



Auditor's Annual Report for South Yorkshire Mayoral Combined Authority

Year-ended 31 March 2024

5 February 2025

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This report is addressed to South Yorkshire Mayoral Combined Authority (the 'Authority'). We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

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01

Executive Summary

Executive Summary

Purpose of the Auditor’s Annual Report

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of South Yorkshire Mayoral Combined Authority (the ‘Authority’). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Authority alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:



Accounts - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Authority and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the CIPFA/LASSAC Code of Practice in Local Authority Accounting (‘the Code’).



Narrative report - We assess whether the narrative report is consistent with our knowledge of the Authority.



Value for money - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Authority’s use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.



Other powers - We may exercise other powers we have under Local Audit and Accountability Act. These include issuing a Public Interest Report, issuing statutory recommendations, issuing an Advisory Notice, applying for a judicial review, or applying to the courts to have an item of expenditure declared unlawful.

In addition to the above, we respond to valid objections received from electors.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities.

Accounts	<p>We issued a disclaimed opinion on the Authority accounts on 5 February 2025. The reason we disclaimed our opinion was as a result of being unable to obtain sufficient appropriate evidence over the disclosed comparative figures for the year ended 31 March 2023. Therefore, we were unable to determine whether any adjustments were necessary to the opening balances as at 1 April 2023 or whether there were any consequential effects on the Authority’s income and expenditure for the year ended 31 March 2024, and the balance of, and movements in, usable and unusable reserves for the year ended 31 March 2024.</p> <p>We have provided further details of the key risks we identified and our response on page 8.</p>
Narrative report	<p>We did not identify any significant inconsistencies between the content of the narrative report and our knowledge of the Authority.</p>
Value for money	<p>We are required to give an opinion as to whether the Authority has appropriate arrangements in place to secure economy, efficiency, and effectiveness in the use of resources.</p> <p>Our opinion is that the Authority does have appropriate arrangements in place. We identified no significant weaknesses in respect of arrangements to secure economy, efficiency, and effectiveness in the use of resources. Further details are set out on page 10.</p>
Other powers	<p>See overleaf.</p>

Executive Summary

There are several actions we can take as part of our wider powers under the Local Audit and Accountability Act:

Public interest reports

We may issue a Public Interest Report if we believe there are matters that should be brought to the attention of the public.

If we issue a Public Interest Report, the Authority is required to consider it and to bring it to the attention of the public.

We have not issued a Public Interest Report this year.

Judicial review/Declaration by the courts

We may apply to the courts for a judicial review in relation to an action the Authority is taking. We may also apply to the courts for a declaration that an item of expenditure the Authority has incurred is unlawful.

We have not applied to the courts this year.

Recommendations

We can make recommendations to the Authority. These fall into two categories:

1. We can make a statutory recommendation under Schedule 7 of the Local Audit and Accountability Act. If we do this, the Authority must consider the matter at a general meeting and notify us of the action it intends to take (if any). We also send a copy of this recommendation to the relevant Secretary of State.
2. We can also make other recommendations. If we do this, the Authority does not need to take any action, however should the Authority provide us with a response, we will include it within this report.

We made no recommendations under Schedule 7 of the Local Audit and Accountability Act.

We have not raised any other recommendations.

Advisory notice

We may issue an advisory notice if we believe that the Authority has, or is about to, incur an unlawful item of expenditure or has, or is about to, take a course of action which may result in a significant loss or deficiency.

If we issue an advisory notice, the Authority is required to stop the course of action for 21 days, consider the notice at a general meeting, and then notify us of the action it intends to take and why.

We have not issued an advisory notice this year.

In addition to these powers, we can make performance improvement observations to make helpful suggestions to the Authority. Where we raise observations we report these to management and the Audit, Standards and Risk Committee. The Authority is not required to take any action to these, however it is good practice to do so.

02

Audit of the financial statements

Audit of the financial statements

KPMG provides an independent opinion on whether the Authority's financial statements:

- Give a true and fair view of the financial position of the Authority as at 31 March 2024 and of its income and expenditure for the year then ended; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

We conduct our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We also fulfil our ethical responsibilities under, and ensure we are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard. We are required to ensure that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Our audit opinion on the financial statements

We have issued a disclaimed opinion on the Authority financial statements on 5 February 2025. The reason we disclaimed our opinion was as a result of being unable to obtain sufficient appropriate evidence over the disclosed comparative figures for the year ended 31 March 2023. Therefore, we were unable to determine whether any adjustments were necessary to the opening balances as at 1 April 2023 or whether there were any consequential effects on the Authority's income and expenditure for the year ended 31 March 2024, and the balance of, and movements in, usable and unusable reserves for the year ended 31 March 2024.

