



Annual Audit Letter 2015/16

**Sheffield City Region
Combined Authority**

October 2016



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This Annual Audit Letter summarises the outcome from our audit work at Sheffield City Region Combined Authority in relation to their 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

VFM conclusion	<p>We issued a qualified 'except for' conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 19th September 2016. This means we are satisfied that during the year that Authority had proper arrangements for informed decision making, sustainable resource deployment and working with partners and third parties except for specific outlined areas. The specific areas noted as needing improvement were identified as follows:</p> <ul style="list-style-type: none"> - The need to fully establish a Code of Corporate Governance; - The requirement to fully embed the risk management framework and processes; and - The need to resolve the issues with regards to administration of the pension scheme (to be resolved by South Yorkshire Pensions Authority). <p>To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p>
VFM risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.</p> <p>Our work identified the following significant matter:</p> <ul style="list-style-type: none"> — Following on from our conclusion on VFM in the 2014/15 period we identified the Governance Arrangements in place as being the biggest risk at the Authority. In particular the following areas identified in our prior period opinion: <ul style="list-style-type: none"> • Has a Code of Corporate Governance been established? • Is there a robust risk management process in place? • Has an effective performance management framework been developed? • Has a decision been taken with regards to the operation of SYITA Properties Ltd? • To what extent has the data processing performance of the pension fund been recovered, following the implementation of new software?
Audit opinion	<p>We issued an unqualified opinion on the Authority's financial statements on 19th September. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund and the Authority's Group, which consists of the Authority itself, South Yorkshire Passenger Transport Executive and SYITA Properties Limited.</p>
Financial statements audit	<p>There were no significant matters arising from our audit of the financial statements.</p>

Section one

Headlines (cont)

This Annual Audit Letter summarises the outcome from our audit work at Sheffield City Region Combined Authority in relation to their 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

Annual Governance Statement	We reviewed your Annual Governance Statement and concluded that it was consistent with our understanding.
Pension fund audit	<p>Our audit of the pension fund found three significant control weaknesses in relation to the implementation of a new pensions administration system, administered on behalf of the Authority by South Yorkshire Pensions Authority (SYPA). These related to mapping of data from the old to the new system, clearing a backlog of helpdesk queries and access controls to the system. These issues are detailed more fully in the high priority recommendations outlined in Appendix 1.</p> <p>We were satisfied that the identified control issues did not give rise to an accounting misstatement. We therefore issued an unqualified opinion on the pension fund financial statements as part of our audit report.</p>
Whole of Government Accounts	The Authority prepares a consolidation pack to support the production of Whole of Government Accounts by HM Treasury. We are not required to review your pack in detail as the Authority falls below the threshold where an audit is required. As required by the guidance we have confirmed this with the National Audit Office.
High priority recommendations	<p>We raised four high priority recommendations as a result of our 2015/16 audit work for which the Combined Authority has overall responsibility. These are detailed in Appendix 1 together with the action plan agreed by management. The recommendations related to:</p> <p><i>Combined Authority</i></p> <ul style="list-style-type: none"> — The need to improve and fully implement Corporate Governance arrangements in order to support the demonstrable achievement of Value for Money. <p><i>South Yorkshire Passenger Transport Pension Fund (SYPTPF)</i></p> <ul style="list-style-type: none"> — Mapping errors between old and new pensions administration systems; — A large volume of outstanding helpdesk queries in relation to the pension fund; and — The appropriateness of access controls around the pensions administration system. <p>We will formally follow up these recommendations as part of our 2016/17 work.</p>
Certificate	We issued our certificate on 19 September 2016. The certificate confirms that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.
Audit fee	Our fee for 2015/16 was £38,200 excluding VAT for the audit of the Combined Authority and a further £22,000 excluding VAT in relation to the Pension Fund. This is £1,000 higher than originally planned due to additional work required to gain assurance around the newly implemented pensions administration system. The £1,000 additional fee is still subject to approval by the PSAA.

Appendix 1: Key issues and recommendations

This page highlights the high priority recommendations raised as a result of our audit of the Authority and the South Yorkshire Passenger Transport Pension Fund. Also included is the management response as to how the recommendations are to be addressed.

