

## SCR - AUDIT AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON:

THURSDAY, 11 JUNE 2020 AT 11.00 AM

VIRTUAL MEETING



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### Present:

Councillor Allan Jones (Chair)	Doncaster MBC
Rhys Jarvis (Vice-Chair)	(Independent Member)
Councillor Ian Auckland	Sheffield City Council
Councillor Jeff Ennis	Barnsley MBC
Councillor Josie Paszek	Sheffield City Council
Angela Marshall	(Independent Member)
Councillor Ken Richardson	Barnsley MBC
Councillor Ken Wyatt	Rotherham MBC

### Officers in Attendance:

Dr Dave Smith	Chief Executive	SCR Executive Team
Dr Ruth Adams	Deputy Chief Executive	SCR Executive Team
Noel O'Neill	Chief Finance Officer/S73 Officer	Sheffield City Region
Mike Thomas	Senior Finance Manager/Deputy S73 Officer	SCR Executive Team
Claire James	Senior Governance & Compliance Manager	SCR Executive Team

### In Attendance

Dan Spiller	External Audit
Lisa Mackenzie	Internal Audit
Andrew Smith	Internal Audit
Andrew Shirt (Minute Taker)	

### 1 Welcome and Apologies

Councillor Jones welcomed everyone to first virtual meeting of the SCR Audit and Standards Committee.

Members' apologies were noted as above.

### 2 Urgent Items/Announcements

None.

3 **Items to be Considered in the Absence of Public and Press**

None.

4 **Declarations of Interest by any Members**

None.

5 **Reports from and Questions by Members**

None.

6 **Questions from Members of the Public**

None.

7 **Minutes and Actions of the Previous Meeting**

RESOLVED – That the minutes of the previous meeting are agreed to be a true and accurate record and may be signed by the Chair.

8 **2019/20 Draft Accounts**

The Committee received a report and presentation on the draft 2019/20 Annual Accounts for the MCA Group prior to formal external auditing.

The presentation drew Members' attention to the Narrative Report set out in the Statement of Accounts. This described the issues and financial impact of the activity in 2019/20. It also covered performance in terms of activity and finance, Covid-19 considerations and the financial health of the Group in detail.

Members noted the following headlines:

- The MCA's net underspend is £675,000 in 2019/20. This has been allocated to the Mayoral Election Reserve as there is a forthcoming cost of c£2m in 2022.
- An underspend of £505,000 on the South Yorkshire Transport revenue budget corresponding reduction in use of Earmarked Levy Reduction Reserve.
- The overall capital programme spend was £4.494m less than planned. The MCA Board had approved carrying forward all of the underspends to complete the programme in 2020/21.
- In section 4, Covid-19 implications were discussed. New Provisions and Earmarked reserves had been identified to ease potential pressures on current year budgets. These are:
  - SYPTE Covid-19 Income Loss £1.6m
  - MCA Covid-19 Income Loss £0.5m
  - Recovery Plan £0.4m
  - SYPTE Recovery Reserve £3.0m

The structure of the 2019/20 Statement of Accounts was presented and noted by Members.

In assessing the financial strength of the MCA, Members' attention was drawn to note 30 of MCA Balance Sheet and note 60 of the Group Balance Sheet. The Group had usable reserves of £90.944m. The value had increased from £75.548m in 2018/19. The major factor for the increase in usable capital receipts was the repayment of an investment.

The balance sheet reflected a very strong financial position. The medium-term financial plan looked to utilise all of the Levy Reduction Reserve (£19.52m) over the next three years.

N O'Neil stated that, Finance Directors were required to consider the on-going financial strength of an organisation as they present the financial accounts. The emergence of the Covid-19 epidemic is a key consideration and a theme that had been covered by a specific section within the Narrative Statement.

Risks to the on-going sustainability of each part of the Group had been assessed and specific budgetary impacts examined. Potential further calls on SCR Group resources had also been reviewed and sensible provisions and changes to earmarked reserves had been proposed as part of the closedown process.

Members noted that the Group remains in strong financial health with the ability to continue to operate and deliver its services in 2020/21 and beyond.

R Jarvis asked if provisions included in the accounts were based on assumptions. Additionally, he asked what the External Auditors view was in respect of this.

