

GOVERNANCE AND AUDIT COMMITTEE
MEETING TO BE HELD AT 12.00 pm ON 28 JULY 2016
WELLINGTON HOUSE, WELLINGTON STREET, LEEDS

A G E N D A

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

3. EXCLUSION OF THE PRESS AND PUBLIC

To identify items where resolutions may be moved to exclude the press and public.

4. MINUTES OF THE MEETING HELD ON 19 APRIL 2016

(pages 4 - 8)

Copy attached.

5. TERMS OF REFERENCE AND FORWARD PLAN OF WORK 2016-17

(pages 9 - 12)

To consider the attached report

6. INTERNAL AUDIT CHARTER 2016

(pages 13 - 20)

To consider the attached report.

7. ANNUAL INTERNAL AUDIT REPORT AND OPINION

(pages 21 - 39)

To consider the attached report.

8. INTERNAL AUDIT PROGRESS REPORT

(pages 40 - 57)

To consider the attached report

9. REVIEW OF INTERNAL CONTROL AND EFFECTIVENESS OF INTERNAL AUDIT

(pages 58 - 64)

To consider the attached report

10. EXTERNAL AUDIT UPDATE

(pages 65 - 76)

To consider the attached report

11. INTERNAL CONTROLS AND FINANCIAL MONITORING

(pages 77 - 80)

To consider the attached report

Signed:

A handwritten signature in black ink, appearing to be "B. M. M.", written over a horizontal line.

WYCA Managing Director

PUBLIC INSPECTION OF DOCUMENTS AND ACCESS TO MEETINGS OF THE WEST YORKSHIRE COMBINED AUTHORITY

- (a) Files containing documentation relating to items to be discussed at the meeting may be inspected by contacting the named officer as detailed below. Certain information may be confidential and not open to inspection.
- (b) The attached agenda items do not contain any exempt information as defined in Part 1 of Schedule 12A to the Local Government Act 1972.

Compilation of Agenda by:	Angie Shearon
Telephone No:	Leeds (0113) 251 7217
Date:	15 July 2016

**MINUTES OF THE MEETING OF THE
GOVERNANCE & AUDIT COMMITTEE
HELD ON TUESDAY 19 APRIL 2016 IN WELLINGTON HOUSE, LEEDS**

Present: Councillor G Hussain (Chair)

Councillors N Barnes, G Burton, H Richards and
Roger Marsh (WYCA/LEP)

In attendance: S Appleton and M Kirkham (Mazars)

29. Apologies for Absence

An apology for absence was received from Councillor S Benton.

30. Declarations of Disclosable Pecuniary Interests

There were no pecuniary interests declared by members at the meeting.

31. Minutes

Further to minute 25, Internal Audit Progress Report, members were advised that the report on business continuity arrangements would be prepared for a future meeting as the current procedures were being updated to reflect the move of the external servers and back up arrangements to a new remote site and the introduction of desktop virtualisation.

Resolved: That the minutes of the meeting held on 9 February 2016 be approved.

32. External Audit Update

The Committee considered a report which provided an update on external audit matters.

Representatives from Mazars attended the meeting to present their report on the interim audit and to answer questions on the following documents which set out progress and the next steps:

External Audit Progress Report

Members considered the report which was attached at Appendix A. This summarised the work undertaken and set out some key questions for the Committee to consider regarding fraud and compliance. Mazars required a response to the questions by 3 June 2016 and it was agreed that the Chair should respond on the Committee's behalf. It was noted that the request for information was standard auditing practice and members asked for sight of the previous year's response. This, together with a copy of the proposed response to the questions set out in the External Audit Progress Report would be shared with members of the Audit and Governance Committee before its submission on 3 June 2016.

Audit Strategy Memorandum

The Committee noted the purpose and background of the Audit Strategy Memorandum which was attached at Appendix B. They discussed the document which set out the approach being taken by Mazars including the scope and timeline of the work to be undertaken, the risks they will be addressing and confirmation of the expected audit fee.

Value for Money Audit Risk Assessment

The Value for Money Audit Risk Assessment was attached at Appendix C and set out the outcome of the planning work and identified the risks in specific areas which would be further considered during the final audit.

Members were aware of the changes required in the process of appointing new auditors for the 2017/18 year end. It was noted that consideration would need to be given to the way in which WYCA established an Auditor Panel to make such appointment and a report on proposed options would be prepared for a future meeting.

Resolved:

- (i) That the External Audit Progress Report, Audit Strategy Memorandum and Value for Money Audit Risk Assessment from Mazars be noted.
- (ii) That the Chair responds to Mazars on the Committee's behalf to the questions set out in the External Audit Progress Report and copies of the previous year's response and this year's proposed response be shared with members of the Audit and Governance Committee before its submission on 3 June 2016.
- (iii) That the future work required to establish an Auditor Panel and make an audit appointment by 31 December 2017 be noted.

33. Internal Audit Progress Report

The Committee considered a report on work undertaken by the Internal Audit Section from 1 February 2016 to 31 March 2016 and the key issues which had been identified were outlined in paragraphs 4.3.1 to 4.3.4 of the submitted report.

Review

Tendered Subsidised Bus Services
Main Accounting System
Prepaid Tickets & Concessionary Travel
Creditors

Opinion

Controlled
Well Controlled
Requires Improvement
Well Controlled

The Committee was given a brief overview of the key elements of each of the Audit Reviews, the purpose of which was to:

- (i) identify the objectives and key risks associated with the Audit entity;
- (ii) determine controls which Internal Audit would expect to be present to mitigate risk;
- (iii) review the existence and operation of controls through a combination of substantive and compliance testing.