The full audit report is included in the Authority's Annual Report and Accounts for 2023/24 which can be obtained from the Authority's website.

Further information on our audit of the financial statements is set out overleaf.



Audit of the financial statements

The table below summarises the key financial statement audit risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Significant financial statement audit risk	Procedures undertaken	Findings
<p>Management override of controls</p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<ul style="list-style-type: none"> Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias; Evaluated the selection and application of accounting policies; In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments; Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates; Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the Authority's normal course of business, or are otherwise unusual; and We analysed all journals through the year and focused our testing on those with a higher risk, such as journals posted to unusual accounts or those posted by high-risk users. 	<p>We did not identify any material misstatements relating to this risk.</p> <p>We did not raise any formal recommendations relating to this risk.</p> <p>In line with Auditing Standards, we notified those charged with governance of an ineffective management review control relating to the formal documentation of review over manual journals.</p>

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Value for Money

Value for Money

Introduction

We are required to consider whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or 'value for money'. We consider whether there are sufficient arrangements in place for the Authority for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:



Financial sustainability: How the Authority plans and manages its resources to ensure it can continue to deliver its services.



Governance: How the Authority ensures that it makes informed decisions and properly manages its risks.



Improving economy, efficiency and effectiveness: How the Authority uses information about its costs and performance to improve the way it manages and delivers its services

Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Authority. We make performance improvement observations where we identify opportunities to improve in areas where we have not identified any weaknesses.

Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	12-14	15-20	21-22
Identified risks of significant weakness?	x No	x No	x No
Actual significant weakness identified?	x No	x No	x No
2022-23 Findings	No significant weakness identified	No significant weakness identified	No significant weakness identified
Direction of travel	↔	↔	↔

Value for Money

National context

We use issues affecting Combined Authorities nationally to set the scene for our work. We assess if the issues below apply to this Combined Authority.

Financial performance

Combined Authorities are generally funded through government grants, as well as transport levies and mayoral precepts where appropriate. Economic pressures, particularly high inflation rates and rising energy costs, have resulted in increased financial demands on local authorities, including Combined Authorities. This has led to budgetary constraints, especially when delivering services that are sensitive to inflationary trends, such as transport and social services. Despite national financial pressures, many Combined Authorities face cuts or freezes in funding, exacerbating financial strain. This has prompted calls for more sustainable and flexible funding models across the sector.

As with the rest of the country, Combined Authorities and transport operators continue to wrestle with the challenges arising from the longer-term impact of Covid-19 on patronage. As a result, funding from the Department for Transport was extended with the Government initially agreeing to extend the £2 fare cap for single tickets on buses alongside funding being announced in May 2023 to support levels of service which would otherwise not be commercially viable to allow for demand to recover and, as best as possible, services to return to a commercially sustainable level.

Governance

Given the nature of Combined Authorities' activities being heavily involved in the investment in the wider community, it is imperative that appropriate governance arrangements are in place to ensure sound investments are being entered into in the best interests of the wider region and in line with an Authority's strategic objectives and national priorities.

Local context

South Yorkshire Mayoral Combined Authority is a formal partnership of Barnsley Metropolitan Borough Council, Doncaster Metropolitan Borough Council, Rotherham Borough Council, Sheffield City Council and the directly elected Mayor of South Yorkshire. The Authority is responsible for setting the policy direction for South Yorkshire and maximising financial investment to achieve economic growth. It is also the Local Transport Authority for South Yorkshire and as at 1 April 2023, fully integrated its wholly owned subsidiary, South Yorkshire Passenger Transport Executive, who had previously been responsible for these activities into the Authority.

Furthermore, on the 22 March 2024, tram operations were brought back under public control with its operations being conducted through a wholly owned subsidiary of the Authority, South Yorkshire Future Trams Limited (SYFTL). The Authority are also in the process of reviewing the proposal of bus franchising across South Yorkshire to bring buses back under public control.