N O'Neil replied that, in terms of income loss, the MCA predicted that there would be income loss in respect of tenants leaving the Advanced Manufacturing Park (AMP). Mitigations were in place to manage the impact in 2020/21. In respect of SYPTE, assumptions had been made on their overall losses during the year.

Assurances were provided that, sound assumptions would be presented to the External Auditor.

Members' provided the following comments on the Statement of Accounts:-

- Narrative report – Supply Chains. R Jarvis commented that there was no mention of the Government's current 2 metre social distancing rule and the implications this would have on public transport, as of today.
- Investment income may change from the period when the statement of accounts was written.
- Underspends on the SYPTE Capital Programme - will they be utilised in the following year, due to Covid-19?
- Reserves and provisions – SYPTE accounts refers to 'Asset Management' (£0.5m). This is not included in the Narrative Report.
- Page 8 – Key Developments in the year. Is the number of homes completed during the year correct?
- Page 9 – Key Developments in the year – Tram Train pilot. Is the terminology correct for the assessment criteria used for the pilot?
- Page 87 – External Audit Fees. There was no variation to the External

Audit fees shown in the accounts as discussed at a previous meeting.

N O'Neil stated that the fees variation was in relation to the 2018/19 fee, which was currently being adjudicated by the PSAA. A discussion would take place at the July meeting.

N O'Neil thanked Members' for their comments and agreed to incorporate in the final version of the accounts.

RESOLVED – That Members reviewed the Annual Accounts for 2019/20 and approve for publication ahead of external auditing in line with CIPFA Code of Practice.

## 9 **Governance Review Activity 2019/20**

A report was received to provide the Committee with an update on the review of governance arrangements undertaken during 2019/20 and the findings from this.

The report also presented a reviewed Code of Corporate Governance for Members' consideration.

As agreed by the Committee in January, during February and March, the SCR's Governance Team had worked with the Executive Team to conduct an assessment of compliance with the Code of Corporate Governance, to gain assurance of the effectiveness of current arrangements and to identify any opportunities for improvement. Evidence of compliance with the commitments in the Code of Corporate Governance was attached at Annex A in the draft Annual Governance Statement (Appendix A).

The Committee was asked to comment on, and make contributions on the draft Annual Governance Statement.

The final draft of the Annual Governance Statement would be presented to the Audit and Standards Committee in July and to the Mayoral Combined Authority meeting scheduled for 27th July alongside the 2019/20 accounts.

In line with a commitment to review the Code of Corporate Governance annually, the Code had been updated and was presented at Appendix B.

The revised Code of Corporate Governance would be presented to the Mayoral Combined Authority for approval.

RESOLVED – That the Committee agreed to comment on, and contribute to the draft Annual Governance Statement (Appendix A) and considered the revised Code of Corporate Governance (Appendix B).

## 10 **Treasury Management Outturn Report 2019/20**

A report was received to provide Members with an update on treasury management activities undertaken in the financial year 2019/20 by the MCA Group for the 12 months to March 2020 and to demonstrate to Members

performance against the Treasury Management Performance Indicators approved by the MCA at its meeting on 25 March 2019.

Members noted that the treasury activities of the MCA in the twelve months of 2019/20 have been managed within the Treasury Management Strategy and Investment Strategy approved at the start of the year.

The MCA had operated within the prudential indicators agreed as part of the Treasury Strategy at the start of the year.

Members noted the following headlines:

- The anticipated borrowing requirement to support capital investment plans (£6.2m) is within the amount approved (£9.0m);
- The overall level of borrowing is within overall limits;
- The maturity profile of the MCA Group's debt portfolio has not changed. Due to the prohibitively high cost of early redemption, there has been no real opportunity to repay debt early;
- Investments have been made in accordance with the Investment Strategy, including longer term investments, and;
- Returns on investments are below the target for the year but above the revised target suggested by the MCA's treasury advisors.

RESOLVED – That Members considered and noted the MCA Group's treasury management performance for the full financial year 2019/20.

## 11 **Treasury Management Strategy 2020/21**

A report was received to present the proposed Annual Treasury Management Strategy and Investment Strategy for the financial year 2020/21.

Members were informed that the main focus of the 2020/21 Treasury Management Strategy was on developing the Investment Strategy. The two principal reasons for this were set out in paragraph 1.1 of the report.