It was noted that an audit follow-up had also been undertaken on the CHASE CRM (Customer Hubs and Service Experience) and details were outlined in the submitted report.

Prepaid Tickets and Concessionary Travel

It was reported that the review of Prepaid Tickets and Concessionary Travel had been evaluated as requiring improvement. Its objective had been to assess the arrangements in place for the calculation of the prepaid ticket pool, concessionary fares reimbursements and the management of agents' ticket stocks. The review had identified a requirement for the control environment to be determined for on-line ticket sales transactions which were planned to be introduced later in the year. In addition, that system user access rights be identified and enforced prior to the roll-out of CHASE system upgrades and it was recommended that a plan be produced for reporting changes or system performance issues in relation to smartcard usage.

Details of progress made to date in completing the Audit Plan 2015/16 were provided in Appendix A of the submitted report. It was noted that the performance of individual audit assignments was substantially in line with the Plan with a forecast overrun of 6 days.

Members discussed the arrangements which were in place to monitor the implementation of audit recommendations and considered the information contained in Appendix B which related to the two overdue high priority recommendations. It was confirmed that all recommended actions up to and including 2014/15 had been completed.

It was reported that in addition to completion of the above audit reviews, audit testing work had been concluded in relation to Risk Management, ICT Data Security, Metro Travel Centre Operations, Yorcard ICT Administration and Contract Monitoring. A summary of the results from those reviews would be provided to the Committee at the next meeting.

Resolved - That the report be noted.

34. Internal Audit 2016/17

The Committee considered a report on the schedule of internal audit reviews for 2016/17 and the associated resource requirement.

It was reported that the International Auditing Standards required the Head of Internal Audit to establish a risk based plan to determine the priorities of the internal audit activity consistent with the Authority's objectives. The final version of the Internal Audit Plan had been circulated to members of the Governance and Audit Committee prior to its approval by WYCA on 31 March 2016 and full details of the plan were attached at Appendix 1. It was noted that the content and progress of work would be reviewed regularly and the Committee would be notified if any changes were required to address changing risks or audit priorities.

At the last meeting members had sought assurances that Internal Audit had adequate resource in view of the new areas of assurance which had been identified for economic development activities. The Audit Plan identified a shortfall in resource of 204 days and also recognised that the requirement for assurance may change in subsequent years. Members discussed a number of options to address the imbalance between the required levels of assurance work identified for 2016/17 and supported, in principle, the need for an additional resource. However because it was currently unclear what level of resourcing might be required in future years, and in order to demonstrate value for money and future proofing, they suggested that it would be prudent for consideration to be given on the options for an interim resourcing arrangement for 2016/17. Further information including detailed costings would be provided at the next meeting.

Resolved:

- (i) That the need for additional interim resource for 2016/17 be supported in principle subject to the provision of further information and detailed costings.
- (ii) That officers be requested to expedite a solution to the resource shortfall without compromising audit coverage and the level of audit assurance which is sought in 2016/17.

35. Internal Controls and Financial Monitoring

The Committee considered a report on any changes to the internal control arrangements since the last meeting and the current financial position of WYCA.

Internal Controls

It was reported that since the last meeting there had been no significant changes to the arrangements for internal controls within the Combined Authority. Members noted that some amendments to the treasury management arrangements had been approved at the last meeting of the WYCA and the details and reasons for the change were set out in paragraphs 2.3 – 2.5 of the submitted report.

Key Indicators

The Committee considered the ‘key indicators’ specifically with regard to accidents to date in 2016 and noted that there had been no reportable accidents to the HSE. The increase in accidents and near misses in March had been investigated and could not be attributed to any particular cause.

Financial Monitoring – Revenue Budgets

Members were provided with a summary of the forecast position for the 2015/16 budget which had been reported to the WYCA on 4 February 2016. The budget for 2016/17 was also approved at the meeting and monitoring against it would now commence.

Financial Monitoring – Capital Budgets

It was reported that delivery of the Transport Fund and Local Growth Fund projects was being monitored by the Investment Committee. Members noted that there had been an element of underspending on the Growth Deal projects in 2015/16 but this funding has been carried forward to 2016/17.

Risk Management

Members noted that there had been no significant changes to risk management arrangements since the last meeting of the Committee.

It was reported that work was underway to update the corporate risks and members discussed the Code of Corporate Governance which was to be expanded to reflect the full breadth of activities over the last year. This would be considered by the WYCA at the Annual Meeting and a copy of the latest version was attached at Appendix 1. Members were given the opportunity to provide input into its development and any comments should be sent to Angela Taylor, WYCA’s Director, Resources.

Resolved - That the report be noted.

36. Chair’s Comments

The Chair thanked members for their input to the Committee during the last year.

ITEM 5

Report to: Governance and Audit Committee

Date: 25 July 2016

Subject: Terms of Reference and Forward Plan of Work 2016-17

1. Purpose

- 1.1. To set out the terms of reference for the Governance and Audit Committee.
- 1.2. To set out the programme of work for the Governance and Audit Committee for 2016-17.

2. Information

- 2.1. The terms of reference for this Committee are set out in **Appendix A**. In previous years this Committee has been advisory only, and populated with co-opted Members from the West Yorkshire Districts and York. A recent change in legislation now enables this Committee to function in the same way as those at local authorities and it can now make decisions on matters without needing to refer these on to the full Combined Authority for approval. These changes are reflected in the terms of reference that were approved by the Authority at its annual meeting in June.
- 2.2. In line with good practice it is intended that this Committee should meet quarterly. At each meeting there will be an update on the work of internal audit for the preceding quarter. In addition there will be a paper on any changes to the internal control environment, an update on the revenue budget position and any significant changes to risk. The external auditors of the Authority, Mazars, are invited to attend each meeting and audit matters will be tabled as required.
- 2.3. At the April meeting the Committee will be asked to consider the strategic internal audit workplan for the year and the external auditor's workplan for the year.
- 2.4. At the July meeting the Committee will receive a preliminary report indicating the outcome of the external audit review of the annual accounts. The Committee will also receive the internal audit annual report and the review of internal control. These in turn feed into the Annual Governance Statement that forms part of the annual accounts that will be formally signed off in September.