No.	Issue and recommendation	Management response / responsible officer / due date
1	<p>Corporate Governance Arrangements</p> <p>We noted both from our own work and the Authority's Annual Governance Statement that a Code of Corporate Governance has not yet been established at the Authority.</p> <p>We also noted that whilst the Authority has made good progress in establishing a robust risk management process this was still in its infancy and had not been in place for the full 2015/16 period with the first corporate risk register only being presented to Audit Committee in July 2016.</p> <p>There remained some issues with regards to the data processing performance of the pension fund (highlighted in recommendations 2-4), although we acknowledge that, other than moving pensions administrator, these issues are largely out of the control of the Authority directly.</p> <p>Recommendation</p> <p>The Authority needs to establish a clear Code of Corporate Governance as a priority in order to demonstrate it is operating effectively in the 2016/17 period. Establishing the Code should also enable the risk management framework to become more fully embedded.</p>	<p>Management Response</p> <p>The Authority has implemented a number of changes to its Corporate Governance arrangements during financial year 2015/16, and will work to ensure that these are fully embedded and reviewed throughout 2016/17.</p> <p>The Authority continues to recognise that further development of arrangements are, however, necessary. External support has been commissioned from specialist consultancy providers to support the Authority in developing effective arrangements as it moves towards a devolution agreement with central government, and as an evolving organisation the Authority will continue to review those arrangements.</p> <p>As administering body, the Authority will coordinate with SYPA such that the changes necessary to address weaknesses identified in the pension fund are implemented.</p> <p>Responsible Officer</p> <p>Dave Smith – Head of Paid Service</p> <p>Due Date</p> <p>31 March 2017</p>
2	<p>Pension Admin System – Mapping Errors</p> <p>Due to mapping errors from Axis to UPM not being recognised until post go live, issues are arising on an ad hoc basis with no clear indication or certainty of how many exist in UPM.</p> <p>Management have informed us that once UPM DART (the data cleansing tool) is fully operational it will allow SYPA to improve the data quality significantly going forward.</p> <p>Recommendation</p> <p>Management should continue to be alert for mapping errors and deal with them promptly and completely (making full use of the DART tool once operational) once identified.</p>	<p>Management response</p> <p>Procedures are in place for the notification and rectification of data mapping errors as and when they arise. Whilst the possibility of new errors remains, it is unlikely that they will impact large numbers of members the further we move away from our live implementation date. Nevertheless, DART will be used to ensure any erroneous data is corrected.</p> <p>Responsible officer</p> <p>Gary Chapman, SYPA</p> <p>Due date</p> <p>31 March 2017</p>

Appendix 1: Key issues and recommendations (continued)

This page highlights the high priority recommendations raised as a result of our audit of the Authority and the South Yorkshire Passenger Transport Pension Fund. Also included is the management response as to how the recommendations are to be addressed.

No.	Issue and recommendation	Management response / responsible officer / due date
3	<p>Pensions Administration System – Helpdesk issues The number of issues logged across the UPM team in the major areas (Processes and Calculations) was high. At 16 June 2016 these stand at 173 outstanding issues in respect of Calculations and 251 outstanding issues in respect of Processes.</p> <p>It our understanding that a proportion of the issues logged were due to data migration problems.</p> <p>Recommendation Management should address those outstanding issues relating to data migration problems promptly and completely (making full use of the DART tool once operational).</p>	<p>Management response The UPM team is currently concentrating heavily on the annual returns and actuarial valuation process and as a consequence a backlog of support logs relating to UPM calculations and processes has built up over time. However the vast majority of these issues relate to current UPM usage and not data migration issues and are prioritised according to their urgency and impact on similar cases. It is agreed though that any data migration issues should be dealt without delay.</p> <p>Responsible officer Gary Chapman, SYPA</p> <p>Due date 31 October 2016</p>

Appendix 1: Key issues and recommendations (continued)