For 2023/24, the Authority had a planned breakeven position. At the year end, the Authority recognised a surplus on the provision of services of £30.6m. This was achieved largely as a result of an increase in treasury management income and slippage in the delivery of capital projects. The Authority ended the year with a cash balance of £136.0m and usable reserves of £181.8m, with £113.5m of these relating to the General Fund balance. Closing unusable reserves totalled £30.2m. The Authority had a revised planned capital spend of £218.4m for 2023/24 and delivered a total capital spend of £150.0m for the year.

The Authority budgeted a breakeven position for 2024/25. Planned revenue expenditure for 2024/25 was originally budgeted at £209.6m and has subsequently been revised to £225.8m following Quarter 2 reporting. Furthermore, planned capital expenditure for 2024/25 has been revised from an original budget of £187.2m to £184.4m. Following the transfer of the functions and competencies of the Police and Crime Commissioner (OPCC) into the MCA on 7 May 2024, due diligence performed on the OPCC's debt management arrangements has identified a significant omission in complying with proper accounting practice with regard to charging the revenue budget with amounts set aside for the repayment of debt (known as the Minimum Revenue Provision or MRP). This has led to a S.114 Notice being issued jointly by the MCA's section 73 Officer and Monitoring Officer to the Mayor (who post integration has assumed the functions of the former Police and Crime Commissioner) regarding the failure to comply with statutory MRP guidance giving rise to a deficiency to the Police Fund revenue budget. The MCA is now working with the Police, external stakeholders, Central Government and external auditors to develop a sustainable solution to this issue to help manage both the initial financial shock and the longer-term sustainability of the organisation. As the outcome of these discussions is unconfirmed at this stage, no Police Budget has been incorporated into Authority reports as at Quarter 2.

Financial Sustainability

How the Authority plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Authority ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Authority plans to bridge its funding gaps and identifies achievable savings;
- How the Authority plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Authority ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Authority identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Financial Planning

- In line with other public bodies and local partners, the Authority is required to deliver a balanced budget each financial year. A Business Planning process is led by the Executive Director of Resources and Investment and the Executive Director of Policy and Strategic Development to develop the annual budget. The budget is largely contingent on the flow of programme funding from Central Government and development is supported through internal team discussions with budget holders, bi-monthly meetings with the South Yorkshire Directors of Finance and one-to-one engagement sessions with elected Leaders of the four constituent authorities. Business Plans are developed within designated planning areas, which are then collated and costed by the Finance Team in order to identify any areas of unfunded activity.
- Business Planning Updates are regularly presented to the Executive Leadership Board (ELB), as well as budget awareness sessions being held early in the financial year to provide a greater understanding of the planning environment, financial strategy and budget setting process.
- The annual budget for 2023-24 was approved by the Board in March 2023 and included a planned breakeven position. From our review of the March 2023 Board minutes, it is evident that appropriate scrutiny and challenge was applied over financial budgets.
- The 2024-25 annual budget, approved by the Board in March 2024, also reports a planned breakeven position and incorporates all transport functions following the integration with South Yorkshire Passenger Transport Executive (SYPTTE) during 2023-24. The budget also reflects resources required to support the franchise assessment activity to prepare for the potential decision to move to a bus franchising model in 2024-25. However, the initial budget did not incorporate activity of the Office for Police and Crime Commissioner (OPCC) given the decision to transfer OPCC powers to the MCA was not determined until May 2024.
- Additionally, under the National Framework and CIPFA Code of Practice, the Authority must produce an annual medium term financial strategy (MTFS) covering at least 3 years in relation to the transport functions it operates. The Authority is therefore required to set a Transport Levy for the financial year, as well as considering the requirement for a Mayoral Precept to support Mayoral activity. For both 2023-24 and 2024-25, a 2% increase in Transport Levy and no Mayoral Precepts were proposed. We have evidenced that the MTFSs for 2023-24 and 2024-25 were presented to Board for review and approval in January 2023 and January 2024, respectively, with appropriate challenge and scrutiny being applied.
- The annual budgets and transport MTFSs are refreshed annually to ensure forecasts reflect national developments and local circumstances, as well as the effects of the MCA's ongoing and rolling budget and investment planning processes. This process helps to ensure that the financial plan is aligned to the expectations set out in the Authority's Strategic Economic Plan (SEP) and the 2020-2040 Transport Strategy, which outline the Authority's relevant strategic and operational objectives.