- 2.5. At the September meeting the Committee will receive the annual accounts and confirmation that all required external audit work is complete (including grant returns and submission of whole of government accounts). Mazars, the external auditors, will present their report on the accounts to inform the Committee's decision to approve the accounts. A treasury management update will also be provided with the accounts.
- 2.6. At the December meeting the Committee will receive the annual audit letter which concludes the external audit process for the year.
- 2.7. At the April meeting the Committee will receive the audit fee letter and treasury management update and determine the internal audit plan for 2017/18.
- 2.8. Other items will be brought to the Committee as and when they occur, for example in connection with the appointment of external auditors and the consultation on their fees. Any issues arising in connection with the Members' Code of Conduct would also be referred to this Committee.
- 2.9. It should also be noted that further changes to legislation are expected during the year that may impact on this Committee. In addition to these potential changes one of the consequences of the abolition of the Audit Commission is that the responsibility to appoint auditors will pass to authorities who will need to have new appointments in place by 31 December 2017. This will involve setting up an independent Auditor Panel either alone or by joining in with one or more other authorities.
- 2.10. It is proposed that further reports be brought back to this Committee later this year to determine the best way to procure an Auditor Panel. As part of this officers will engage with other local authorities in the Combined Authority region to understand the approach being taken by them and what opportunities that may offer to the WYCA.

3. Financial implications

- 3.1. As set out in the report.

4. Legal Implications

- 4.1. None arising directly from this report.

5. Staffing Implications

- 5.1. None arising directly from this report.

6. Recommendations

- 6.1. That the Committee note the work programme for the year.

Terms of Reference

Governance and Audit Committee¹

The Governance and Audit Committee is authorised:

1. To review and scrutinise the Authority's financial affairs.
2. To review and assess the Authority's risk management, internal control and corporate governance arrangements.
3. To review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the Authority's functions.
4. To make reports and recommendations to the Authority in relation to reviews conducted under paragraphs 1, 2 and 3 above.
5. To consider the findings of a review of the effectiveness of the system of internal control and approve the annual governance statement².
6. To consider and approve the statement of accounts.
7. To consider external audit arrangements and reports, and consider any audit letter from the local auditor following an audit.
8. To promote and maintain high standards of conduct by Members and co-opted Members of the Authority.³
9. To advise the Authority in relation to:
 - adopting, revising or replacing its Members' Code of Conduct⁴;
 - appointing at least one independent person⁵;
 - arrangements for investigating and making decisions about allegations of failing to comply with the Members' Code of Conduct.

¹ Appointed in accordance with Schedule 5A paragraph 4 of the Local Democracy, Economic Development and Construction Act 2009.

² Regulation 6 of the Accounts and Audit Regulations 2015.

³ This function does not extend to adopting, revising or replacing the Members' Code of Conduct.

⁴ The Code applies to members and voting co-opted members of the Authority, and includes provision about registering and disclosing interests.

⁵ In accordance with Section 28(7) Localism Act 2011.

10. To consider and determine any allegation of failing to comply with the Members' Code of Conduct⁶.
11. To advise the Authority in relation to the LCR assurance framework.
12. To consider and determine any matter within the delegated authority of a Director⁷, which is referred to the Committee by that Director.

⁶ In accordance with arrangements made by the Authority.

⁷ A Director, in this context, is any officer to whom functions are directly delegated by the Authority, under the Officer Delegation Scheme.

2016/17 V1

Originator: Russell Gott
Internal Audit Manager



ITEM 6

Report to: Governance and Audit Committee

Date: 25 July 2016

Subject: Internal Audit Charter 2016

1. Purpose

1.1 To consider and approve the Internal Audit Charter for the West Yorkshire Combined Authority.

2. Information

2.1 Public Sector Internal Audit Standards (PSIAS) require the purpose, authority and responsibility of the internal audit activity to be formally defined in an internal audit charter, consistent with the definition of Internal Auditing, the Code of Ethics and the Standards.

2.2 The Internal Audit Charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the 'board'; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

2.3 For public sector organisations the Internal Audit Charter must also:

2.3.1 Define the terms 'board' and 'senior management' for the purposes of the internal audit activity.

2.3.2 Cover the arrangements for appropriate resourcing.

2.3.3 Define the role of internal audit in any fraud-related work.

2.3.4 Include arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities.

2.4 The nature of assurance and consulting services provided to the organisation must be defined in the Internal Audit Charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined.

2.3 The Internal Audit Charter, produced to meet PSIAS, is attached to this report for consideration.

3. Financial Implications

3.1 None relating directly to the Internal Audit function.

4. Legal Implications

4.1 None relating directly to the Internal Audit function.

5. Staffing Implications

5.1 None relating directly to the Internal Audit function.

6. Recommendations

6.1 That the Internal Audit Charter for the West Yorkshire Combined Authority be approved.



Internal Audit Charter 2016/17

Definition

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the West Yorkshire Combined Authority, WYCA.

It assists WYCA in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's risk management, control and governance processes.