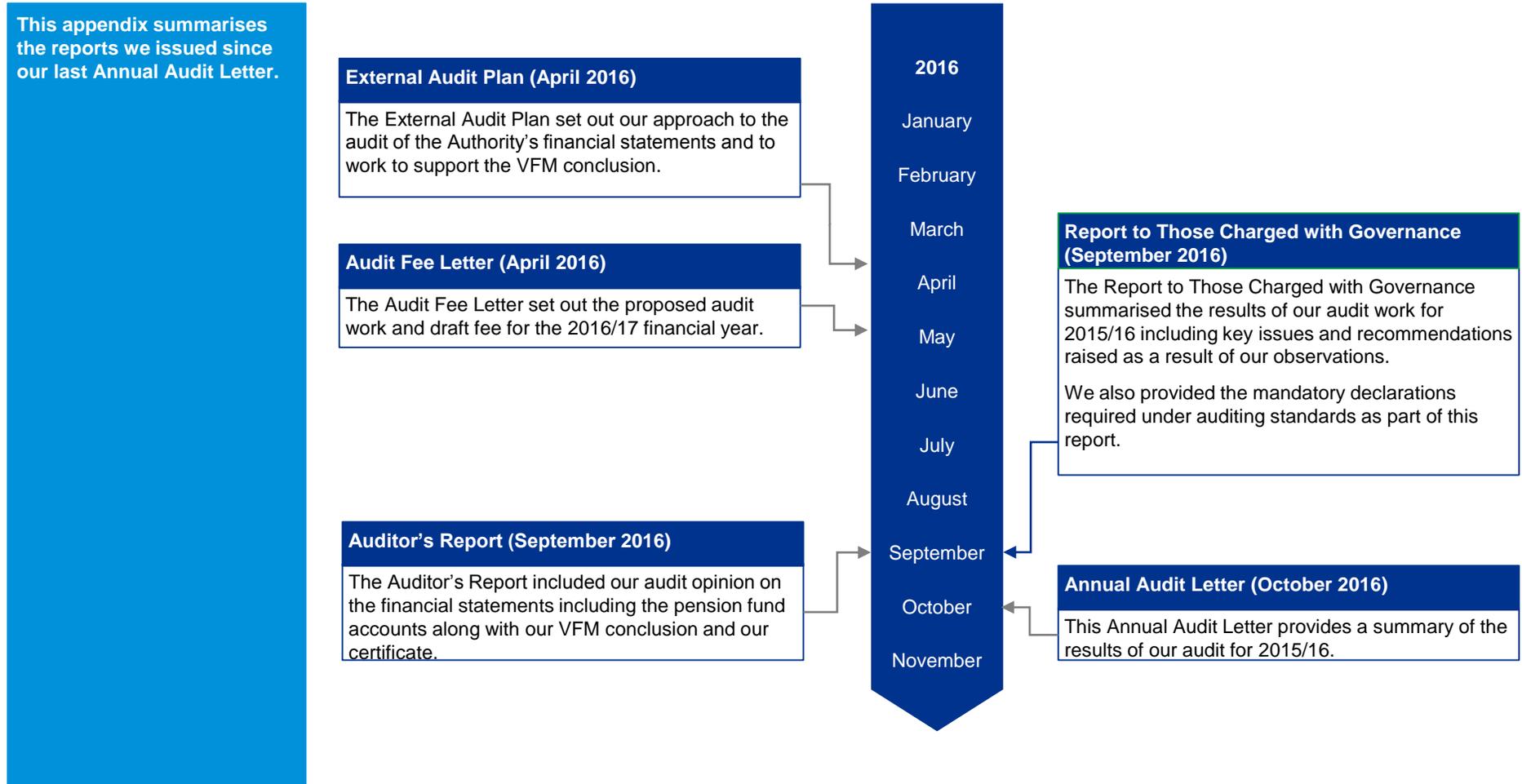
This page highlights the high priority recommendations raised as a result of our audit of the Authority and the South Yorkshire Passenger Transport Pension Fund. Also included is the management response as to how the recommendations are to be addressed.

No.	Issue and recommendation	Management response / responsible officer / due date
4	<p>Pensions Administration System – Access Control</p> <p>From review of the internal project plan / issues log we noted that following issue remained open on and after Weekly Update w/c 09/02/15, management have confirmed that this issue has not been resolved:</p> <p>Any pay element (basic pension, PI, refund, transfer, etc.) can be amended by Payroll without a process/instruction from Pensions Admin. Although there is a warning given by the system prior to confirming any amendment to a pay element.</p> <p>We noted no formal review had been carried out on the above area to provide assurance over unauthorised changes to key and or sensitive information occurring.</p> <p>Recommendation</p> <p>Management should carry out a formal review of the above area as soon as possible to ensure:</p> <ul style="list-style-type: none"> • Only authorised changes have and are made to data and system; • The results of the review should be documented and actions identified should be tracked to completion; • Appropriate segregations of duties are implemented to reduce the risk of unauthorised changes; and • Going forward a formal periodic reviews is carried out, documented and signed off by management. 	<p>Management response</p> <p>Procedures are in place for the notification and rectification of data mapping errors as and when they arise. Whilst the possibility of new errors remains, it is unlikely that they will impact large numbers of members the further we move away from our live implementation date. Nevertheless, DART will be used to ensure any erroneous data is corrected.</p> <p>Responsible officer</p> <p>Gary Chapman, SYPA</p> <p>Due date</p> <p>31 March 2017</p>

Follow up of previous recommendations

As part of our audit work we followed up on the Authority’s progress against previous audit recommendations. The two prior period audit recommendations related to governance arrangements and the pensions administration system. These have been picked up as part of the actions to address the recommendations raised in the current year.

Appendix 2: Summary of reports issued





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