Financial Sustainability

How the Authority plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Authority ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Authority plans to bridge its funding gaps and identifies achievable savings;
- How the Authority plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Authority ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Authority identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

- We have also confirmed that the Capital Strategy and Treasury Management Strategy are heavily referenced throughout the annual budgets and MTFSSs, assuring that the approved strategies have been considered and applied throughout financial planning.
- Key assumptions used to produce the annual budgets and MTFSSs are clearly included within the respective papers that are presented and discussed at the Board meetings in January and March, allowing for challenge and scrutiny of these key budget assumptions, such as assumed pay awards, inflation and government funding.
- Risks in achieving the planned outturn are clearly communicated within the annual budget and MTFS setting process to ensure decision makers have the appropriate information to challenge and approve the plans. These risks to achieving the financial plan are also communicated to the Board through the quarterly finance updates presented.

Performance for the Year Against the Financial Plan

- The Authority recognised a surplus on the provision of services for the 2023-24 year of £30.6m. The majority of this variance to the balanced budget is a result of an increase in treasury management income compared to budget and slippage in the delivery of capital projects, offset by a corresponding reduction in capital grants. The Authority ended the financial year with a cash balance of £136.0m compared to an opening cash position of £164.1m. Through review of the 2023-24 Financial Outturn Report presented to Board in June 2024, it is evident that this update includes sufficient information to summarise the Authority's position, the main factors causing the variance to budget and the impact this has to budget variations for 2024-25.

Productivity and Efficiency Plans

- The Authority does not have a formal efficiency programme in place for 2023-24 given the nature of its activities, funding streams and capital investment operations. We deem this to be appropriate based on our understanding of the MCA's current operations, however we note that upon integration of the OPCC, the Authority will need to ensure they embed a more formal process to identify, deliver and monitor efficiencies and cost savings.

Assessing Risks to Financial Sustainability

- The Authority undertook an exercise during the year to refresh the Reserves Strategy for 2024-25 as part of the budget setting process. This identified an opportunity to reallocate funds from the General Fund Reserve to a Bus Resilience Reserve to meet any loss of income risk should the Authority progress with bus franchising. The General Fund and Bus Resilience Reserves are forecast to be held at a balance of £5m and £10m, respectively, for 2024-25 and the following 4 financial years. This is deemed adequate by the Authority to maintain an appropriate minimum working reserves balance.

Financial Sustainability

- Through our review of the 2024-25 South Yorkshire Transport MTFs, we noted that the Authority is forecasting a breakeven position for 2024-25 and the following 2 financial years. The South Yorkshire Transport revenue budget is partially funded by the Transport Levy Reduction Reserve. It is forecast that this reserve will be fully depleted by the end of 2026-27, however, the Authority is confident that this budget is sustainable given the anticipated reductions in capital financing costs due to fixed interest costs and the planned repayment of debt.
- There are also significant longer-term risks that may impact the longer-term financial position of SYMCA which need to be considered when setting reserves levels, such as inflation, funding streams and the integration of the OPCC and the impact this will have on budgets, reserves and the medium-term forecasts. These are clearly communicated within the annual budget and specifically identify the need to revisit planning assumptions and provide a revised budget in the event that the Authority integrates with the OPCC.
- Following the transfer of the functions and competencies of the Police and Crime Commissioner (OPCC) into the MCA, due diligence performed on the OPCC's debt management arrangements has identified a significant omission in complying with proper accounting practice with regard to charging the revenue budget with amounts set aside for the repayment of debt (known as the Minimum Revenue Provision or MRP). This has led to a S.114 Notice being issued jointly by the MCA's section 73 Officer and Monitoring Officer to the Mayor (who post integration has assumed the functions of the former Police and Crime Commissioner) regarding the failure to comply with statutory MRP guidance giving rise to a deficiency to the Police Fund revenue budget. The MCA is now working with the Police, external stakeholders, Central Government and external auditors to develop a sustainable solution to this issue to help manage both the initial financial shock and the longer-term sustainability of the organisation. As the outcome of these discussions is unconfirmed at this stage, no Police Budget has been incorporated into Authority reports as at Quarter 2. However, as noted in their Narrative Report, the MCA approaches these issues from a relatively strong position, with General Fund reserves affording the MCA some space to manage the immediate financial shock whilst discussions with Government remain ongoing.