Public Sector Internal Audit Standards, PSIAS, require the terms “board” and “senior management” to be defined. In the context for WYCA, “board” is taken to refer to the Governance and Audit Committee which will provide the Combined Authority with recommendations and advice concerning the internal audit activity as required. “Senior management” relates to the Head of Paid Service, Section 73 officer and Directors of the Combined Authority.

Role

WYCA's statutory responsibilities for maintaining an adequate and effective Internal Audit function are set out under the Accounts and Audit Regulations 2015. The Regulations require that WYCA must:

- undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control;
- make available such documents and records necessary for the purposes of the audit; and
- make available such documents and records necessary for the purposes of the audit; and
- supply information and explanation as considered necessary; and
- at least once in each year, conduct a review of the effectiveness of its internal audit.

This role is complemented by initiatives aimed at promoting effective corporate governance with particular emphasis on risk management.

The internal audit activity is established by the Combined Authority. The internal audit activity's responsibilities are defined by the board as part of their oversight role.

Professionalism

The internal audit activity will govern itself by adherence to the Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The IIA's Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the internal audit activity will adhere to WYCA's relevant policies and procedures and the internal audit activity's standard operating procedures manual.

Authority

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the organisation's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. The internal audit activity will also have free and unrestricted access to the board.

Organisation

The Head of Internal Audit must report to a level within the Authority that allows internal audit to fulfil its responsibilities. The Head of Internal Audit will report functionally to the board and administratively to the Director of Resources, (Section 73 Officer).

The Head of Internal Audit must also establish effective communication with, and have free and unfettered access to the Head of Paid Service.

The board and the Head of Paid Service will be consulted in all decisions regarding the conditions of employment, performance evaluation, appointment, or removal of the Head of Internal Audit.

The Internal Audit establishment comprises of 3 full time posts. Provision for temporary resources to be employed, if required, to make up any shortfall in the plan should be secured. It is likely that this could be sourced through an agency and used to undertake a specific area of work or specialism.

The Team's establishment is:

- Internal Audit Manager
- Internal Auditor (2 posts)

Training, identified through the development review process and continuous professional development appraisals, will include a combination of development opportunities provided by the professional organisations (predominately CIPFA/IIA) as well as organisational training agreed by the Combined Authority.

Independence and objectivity

The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Head of Internal Audit will maintain and regularly review a register of the internal auditors' declarations of business and personal interests. If there are occasions where internal auditors undertake non-audit activities including the development, design or implementation of systems, then that individual will not subsequently perform an audit review of those systems.

The Head of Internal Audit will confirm to the board, at least annually, the organisational independence of the internal audit activity.

Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's entire governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by internal audit include:

- Consistency of operations or programs with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and employment of resources.

- Compliance with significant policies, plans, procedures, laws, and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.

Internal Audit is responsible for evaluating all processes ('audit universe') of the entity including governance processes and risk management processes. It also assists the board in evaluating the quality of performance of external auditors and maintains proper degree of coordination with internal audit.

Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the board or senior management, as appropriate. The scope of any consultancy work will be agreed with management and will only be undertaken where resources permit without impact on the annual assurance process. In line with PSIAS, approval will be sought in advance from the board for any significant consultancy work not included in the Audit Plan.

Based on its activity, Internal audit is responsible for reporting significant risk exposures and control issues identified to the board and to senior management, including fraud risks, governance issues, and other matters needed or requested by the board.

The Authority's Anti-Fraud, Bribery and Corruption Policy sets out arrangements to inform internal audit of all suspected or discovered acts of fraud, corruption or impropriety.

Internal Audit will assess and, where appropriate, investigate reported instances of fraud in accordance with guidance provided in the Fraud Response Plan.

Internal audit plan

At least annually, the Head of Internal Audit will submit to the board an internal audit plan for review and approval, including risk assessment criteria. The internal audit plan will include timing as well as budget and resource requirements for the next fiscal/calendar year. The Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to senior management and the board.

The internal audit plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including the consideration of input of senior management and the board. Other value added activities including specific value for money reviews may be identified within the plan. Prior to submission to the board for approval, the plan may be discussed with appropriate senior management. Any significant deviation from the approved internal audit plan will be communicated through the periodic activity reporting process.

Reporting and monitoring

The Head of Internal Audit will prepare an annual report for WYCA providing an assessment of the adequacy and effectiveness of the systems of internal control, risk management and governance based on work completed during the year, which will be used as a source of evidence for the Annual Governance Statement.

A written report will be prepared and issued by the Head of Internal Audit following the conclusion of each internal audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the board.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

Periodic assessment

The Head of Internal Audit is responsible also for providing periodically a self-assessment on the internal audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Head of Internal Audit will communicate to senior management and the board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

Content reviewed: 8 June 2016

ITEM 7

Report to: Governance and Audit Committee

Date: 25 July 2016

Subject: Annual Internal Audit Report and Opinion

1. Purpose

1.1 To provide the Annual Internal Audit Report and Opinion of the risk management, governance and control environment in operation during 2015/16.

2. Information

2.1 Public Sector Internal Audit Standard, PSIAS 2450, requires the Chief Audit Executive to provide an annual report to the Board timed to support the Annual Governance Statement. The report must include:

- An annual audit opinion on the overall adequacy and effectiveness of governance, risk and control framework, (the control environment).
- A summary of the audit work performed from which the opinion is derived including any reliance placed on work by other assurance bodies.
- A statement on conformance with PSIAS and the results of the Internal Audit Quality Assurance and Improvement Programme.

2.2 In addition, the PSIAS require the Chief Audit Executive to confirm to the Board at least annually, the organisational independence of internal audit activity.

2.3 In the context of PSIAS, 'opinion' means that internal audit will have done sufficient, evidenced work to form a supportable conclusion about the activity it has examined.