It was noted the intention was that, the SCR Audit and Standards Committee would be used as a forum to explore strategic options, prior to these options being presented to the MCA for ratification.

Further reports would be presented to Members during the course of the year to monitor and report on compliance with the Treasury Management Strategy.

In addition, should the significant changes that are anticipated from unlocking the Devolution Deal and development of medium and longer term financial plans, leading to a need to reconsider Treasury Management Strategies, Policies or Prudential indicators, these would be brought back to the MCA for approval before being implemented where the change is considered material.

R Jarvis asked if the MCA would need to borrow additional funds due to the Covid-19 pandemic.

N O'Neil replied that, as of 11<sup>th</sup> June 2020, there was no requirement for the MCA to borrow additional funds for transport activity.

The Committee noted that, today would be the last meeting Noel would be attending before leaving the SCR Team.

On behalf of the Committee, Councillor Jones thanked Noel for all his help and assistance at Committee meetings and wished him all the best for the future.

RESOLVED – That Members considered:

- The Annual Treasury Management Strategy.
- The Annual Investment Strategy set out in Appendix 1 of the Annual Treasury Management Strategy.
- Noted the authority delegated to the Group Director of Finance to develop it further by investigating options for diversification in consultation with the MCA's external advisors and Audit and Standards Committee.
- The capital expenditure estimates and associated prudential indicators set out in Appendix 2 of the Annual Treasury Management Strategy.
- The borrowing strategy set out in Appendix 3 of the Annual Treasury Management Strategy.

The Minimum Revenue Provision Policy set out in Appendix 4 of the Annual Treasury Management Strategy.

## 12 **Internal Audit Reports**

A report was presented to provide Members with an update on Internal Audit reports for Risk Management; GDPR; Programme Management; and Resource Management and HR Systems.

Members noted that Internal Audit had reviewed the processes and controls around the Authority's Risk Management arrangements and concluded the processes provided significant assurance with some improvement required. Based on Internal Audit's findings, 18 recommendations had been issued.

Internal Audit's assessment of overall compliance with the GDPR had provided significant assurance with some improvement required. 5 low recommendations and 9 improvement points had been issued.

Internal Audit had reviewed the SCR MCA's arrangements regarding Programme Management and concluded that, the processes provided significant assurance with some improvement required. Based on the findings, two low risk recommendations had been issued.

Internal Audit's review of the SCR MCA's processes and progress with regard to the development of HR policies, procedures and culture had provided partial assurance with improvement required. 3 medium recommendations and 1 improvement recommendation had been issued.

A Marshall made reference to the improvement recommendation issued in relation to there currently being no agreement in place between the shared service and SCR MCA. She was of the opinion that, management's response to the recommendation had not been met.

L MacKenzie replied that the recommendation had been discussed at length

with management. Management did not agree with the recommendation due the service provided being internal between SYPTE and the SCR MCA.

D Smith added that, the priorities of both organisations would be managed through normal line management objective setting sessions agreed by the Head of HR and not in the form of a contractual arrangement.

Following discussion, D Smith agreed to present a report to a future meeting to demonstrate the SCR MCA's element of the HR shared service. **ACTION: D Smith**

Councillor Jones asked if Members could have access to the new tracker system to allow them to track the progress of all management actions in between meetings.

L MacKenzie acknowledged the request and agreed to investigate the option of allowing Members' 'read only access' to the system. **ACTION: L MacKenzie & C James**

In response to a question from A Marshall, L MacKenzie confirmed that Internal Audit reports on the results of the Core Financial Control and Governance Audits would be presented at the July Audit and Standards Committee meeting.

RESOLVED – That Members considered the findings and recommendations of the following internal audits: Risk Management; GDPR; Programme Management; and Resource Management & HR Systems.

## 13 **Internal Audit Annual Report**

A report of the Interim Head of Internal Audit was submitted which reported on the Internal Audit Team's completed reports throughout 2019/20, recommendations made and also the Interim Head of Internal Audit's annual assurance based on the work undertaken during the year.

The Internal Audit Team had delivered all of the audits days included within the Group Internal Audit Plan for 2019/20. During the year, the Plan had been flexed to take account of emerging risks and additional requests with the agreement of the Committee.