Managing Financial Sustainability Risks

- Given the nature of its activities, funding streams and capital investment operations, the Authority does not have a formal efficiency programme in place for 2023-24 to manage financial sustainability risks. However, cost savings and increases in levy funding are considered and included within the proposed annual budgets approved by the Board to support the breakeven budget position.
- From our review of the quarterly Risk Management Monitoring Reports, we have confirmed that the Audit, Standards and Risk Committee discuss strategic, financial and operational risks through their review and challenge of the Risk Registers.

Conclusion

Based on our procedures performed we have not identified a significant risk associated with financial sustainability.



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Key financial and performance metrics:	2023-24	2022-23
Planned surplus/(deficit)	£0.0m	£0.0m
Actual surplus/(deficit)	£30.6m	£3.5m
Usable reserves	£181.8m	£170.1m
Gross debt compared to the capital financing requirement	0.43 : 1	1.12 : 1
Year-end borrowings	£47.4m	£119.6m
Year-end cash position	£136.0m	£164.1m

Gross debt compared to the capital financing requirement: Authorities are expected to have less debt than the capital financing requirement (i.e. a ratio of under 1 : 1) except in the short term, else borrowing levels may not be considered prudent.

Governance

How the Authority ensures that it makes informed decisions and properly manages its risks.

We have considered the following in our work:

- how the Authority monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Authority approaches and carries out its annual budget setting process;
- how the Authority ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Authority ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the Authority monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour.

Risk Management

- The Authority's approach to risk management is outlined in its Management of Risk Framework and is used to help identify, assess and manage risks to ensure a consistent methodology is used. As part of the Authority's process, risks are identified through risk discussions and are considered across a number of strategic risk groups (policy, financial, organisational, commissioned operations and delivery, legal compliance and regulation, and transport), with risks being recorded within the 4Risk system.
- A Corporate Risk Register is maintained for cross cutting, ongoing and/or longer-term risks that impact on SYMCA and its strategic objectives. There are also Directorate and Team Risk Registers which contain risks specific to teams and can be reflective of objectives, business plans, processes and operating environments. Such risks are escalated and reported in line with the Recording and Reporting section of the Management of Risk Framework. This means high and medium / high level risks will be reported through the management hierarchy into the Executive Leadership Team (ELT), Audit, Standards and Risk Committee (ASRC) quarterly and the MCA Board annually. This is deemed appropriate given the Audit, Standards and Risk Committee has delegated powers 'To oversee the effectiveness of the Authority's risk management arrangements'.
- The Corporate Risk Register shows that the Authority has considered the probability and impact of each risk with sufficient and appropriate rationale and how the Authority intends to reduce each risk to an achievable risk score. Our review has demonstrated that these documents included sufficient detail and display strong and robust arrangements are in place to help identify, assess and monitor financial and operational risk.
- To ensure that a consistent scoring mechanism is in place across the MCA, risks are assessed using agreed criteria for probability and impact (ranging from 1-5), resulting in an overall risk score being calculated using a prescribed risk matrix.
- Actions to reduce the risk exposure to an acceptable level in line with risk appetite are recorded within the risk management system and activity monitored and reported on by risk owners, directors, ELT and ASRC. The frequency of monitoring and who is reported to is dependent on the risk score of the items concerned. High risk items are reviewed monthly by the risk owner and reported on a quarterly basis to Directorate Leadership teams, ELT and ASRC whereas low risk items are reviewed half yearly by the risk owner and reported on quarterly to the Directorate Leadership team.

Decision Making

- The Authority's organisational structure is outlined within the Assurance Framework and provides a clear and detailed overview of the roles and responsibilities of each decision making body within the organisational structure. We deem the Authority to have an appropriate structure in place to enable informed decisions to be made and performance to be scrutinised at the correct setting.

Governance

How the Authority ensures that it makes informed decisions and properly manages its risks.

We have considered the following in our work:

