan to take account of emerging risks and additional requests with the agreement of Audit and Risk Committee:

- Following initial scoping discussions with the Senior Finance Manager and Director of Transport, Housing and Infrastructure, it was proposed to postpone the review of Capital Programme until Quarter 4 to enable the actions agreed as part of the 2018/19 review to be fully implemented and embedded. It was also proposed that the initial number of planned days be reduced from 25 to 12 to complete a follow up of the original report. Four days of the saved budget to be used to complete a readiness review of the Adult Education Budget checklist and the remaining placed into contingency. This change to the Audit Plan was approved by the Audit and Standards Committee at its meeting in October 2019.
- Following initial scoping discussions with the Deputy Chief Executive, it was proposed to postpone the review of Back-Office Transformation to enable a wider piece of work to be carried out in 2020/21. This change to the Audit Plan was approved by the Audit and Standards Committee at its meeting in January 2020.
- The Audit and Standards Committee agreed in March 2020 to carry forward the audit of AEB readiness into the 2021 Internal Audit Plan.

We can confirm that no restrictions were placed on our work by management.

Reports

We have prepared a report for each of the seven internal audit reviews completed and presented these reports to the Audit and Standards Committee .

Where relevant, all reports contained management action plans detailing responsible Directors/Management and implementation dates. The reports were fully discussed and agreed with management prior to submission to the Audit and Standards Committee. We made no critical or high risk recommendations that were not accepted by management.

Summary of reports by overall opinion

Seven internal audit reports have been issued plus two grant claims certified in 2019/20, as summarised in the table below.

Review	Report conclusion	No. of recommendations raised			
		High risk	Medium risk	Low risk	Improvement
Annual Reviews for HOIA opinion and Joint Authority Audits					
Core Financial Controls	Significant assurance with some improvement required	-	2	9	2
Risk Management	Significant assurance with some improvement required	-	1	12	-
Governance	Significant assurance with some improvement required	-	-	-	1
Information Governance / GDPR	Significant assurance with some improvement required	-	-	5	9
Capital Programme	Significant assurance with some improvement required	-	2	-	-
Risk Based Reviews					
Resource Management / HR Systems	Partial assurance with improvement required	-	3	1	-
Grant Claims	Not applicable	-	-	-	-
Programme Management	Significant assurance with some improvement required	-	-	2	-
Total		-	8	29	12

The definitions used to provide conclusions on reports, and the risk assessment of individual actions are set out in Appendix 1

Summary of reports by overall opinion

Audit recommendations

During the year we have raised 49 recommendations, all were accepted by management. We have not reported any high risk recommendations during 2019/20.

We report to Audit and Standards Committee meetings, management's progress in implementing internal audit recommendations. We have calculated the Authority's implementation rate for the year 2019/20 at 83%. This includes any outstanding legacy recommendations made by the previous Internal Audit providers.

Full details of recommendation tracking are shown within the Head of Internal Audit Opinion at Appendix 1.

Performance of Internal Audit

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 2019/20 internal audit review were independent of Sheffield City Region Mayoral Combined Authority operational processes and their objectivity was not compromised in any way.

Conformance with Public Sector Internal Audit Standards

Based upon our ongoing assignment and client review processes, together with the results of any Quality Assurance inspections, we believe that we have complied with the Public Sector Internal Audit Standards.

Quality control

Grant Thornton's aim is to provide a service that not only meets the Authority's 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 prior to submission to the Audit and Standards Committee for approval;
- Regular review of progress against the plan to ensure we are delivering the work we have promised. In 2019/20, we completed all audit work as required;
- A tailored audit approach using a defined methodology and assignment control documentation which is subject to the firm's review protocol;
- The use of qualified, highly trained and experienced staff;
- The review of all audit files and reports by the Head of Internal Audit and Internal Audit Manager; and
- Reviews of a random sample of files by staff from other offices within the firm to ensure they comply with the Firm's standards of technical excellence and client service

Appendices

Appendix 1

Head of Internal Audit Opinion

Basis of Opinion for the year ending 31 March 2020

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 and Standards 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 Authority.

Respective 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.

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 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).

The 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 and Standards Committee .

Head of Internal Audit Opinion

Opinion

The basis of our opinion is as follows:

- 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 overall opinion for the period 1 April 2019 to 31 March 2020 is that based on the scope of reviews undertaken and the sample tests completed during the period, that:

Significant assurance with some improvement required can be given to the overall adequacy and effectiveness of Sheffield City Region Mayoral Combined Authority's framework of governance, risk management and control. The level of non-compliance in certain areas puts some system objectives at risk, however we were able to provide significant assurance over all of our core system reviews and therefore the issues noted are not considered to significantly impact on our overall opinion.

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

Seven internal audit reports have been issued in 2019/20, of which:

- 6 reports were issued with Significant assurance with some improvement required
- 1 report was issued with Partial assurance with improvement required

The partial assurance opinion report relates to a risk-based audit assignment relating to Resource Management / HR Systems. We identified weaknesses which put system objectives at risk. We found that there was no project plan in place and the development of the SCRMCA HR policies and procedures was behind schedule. The HR shared service was running with a 1 FTE vacancy, which may impact on the ability to effectively deliver transactional HR services to both SCRMCA and SYPT in additional to the requirements and demands of transformation. There was also no agreement in place outlining agreed expectations and level of service required.

These issues do not prevent us from issuing a significant with some improvements assurance opinion as the Authority is currently implementing the recommendations raised as a result of our work to address the issues identified.