During the year, Internal Audit had raised 34 recommendations, which had all been accepted by management. No high risk recommendations were reported during 2019/20.

Members were informed that, based on the scope of reviews undertaken and the sample tests completed during 2019/20, the Interim Head of Internal Audit was able to give a significant assurance with some improvement required to the overall adequacy and effectiveness of Sheffield City Region Mayoral Combined Authority's framework of governance, risk management and control.

Councillor Jones asked if presentation of the pie chart at 'figure 2: outstanding recommendations' (page 9) could be presented in a different colour for future reports.

A Smith acknowledged the requested.

RESOLVED – That Members noted the contents of the report.

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### **2020/21 Internal Audit Plan and 3 year Strategy**

A report was presented to set out the 2020/21 Internal Audit Plan and three year Strategic Internal Audit Strategy to 2023.

The 2020/21 Plan was subject to final discussion with the Head of Financial Services and Interim Group Chief Financial Director and Chair of Audit Committee, prior to final approval and adoption by the Audit Committee.

The Plan had been formulated prior to the outbreak of Covid-19 and was subject to flexibility to reflect the uncertainty of the impact of Covid-19.

Internal Audit would discuss the Plan and 3-year Strategy with management throughout the year as a result of the situation and keep the contents and timing of audits under review. Changes made to reviews due to Covid-19 were detailed at Appendix A to the report.

Based on Internal Audit's initial risk assessment, the 2020/21 Plan reflected 250 Internal Audit days input.

L MacKenzie reported that, early discussions were currently taking place with management with regards to adding an estimated extra 20 days to the 2020/21 Plan to reflect additional Internal Audit work to certify and sign-off the DfT's Light Rail Recovery grant claims.

It was noted the certification and sign-off of the grant claims by the Head of Internal was an audit requirement of the DfT.

Councillor Jones asked who would be responsible for financing the extra days of work required by Internal Audit.

M Thomas stated he was of the opinion that, the extra days of work required by Internal Audit should be funded from the Grant. He agreed to discuss further with the DfT. **ACTION: M Thomas**

M Thomas added that, in light of the Covid-19 pandemic, it would now be an appropriate time to review the 2020/21 Internal Audit Plan to consider if any work could be re-prioritised, which may free-up Internal Audit days input in the Plan to undertake the work required by the DfT.

D Smith agreed to produce a Briefing Note setting out which areas of Internal Audit work could be re-scheduled in the 2020/21 Internal Audit Plan. **ACTION: D Smith**

RESOLVED – That Members noted the report.

15      **Assurance and Accountability Framework**

A report was presented to remind Members that, each year the Sheffield City Region (SCR) LEP and MCA is required to update and publish its Assurance Framework to ensure that robust, transparent and effective governance arrangements are in place.

The draft Assurance Framework 2020 had been further revised to incorporate the additional requirements in readiness for devolution.

At their meeting held on 1st June 2020, the MCA had endorsed the Assurance Framework in order for it to be submitted to Government for approval as part of the devolution readiness conditions.

Paragraph 2.4 of the report set out the key amendments to the Assurance Framework, which were noted by Members’.

A Marshall asked if Special Educational Needs Students aged 16-25 were included in the Adult Education Budget.

D Smith replied that there was separate provision for Special Educational Needs Students which would be considered in consultation with service providers.

RESOLVED - That the Committee notes, at section 2.4, the key amendments to the Assurance Framework including the early release of funding to aid capital scheme development.

16      **Proposed Dates for 2020/21**

A report was submitted to present the proposed future dates for SCR Audit and Standards Committee meetings in 2020/21.

The proposed dates for the Audit and Standards Committee for 2020/21 were as follows:

- 29th October 2020\*
- 21st January 2021
- 18th March 2021
- 10th June 2021
- 15th July 2021

It was proposed that meetings continue to start at 11:00 am and finish at 1:00 pm and either be held virtually or at 11 Broad Street West, Sheffield S1 2BQ.

\*This meeting will be taking place at 10:00 am, concluding at 12:00 pm to accommodate another public meeting taking place on that day.

RESOLVED – That the Audit and Standards Committee noted the proposed 2020/21 meeting dates as outlined above.

I, the undersigned, confirm that this is a true and accurate record of the meeting.

Signed .....

Name .....

Position .....

Date .....