2.4 It should be noted that the opinion for the West Yorkshire Combined Authority (WYCA) is that the framework of governance, risk management and control had operated adequately. The Annual Internal Audit report for WYCA is attached to this paper for information and consideration.

3. Financial Implications

3.1 None relating directly to the Internal Audit function.

4. Legal Implications

- 4.1 The Accounts and Audit Regulations 2015, Regulation 5, requires a relevant Authority to undertake an effective internal audit to evaluate the effectiveness of its risk, control and governance processes, taking into account public sector internal auditing standards or guidance.

5. Staffing Implications

- 5.1 None relating directly to the Internal Audit function.

6 Recommendation

- 6.1 That the Annual Internal Audit Report and Opinion be considered.

West Yorkshire Combined Authority

Internal Audit Annual Report and Opinion 2015/16

Background

UK Public Sector Internal Audit Standards (PSIAS) require the Chief Audit Executive to deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The results of work undertaken within the Annual Audit Plan are designed to support the opinion provided in the Annual Internal Audit Report.

Information

Annual Reporting Process

Management are responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit review, appraise and report on the efficiency, effectiveness and economy of financial and other management controls. This report is the culmination of the work during the course of the year and seeks to:

- Provide an opinion on the overall adequacy and effectiveness of West Yorkshire Combined Authority's (WYCA) framework of governance, risk management and control.
- Provide a summary of the audit work from which the opinion is derived, including reliance placed on work by other service providers.
- State the level of conformance with the UK Public Sector Internal Audit Standards and comment on the results of the Quality Assurance and Improvement Programme.

Scope and Purpose of Internal Audit

WYCA's statutory responsibilities for maintaining an adequate and effective Internal Audit function are set out under the Accounts and Audit Regulations 2015. The Regulations require that WYCA must:

- undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control;
- make available such documents and records necessary for the purposes of the audit; and
- make available such documents and records necessary for the purposes of the audit; and
- supply information and explanation as considered necessary; and
- at least once in each year, conduct a review of the effectiveness of its internal audit.

The proper internal audit practices are those defined in the Public Sector Internal Audit Standards (PSIAS) issued in April 2013. The PSIAS set out a definition of internal auditing, a Code of Ethics and mandatory standards for all internal auditors working in the UK public sector. Auditors are also required to adhere to the Code of Ethics of their professional bodies where appropriate. These are the standards to which the Internal Audit service works, with detailed requirements specified in WYCA's internal audit manual.

Independence of Internal Audit

Internal audit is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the WYCA. The work of internal audit forms part of the organisation's overall assurance framework providing independent and objective assessment on governance, risk management and internal control. Throughout 2015/16 the Internal Audit function has remained organisationally independent. This is supported through the Internal Audit Charter and a risk-based audit plan being approved by WYCA in April 2015.

How Internal Control is Reviewed

Internal Audit have developed a risk-based approach to delivering the audit function. References have been made to WYCA's audit universe risk profile which was used to form the basis of internal audit's operational plan.

The review process draws on key indicators of risk to the organisation and attempts to ensure that suitable audit time and resources are provided for these areas. Factors used in assessing risk include financial materiality, legislative requirements, previous audit experience, and the potential for fraud. This risk-based approach to audit planning results in a comprehensive range of audits that are undertaken during the course of the year to support the overall opinion on the internal control environment.

Annual Governance Statement (AGS)

The Accounts and Audit Regulations establish the requirements related to systems of internal control and the review and reporting of those systems. Accordingly, WYCA needs to have in place a process for establishing, maintaining and reviewing the system of internal control and risk management.

CIPFA/SOLACE have produced a governance framework for the creation of an Annual Governance Statement (AGS). This has been adopted and applied as proper practice by WYCA.

The opinion on internal control provided by Internal Audit, based upon the risk - based audit plan, is one of the key elements to consider when compiling the AGS.

Scope of Internal Audit Opinion 2015/16

In providing our annual audit opinion, it should be noted that assurance can never be absolute. The most that internal audit can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work in the financial year 2015/16 and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

In arriving at our opinion, the following matters have been taken into account:

- The results of all internal audits undertaken during the year ended 31 March 2016.
 - The results of follow-up reviews of action taken to address audit recommendations.
 - Whether or not any significant recommendations have not been accepted by management and the consequent risks.
 - The effects of any material changes in WYCA's objectives and activities.
-

Annual Opinion 2015/16

From the work undertaken during the financial year 2015/16 and taking into account other sources of assurance, Internal Audit have reached the opinion that WYCA's framework of governance, risk management and control is operating adequately and that there are no outstanding significant issues arising from the work undertaken by Internal Audit at the time of writing this report.

In reaching our opinion the following factors were considered:

Risk Management

Risk Framework

During the period a review of WYCA's risk management framework was undertaken. Whilst recognising that progress had been made in the identification and development of risk appetite it was established that further work is required in aligning strategic risks to emerging corporate objectives. In addition, WYCA should determine and document all risk management processes in operation throughout the organisation and develop risk information reporting escalation processes.

Health and Safety

A review of the existence and operation of a framework which enables WYCA to manage its risks and obligations in respect of Health and Safety was performed. The overall audit opinion was that these systems require improvement. The primary audit observations included:

- The development of a communications protocol for ensuring that employees are aware of the Health and Safety policy and understand it should be considered.
- That the Health and Safety Committee review their arrangements to facilitate the reporting, monitoring and resolution of actions required as a result of risk assessments undertaken, actions resulting from infringement reports provide direction and consider if further mitigations are required.
- That fire and bomb procedures be updated to ensure that they are 'fit for purpose' and consider co-ordination with Local Authorities.
- That the procedures that link into and support the updating and inform the level of compliance with items of statute within the Legal Register be developed.