- how the Authority monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
 - how the Authority approaches and carries out its annual budget setting process;
 - how the Authority ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
 - how the Authority ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
 - how the Authority monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour.
- There is an overarching committee structure in place in which policies and procedures are regularly reviewed for appropriateness. All relevant policies and procedures are communicated and made available to staff via the intranet. The MCA has a Code of Conduct for both members and employees, as well as the Authority Constitution which includes the Scheme of Delegation, Contract Procedure Rules and Financial Regulations. The Contract Procedure Rules and Scheme of Delegation outline both financial limits in place for various processes within the Authority, as well as operational delegations to ensure both financial and non-financial authorisations and reviews are escalated appropriately.
 - In June 2023, a New Governance Model was approved by the MCA Board to reflect the significant period of change the MCA has experienced, particularly in relation to the integration of South Yorkshire Passenger Transport Executive (SYPT). The MCA also has oversight of a greater range and scale of programmes and budgets such as Adult Education Budgets (AEB), an expanded City Region Sustainable Transport Settlements (CRSTS) and the 'Gainshare' devolution settlement. This has resulted in a revised governance framework whereby a 'cabinet' style leadership model was implemented and the 4 Thematic Boards previously in place were replaced by 8 Cabinets and a Business Advisory Board and Mayor's Economic Advisory Council. Details of the roles of these Boards are outlined in the updated Assurance Framework for 2024.
 - We have reviewed relevant Committee and MCA Board minutes as well as the supporting papers throughout the financial year. We are satisfied that there is sufficient ability for Committee and Authority members to take informed decisions based upon the detail provided in the papers presented. These papers also demonstrate that with regard to financial risks reported and recommendations made, there are detailed discussions occurring to challenge and analyse the information being presented.
 - Agenda items are accompanied by front sheets offering a summary of the paper and recommended actions for Members, as well as details of any advice taken in relation to a number of aspects (financial and procurement, legal, human resources, equality and diversity, climate change, information and communication technology, and communications and marketing) and implications identified. The summaries included are appropriate and provide a concise high level overview of the paper so relevant committee members are able to identify the key messages discussed in the wider report.
 - The Authority has a comprehensive business case process to make informed decisions. All schemes funded by the MCA are subject to investment appraisal, as outlined within the Assurance Framework. All schemes seeking investment undergo a proportionate process to assess the merits of the application, its strategic fit and value for money, ensuring that the MCA considers economic, social, and environmental impacts of its investment from the outset.

Governance

How the Authority ensures that it makes informed decisions and properly manages its risks.

We have considered the following in our work:

- how the Authority monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Authority approaches and carries out its annual budget setting process;
- how the Authority ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Authority ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the Authority monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour.

- Initial business cases are supported by the Programme Management Office (PMO) before being reviewed by the Assurance Team and Programme Board and recommended for approval by the Executive Team. Where schemes are deemed to be viable, the applicant is then required to develop and submit a Business Justification Case (BJC) or an Outline Business Case (OBC) for approval by the MCA Board. A BJC is used for projects seeking funding of £2m or less. Meeting papers for the Board are published on the MCA website a week before the meeting, including the project summaries and Value for Money assessments of applications seeking OBC approval, to allow members of the public to comment.
- The business case process is supported by templates and guidance. Through our review of MCA Board minutes throughout the year, we confirmed that Programme Approvals is a standing agenda item for each meeting. Given the nature of the Authority's activities, there have been a significant number of business cases submitted to the MCA Board for approval during the year. These include the approval for funding of Cannon Brewery, South Yorkshire Airport City and Tram Renewal. We have reviewed a number of business cases submitted for approval during the year and have confirmed that these were completed in line with the business case guidance and included sufficient detail to provide the relevant Boards with the background of the business case and the options available to the Authority in which they require approval for, each with their merits and drawbacks included for consideration.
- Through our year end substantive testing, we identified that specific loans to local entities had been written-off during the year. This included loans of £2m to Lontra and £3.2m to the Ultimate Battery Company (UBC) which were supported by Gainshare funding grants of £5.16m and £2m, respectively. The South Yorkshire Gainshare funding has been designed to support both place-based investment plans, and key thematic areas that aim to deliver the stronger, fairer and greener policy objectives outlined within the Authority's Strategic Economic Plan 2021-2041 (SEP). At a programme level, direct investments into businesses in the strategically important sector of advanced manufacturing were expected to enable both the growth of indigenous businesses and attract inward investment by supporting businesses from outside of the region to establish themselves in South Yorkshire. The proposed loans to Lontra and UBC were evaluated by the Authority under its Assurance Framework and both projects were deemed to be well aligned to the SEP. However, due to issues encountered by these projects, both companies have since ceased trading without the repayment of loans to the Authority. As a result of the subsequent unrecoverable nature of the loans provided to these projects, the Authority engaged an independent consultant to inform the national evaluator's Gateway Review of these investments. This review resulted in a number of key lessons learned being identified and an action plan is currently underway and will be published once the Final Review Report has been received. We note that the external consultant did note that the business case process followed for these investments was deemed to be fit for purpose and the issues and difficulties experienced by these companies could not have been foreseen. We have therefore not identified a significant weakness in governance arrangements in relation to the circumstances of these loan write-offs and will follow up on the resulting action plan as part of our 2024-25 review of arrangements.