Head of Internal Audit Opinion

Follow up of Internal Audit recommendations

As part of the Public Sector Internal Audit Standards, we are required to consider the appropriateness of the organisation's response to Internal Audit recommendations.

We have summarised below (figure 1), the current status of all recommendations that will be considered as part of the 2019/20 Head of Internal Audit Opinion. Of 69 recommendations rated as either high, medium or low risk, 29 have been implemented and 33 recommendations have not reached their due date. Six recommendations are now due to be implemented. Of 36 recommendations that were due to be implemented during the year, 29 have been completed and one has been confirmed as rejected, which equates to an implementation rate of 83%.

An analysis of the 28 outstanding recommendations is shown below (figure 2). Of the six recommendations that are now due, none are high risk, four are medium risk and two are low risk.

The outstanding medium risk recommendations relate to the following:

- Inward Investment:
 1. *“The International Trade and Investment Plan should include agreed implementation dates against each of the detailed objectives (actions) and also targets against each of the outcomes (key performance indicators), to enable the delivery of plan to be proactively managed and monitored during the year.”*
 2. *‘Key performance Indicators should be set for the Inward Investment Team and performance measured against these reported to the Trade and Investment Advisory Board on a regular basis to enable challenges to be made if applicable.’*

The two outstanding actions were due to be implemented by 31st December 2019. They are currently on hold whilst a new Plan, aligned to the new Strategic Economic Plan (SEP), is developed. The findings of the consultation will be considered by the LEP Board in March and a final SEP published in May 2020.

- Procurement:
 1. *“The Contract Procedure Rules and other procurement related documentation should be reviewed and updated in conjunction with the Operational Contracts Team at the earliest opportunity. All officers should be notified of the updated documentation, upon the completion of the review and signposting provided to its location.”*
 2. *‘A business entertainment and foreign travel policy should be drafted and approved, to confirm the type and level of expenditure that is acceptable to the SCRMCA when attending meetings and other commercial (business) related events. The policy should be published on the Intranet Site.’*

A specific piece of work has been commissioned, to develop the SCRMCA's procurement function and strategy will address the two outstanding actions. This was due to be completed by 30th June 2020.

Head of Internal Audit Opinion

Follow up of Internal Audit recommendations continued

Figure 1: Total recommendations raised

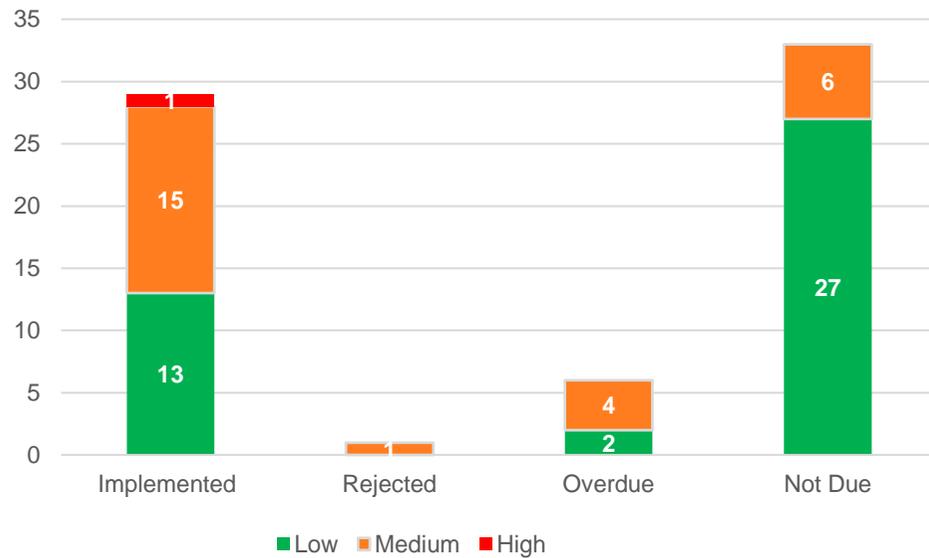
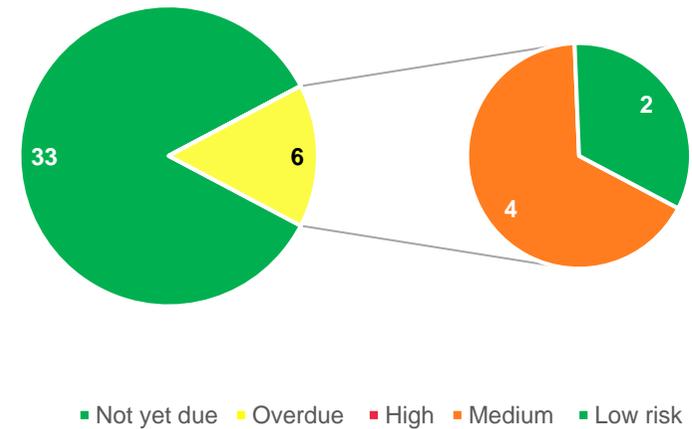


Figure 2: Outstanding recommendations



Head of Internal Audit Opinion

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

We have not raised any high risk recommendations. The Authority also has in place an agreed plan and timescale for implementing the four overdue medium risk recommendations. As a result, there is nothing which prevents us from issuing significant with minor improvement assurance in our overall opinion.

Grant Thornton UK LLP

Grant Thornton (UK) LLP

03 July 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	<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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