WYCA's Health and Safety Committee agreed to oversee the implementation of all recommendations resulting from this review.

Governance

ICT Governance

The objective of ICT Operations Management review was to assess the arrangements in place in respect of ICT structure and governance arrangements, ICT security, management of systems performance and capacity and service desk operations.

It was established that further work is required in developing a security framework including the setting of forced password changes and control of system administrator access ID's.

Overall there was a lack of documented procedures relating to areas of ICT activity including the management of third party ICT service suppliers.

Rail Projects

The audit of Low Moor Rail Station Development Project identified generic issues relating to WYCA's role in the management of Rail infrastructure schemes. It was recognised that WYCA has limited influence over the day to day management of these projects due to the specific technical requirements of the Rail industry.

The principal observation concerned the development of guidance for Rail infrastructure projects which maps PRINCE2 strategies and documentation to the equivalent GRIP framework components. This can then be referred to by project boards and managers to inform tailoring of the PRINCE2 framework for future Rail infrastructure schemes.

Contract Management

A review of WYCA's processes for the management and control of contractors engaged for the maintenance of facilities identified the need to develop the co-ordination and increase transparency of the control of contractors' process across the organisation.

In response WYCA have initiated measures to address these issues.

CHASE Customer Relationship Management System

WYCA is developing solutions to transform customer experience through seven inter-related projects. This review concentrated on the work associated with the development of the customer relationship management system and considered account management, complaints and feedback and photo card applications. The software application is being developed by Yorcard Ltd under the project management arrangements provided by WYCA. A number of audit observations were provided, the most significant issues related to data migration arrangements, volume testing of transactions, the establishment of baseline security and access controls and the establishment of a support maintenance agreement. A plan to address these matters was agreed and instigated.

Internal Control

Recommendations identified as a result of audit assignments undertaken relating to significant issues of internal control included:

Procurement Review

That evidence which demonstrates the approval for the award of tenders be maintained on a consistent basis

Prepaid Tickets and Concessionary Fares

That the control environment be defined for on-line ticket transactions which are planned to be introduced in 2016/17. In addition, that system user access rights be identified and enforced prior to the roll-out of CHASE system upgrades.

Payzone Ticketing Systems

That for the Payzone ticketing system, improvements to system user access security, introduction of controls to ensure the completeness of data, documenting processes for handling any data loss or the recovery of prime files and the identification of authorised personnel who are allowed to set and change ticket price and product records.

Metro Travel Centre Operations

Control weaknesses and inefficiencies were identified in manual processes introduced to support some smart ticket transactions. Management agreed that these arrangements should be withdrawn from Travel Centres.

Third-Party Assurance

Metro Ticket Sales

WYCA offers Metro ticket sales through Rail ticket offices and through a network of retail outlets offering Payzone payment functionality. Under these arrangements, organisations are required to periodically provide information relating to the value of sales, commissions and spoils.

A feature of the overall control environment is that these organisations operate robust systems to safeguard ticket income and that provide accurate information concerning sales transactions and levels of ticket stockholding.

For 2015/16, WYCA have received an assurance statement from Northern Rail in relation to the operation of key controls found within their processes which states that there were no significant issues or control weaknesses detected.

Additionally, a review of the systems which facilitate sales income and the provision of information relating to ticket transactions provided by Payzone was undertaken. This review concluded that income and related sales information was appropriately stated.

Treasury Management

Leeds City Council (LCC) provides treasury management and related financial services under the conditions of a service level agreement. Internal Audit has performed some limited testing of aspects of the processes operated under this agreement. In addition assurances provided by LCC, including the certification of financial information and the opinion issued by the council's own internal audit section were obtained and found to be satisfactory.

Summary of Whistleblowing Cases

Internal Audit continues to act as the primary contact point for WYCA's Whistleblowing Policy. Arrangements to improve accessibility to information and mechanisms to make protected disclosures are provided on WYCA's web site. In addition, information providing details of WYCA's anti-fraud, bribery and corruption arrangements and how to report concerns about suspected fraud and/or corruption were provided to employees.

During the period no referrals were made to Internal Audit.

WYCA's Disciplinary, Conduct and Capability Policy and Procedure includes guidance where bribery, fraud or corruption is suspected.

Audit Performance

Conformance with PSIAS

A self-review of compliance with the UK Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note has been undertaken. This has been delivered through the completion of the checklist for assessing conformance with the PSIAS and Local Government Application Note as produced by the Chartered Institute of Public Finance and Accountancy.

Overall Internal Audit complies with the requirements of the PSIAS and Local Government Application Note although, as with any new standards, there are some areas which need to be developed further.

Areas of Accepted Non Compliance

The self-review has identified two areas for which there is no associated action and by which Internal Audit are proposing to accept the residual risk. This is because after close analysis of the requirement and a review of current controls already in place, the implementation of an action plan to meet the requirement would be disproportionate. Existing controls in place are sufficient and operating well.

The two areas of non-compliance are:

- The Chief Executive does not undertake, countersign, contribute feedback to or review the performance appraisal of the Chief Audit Executive.
- Feedback is not sought from the Chair of the Governance and Audit Committee for the Chief Audit Executive's appraisal.

The performance appraisal of the Chief Audit Executive is undertaken by the Director, Resources in line with WYCA's development processes. This is considered as an adequate method of providing feedback on performance.

Areas for Action

2050 Coordination - Assurance mapping

The Chief Audit Executive has identified and assessed all areas of assurance within the audit universe. However, it is accepted that assurance mapping needs to be developed as organisational objectives are established and as part of the process of identifying and determining the approach to using all sources of assurance.