Governance

How the Authority ensures that it makes informed decisions and properly manages its risks.

We have considered the following in our work:

- how the Authority monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Authority approaches and carries out its annual budget setting process;
- how the Authority ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Authority ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the Authority monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour.

- Regular updates are also provided to the MCA Board and Audit, Standards and Risk Committee in relation to significant operations or changes expected at the Authority, including the progression of both the PCC transfer of functions and the transfer of tram operations from South Yorkshire's Supertram Limited (SYSTL) to South Yorkshire Future Trams Limited (SYFTL), as well as the ongoing deliberations relating to bus franchising.

Budget Monitoring

- We found that the budget monitoring and control processes were able to identify and incorporate significant pressures into the financial plan to ensure it was achievable and realistic. The budgets for 2023-24 and 2024-25 were constructed based on appropriate local and national developments and we obtained evidence of appropriate review and sign off.
- Finance Business Partners review each budget on a monthly basis, and any variance is discussed with the budget holder. The budget statement viewable by budget holders includes details of the annual budget allocated, committed expenditure to date and year to date (YTD) actuals for each account code and business unit to identify specific areas where cost improvement needs to be reviewed. Significant variances are escalated to Directorate Management and Executive Leadership Board (ELB), as necessary, to ensure that appropriate action is being taken.
- In the absence of a formal Finance Committee, financial performance is reported directly to the MCA Board on a quarterly basis in the form of a Budget Update Report. The quarterly Budget Update Reports set out the position in relation to revenue and capital and also more specifically the Local Transport Authority, which is ring-fenced from the rest of the MCA activity. The budget is normally revised at Q1 for outturn slippage, Q2 for a formal mid-year reset, and Q3 to prepare carry-forwards for the new financial year. We have confirmed that quarterly finance updates were presented to the MCA Board in July 2023, November 2023, March 2024 and June 2024. The quarterly finance updates include an executive summary and background to provide an overview of financial performance from a revenue, capital and reserves perspective. The detailed report provides the Board with an update on financial performance, including forecast outturn and variances to budget, as well as an update on reserves and treasury management. Supporting appendices provide a clear overview of the narrative noted within the body of the report and include an overview of performance in tabular formats, as well as specific performance on the Local Transport Authority.
- The MCA Board has been kept informed of the funding arrangements in place for 2023-24. We have also confirmed through our review of the annual budget, MTFS and quarterly Budget Update Reports that risks to the achievement of the financial targets are regularly monitored and reviewed throughout the year, with the quarterly Budget Update Reports providing an update to members on where progress is up to year to date and any significant risks that may impact the achievement of both the budget for the year in question, and the MTFS from a revenue, capital and reserves perspective.

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- how the Authority monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour.

Compliance with Laws and Regulations

- Through our review of the Scheme and Delegation, Financial Regulations and Contract Procedure Rules, we are satisfied that these detail the roles, responsibilities and delegation of key officers and Committees / Groups, thus detailing appropriate processes to ensure officer compliance.
- As part of the Governments' commitment to greater transparency, the Authority is required to regularly publish procurement information. This means the Authority publishes details on their website of all contracts over £5,000. The Contracts Register can be seen on the Authority's website.
- Codes of Conduct are in place for Authority members, as well as all officers and staff, that set out the behaviours expected of all employees and reinforce its values and standards. A range of policies, procedures and strategies, which staff are made aware of and adhere to through awareness and training, are available to be viewed on the Authority's website.
- The Codes of Conduct provide guidance on receiving gifts and hospitality. All offers of gifts or hospitality must be notified in writing to the Monitoring Officer and recorded in the Gifts and Hospitality Register. Any gifts and hospitality received with a value of more than £50 are published on the individual's profile on the Authority's website.
- Through inquiries of management, we have confirmed that there have been no reported significant or repeated departures from key regulatory or statutory requirements, as well as no departures from professional standards such as CIPFA Financial Management Code, Prudential Code or Treasury Management Code. This has also been confirmed through our review of the 2023-24 Treasury Management Outturn Report in which compliance is reported to the MCA Board on a quarterly basis. However, we note that the Authority issued a Section 114 notice in September 2024 by the MCA's section 73 Officer and Monitoring Officer to the Mayor (who post integration has assumed the functions of the former Police and Crime Commissioner) regarding the failure to comply with statutory MRP guidance giving rise to a deficiency to the Police Fund revenue budget. Given that the Authority had no responsibility nor authority to challenge existing practices of the OPCC statutory entity before transfer and its subsequent reaction to the identification of this, including the timely engagement of external advisors to quantify the extent of this omission and open communication with Central Government to seek a resolution to address this error, we have not identified a significant risk in relation to the Authority's governance arrangements in place.

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- how the Authority monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour.

- The Anti-Fraud and Corruption Strategy sets out the Authority's arrangements to prevent and detect fraud and irregularities. The Fraud Response Plan appended to the Anti-Fraud and Corruption Policy provides direction and guidance to employees in dealing with suspected cases of theft, fraud and corruption. Employees are required to raise concerns about possible theft, fraud, corruption or irregularities to line managers for further investigation, which are escalated to the Monitoring Officer and Head of Internal Audit where necessary. These are complemented by the Whistle Blowing Policy where employees are encouraged to raise concerns in confidence. These policies are all included within the Constitution and provide useful knowledge for all staff with details of channels of communication and processes to follow for anyone who has concerns or suspicions of malpractice.

Conclusion

Based on our procedures performed we have not identified a significant risk associated with governance.

	2023-24	2022-23
Control deficiencies reported in the Annual Governance Statement	None	None
Head of Internal Audit Opinion	Reasonable assurance	Reasonable assurance
Local Government Ombudsman findings	None	None

Improving economy, efficiency and effectiveness

How the Authority uses information about its costs and performance to improve the way it manages and delivers its services

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Authority evaluates the services it provides to assess performance and identify areas for improvement;
- how the Authority ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Authority commissions or procures services, how it assesses whether it is realising the expected benefits.

Identification of Cost Savings

- Management monitors cost performance via the budget monitoring process in which explanations are obtained for variances between budget and actuals. Each programme also has a cost plan which is used to profile the resources required to deliver specific programmes, projects and other corporate initiatives. These are then used to manage costs within the constraints of the funding envelope and discussed at budget monitoring meetings with budget holders to identify any required cost savings.
- The Authority does not carry out specific benchmarking exercises in order to identify cost savings given the nature of its operations and funding streams. We have deemed this to be appropriate given the varying nature of MCA functions and therefore there not being many MCAs with the same functions to benchmark against.

Non-Financial Performance Monitoring

- The Authority has a Monitoring and Evaluation Framework in place which provides a framework for effective performance management. sets out how projects and programmes, including devolved funds such as Adult Education Budget (AEB), City Regional Sustainable Transport Settlement (CRSTS) and UK Shared Prosperity Fund (UKSPF), will be assessed to understand the inputs, outputs, and impacts of investments made in South Yorkshire. The framework sets out several logic models and identifies the performance metrics and indicators that are used to assess the impact of a project or programme and its contribution to delivering the Strategic Economic Plan (SEP) and outcome targets for economic growth.
- The SEP sets out the performance measures and targets that will be used to assess whether the MCA has been successful in achieving its objectives by 2040, with each indicator being assigned a desired outcome, the data the indicator will be measured against and the 2040 target.
- The Authority's key performance indicators (KPIs) are outlined within the Assurance Framework. Each KPI is allocated a desired outcome, the data the indicator will be measured against, 2040 target, reviewing Board/Committee and a responsible Director.
- Monitoring of individual projects from sponsors takes place with quarterly performance reports to the MCA Executive Team, with all reports being signed off by the Section 73 Officer. The MCA Executive Team presents Performance Reports on project and programme delivery to the relevant Thematic Board / Cabinet. This ensures that Board members are informed of progress on projects and are sighted on any issues that will result in financial slippage or underperformance.

Improving economy, efficiency and effectiveness

How the Authority uses information about its costs and performance to improve the way it manages and delivers its services

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- how the Authority evaluates the services it provides to assess performance and identify areas for improvement;
- how the Authority ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Authority commissions or procures services, how it assesses whether it is realising the expected benefits.

Monitoring of Outsourced Services

- The Authority does not currently outsource any significant services.

Conclusion

Based on our procedures performed we have not identified a significant risk associated with improving economy, efficiency and effectiveness.



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