2110 Governance - Ethics

Internal audit have not performed a specific review of WYCA's ethics-related objectives, programmes and activities. The Chief Audit Executive will continue to monitor the level of audit risk in this area and update the Audit Plan to accommodate this work if this becomes necessary.

1210 Proficiency – CMIIA

The Chief Audit Executive is an experienced audit professional and a member of the Chartered Institute of Internal Auditors Heads of Internal Audit service. During 2016 he has applied for full CMIIA status.

Quality Assurance and Improvement Plan (QAIP)

The QAIP covers all types of Internal Audit activities and is designed to provide reasonable assurance that Internal Audit:

- Performs its work in accordance with its Charter, which is consistent with the Public Sector Internal Audit Standards, Definition of Internal Auditing and Code of Ethics.
- Operates in an efficient and effective manner.
- Is adding value and continually improving Internal Audit's operations.

The self-review forms part of internal audit's Quality Assurance and Improvement Program, (QAIP). Other elements of the QAIP require audit assignments to be subject to a supervisory quality check to ensure that the objectives have been achieved and that recommendations made are consistent with the findings and evidence recorded. In addition, feedback questionnaires which ask managers to assess the overall performance of the audit, the auditor's approach, and the quality of the report are issued on completion of each individual review.

Continuing Professional Development

In a changing environment it is important that Internal Auditors are kept informed of the latest audit methodologies, changes in legislation as well as changes to the public sector arena so they can have the necessary skills and knowledge to fulfil their roles. Primarily, this is provided through the Institute of Internal Auditors professional briefings and WYCA's development review processes aligned with professional competences. This enables strengths and weaknesses to be identified and allows training to be focused on each individual's specific requirements.

Reporting

Arrangements for reporting on internal audit activities have continued through the Governance and Audit Committee. The Committee's primary roles are to advise WYCA in relation to financial management, internal audit arrangements, the statement of accounts, external audit arrangements and corporate governance matters.

Measures for the recording, reporting and follow-up of audit recommendations have continued through the use of Covalent, WYCA's corporate performance management system.

Performance Indicators

A range of performance indicators have been developed for Internal Audit based on costs for 2015/16 and other identified timescales.

	<u>Actual</u>	<u>Benchmark¹ Average</u>
Cost Per Audit Day	£204	£286
Mainline Audit Days Per £m Turnover	1.13	2.71
Cost Per Auditor	£41666	£49373
Days Per Auditor	184	173
Sickness Days	0	5.6
FTE Auditors/Gross Turnover	125	67.24

Annual Audit Plan

Completion of audit reviews identified within the plan – Target	100%
Actual performance	96%

Client Feedback

Post audit client questionnaire ratings of “2” or better - Target	90%
Actual performance	91%

Issuing Reports

Internal Audit reports to be circulated within 5 working days of audit closure – Target	90%
Actual performance	82%

This data confirms that the Internal Audit function compares well against public sector benchmarks and is performing well against the targets set. There were no days lost to staff sickness in 2015/16.

However, it is recognised that the audit resource falls well below the average benchmark for mainline audit days compared with turnover and the ratio of full time equivalent auditors. This situation needs to be carefully monitored to ensure that sufficient audit work can be undertaken to allow effective conclusions to be determined concerning the overall audit opinion.

¹ CIPFA auditing benchmark comparator - 16 Authorities across the north of England

Client Feedback

As part of internal audit's commitment to ensuring the highest professional standards and to ensure that we are continually improving the quality of work produced, a customer satisfaction questionnaire is issued at the end of each audit assignment. The responses received have been analysed and indicate good scores in all criteria.

The cumulative results from questionnaires completed throughout 2015/16 are:

	Question	1	2	3	4
1	Communication prior to the audit work was appropriate and I was aware of visit dates and audit objectives.	6	4	1	
2	Throughout the audit process I was kept informed of the work being done and issues arising.	6	4	1	
3	Internal audit staff demonstrated a good understanding of the business and associated risks (or took the time to develop such understanding during the audit process).	5	6		
4	Internal audit staff demonstrated a pragmatic approach to developing solutions to issues identified during the audit.	3	6	2	
5	The audit report was issued in a timely fashion and was a fair summary of audit findings and management responses.	4	5	2	
6	Internal audit staff acted in a professional manner throughout the assignment.	8	3		
Scale ; 1 = Strongly agree, 2 = Agree, 3 = Disagree, 4 Strongly disagree					

Audit Plan 2015/16

Details of the work performed by Internal Audit in 2015/16 are provided below:

Audit Area	Assurance	Directorate
English National Concessions Travel Scheme (ENCTS)	Data handling and protection requirements, access rights to ENCTS database, agreements with the third parties concerning the handling and maintenance of ENCTS data.	Passenger Services
AGS	Completion of Annual Report and internal audit opinion	Cross-Cutting
Local Transport Plan Capital Programme Management	Review of arrangements to identify, monitor, control and report on the Capital Programme.	Development
Interreg Carbon Responsible Transport Strategies (CARE NORTH)	Head of IA assurance. Periodic report and claim review and certification.	Development
Interreg Improving Transport & Accessibility through new Community Technology (ITRACT)	Head of IA assurance. Periodic report and claim review and certification.	Development
Better Bus Area Fund	Head of IA assurance. Periodic report and claim review and certification.	Passenger Services
Bus Services Operators Grant	Head of IA assurance.	Passenger Services
Cycle City Grant	Head of IA assurance. Periodic report and claim review and certification.	Passenger Services
Transport Fund	Head of IA assurance.	Development
Procurement	Review of the operation of key controls including tendering, ordering, commitments, compliance with Standing Orders and Financial Regulations, e-procurement, purchasing cards.	Resources
VAT	Arrangements for the accounting and submission of VAT returns to HM Revenues & Customs.	Resources
Data Security/ Protection	Arrangements for the protection of data from loss.	Resources
Unannounced Visits	Unannounced visits to Travel Centres to check cash and ticket stocks.	Passenger Services
Pro –Active Anti- Fraud Exercise	Statistical analysis for duplicate payments, data matching for creditor payments into inappropriate bank accounts. Sample review of changes to bank payment master records.	Cross-Cutting

Audit Area	Assurance	Directorate
Smart Card & Information Programme (SCIP) Smart transactions Web Customer Hubs and Service Experience (CHASE)	Review to provide independent assurance. Business change – benefits realisation back office operations.	Passenger Services
Economic Development	Review of processes and controls for the provision of economic development functions for West Yorkshire. Local Growth Fund Skills Gap: - Calderdale College Kirklees College Leeds City College Shipley College	Enterprise Partnership
LTP	Head of IA assurance. Periodic report and claim review and certification. Systems and procedures to control the allocation of payments and provide evidence of eligible expenditure.	Development
Health & Safety	Health and Safety Policy meets legal requirements as provided in the Health & Safety at Work Act and other relevant Acts.	Cross-Cutting
Prepaid Tickets & Concessionary Travel	Arrangements for accounting for stocks, cash, Haven system controls and reporting, calculations of prepaid ticket pool and distribution, concessionary fares reimbursements, on account payments and quarterly adjustments. Consider controls for smartcard transactions. Payzone sales system.	Passenger Services
Tendered Subsidised Contracts	Tendering arrangements, batches, de minimis contracts, insurance, operator's licenses, lost mileage, payment calculations and processes. Arrangements support and provide contract compliance. Public and education services.	Passenger Services
Passenger Facilities/Contract Monitoring	Bus station repairs, maintenance, cleaning and security. Shelter cleaning and repairs.	Passenger Services
Payroll	Review of the operation of key controls including arrangements for starters, leavers, pay points, members' allowances, expenses & deductions.	Resources
Treasury Management	Review of the operation of key controls including treasury management, segregation, review, authorisation, third part services and assurances, prudential code.	Resources
Fraud Awareness	Maintaining employees' awareness of WYCA's counter-fraud arrangements.	Cross-Cutting

Audit Area	Assurance	Directorate
ICT Governance	Systems security - Back-ups, recovery plans, data integrity, email, internet controls, monitoring, access, ICT strategy, control of ICT equipment. Service desk	Resources
Metro Travel Centre Operations	Ticket sales, stock, cash handling security, reconciliations and reviews performed. Cash collected is administered and properly controlled to reduce the risk of loss or fraud. Associated back-office operations. New arrangements for Castleford and Pontefract	Passenger Services
Risk Management	Effectiveness of risk management processes, risk management guidance and support, Identification of risk, risk evaluation, risk mitigation and control, monitoring risks, reporting the status of key risks and controls, recording the management of risks, including the effectiveness of the controls and other responses to them, risk awareness and training.	Cross-Cutting
Transport Fund – Business Case	Review of operation of Strategic assurance framework. Assessment and scrutiny of business cases - Quality Assurance.	Development
Main Accounting – General Ledger	Review of the operation of key controls including System user rights, review, control, adequacy and timeliness, budgetary control, systems interface – education, Haven, and payroll. VAT.	Resources
Creditors	Review of the operation of key controls including segregation, authorisation, reconciliation of statements, BACS controls, and sub-contractors records.	Resources
Debtors	Test arrangements for write offs, requisitioning, reporting, review of accounts, debt age monitoring and reporting.	Resources
On-line Payments	Review of controls for the processing of on-line payments and credit/debit card payments received.	Resources
Fraud Investigations	Contingency for fraud investigation.	Cross- Cutting
ICT Services	Consideration of VfM aspects of processes.	Resources
Audit Follow-up	Follow up on implementation of key audit recommendations.	Cross-Cutting
Survey Monitoring	Robustness of systems to identify changes in bus network in a timely manner. Changes to monitoring arrangements and move to smart.	Passenger Services
Castleford Bus Station Development	Project health check	Development
Low Moor Rail Station Development	Project health check	Development

Adding Value

Throughout the year we have provided advice over and above the core objectives of giving internal control assurance and recommending effective systems improvements to management.

This included:

- Adding value through the strategic focus of internal audit and adopting a risk-based approach by linking work in the strategic audit plan to WYCA's corporate risks.
 - We identified changes to the original audit plan in response to changing priorities and activities undertaken in the year.
 - In undertaking our reviews we specifically focused on WYCA's own controls and the wider control environment, providing advice and examples of best practice.
 - We have assisted WYCA in the further development of risk management through consultation and a specific review of risk management and by consideration of risks as part of each individual audit assignment.
 - Undertaken work in addition to the Internal Audit Plan in relation to the development of governance, risk, systems and other project assurance activities.
-

Appendix

Assurance Level	Definition
Well Controlled	<p>There is a robust control framework in place for the system.</p> <p>All necessary controls are in place and are operating effectively.</p> <p>Any recommendations made are low risk and relate to enhancements of existing controls.</p>
Controlled	<p>There is an acceptable control framework in place.</p> <p>Key controls are in place and operating effectively.</p> <p>Some changes to controls and how they operate would be beneficial.</p> <p>Recommendations made are moderate or a combination of moderate and low risk, including the development of existing controls, and do not relate to key controls.</p>
Requires Improvement	<p>Controls in place for some elements of the system are not always appropriate or effective or are not consistently applied.</p> <p>Recommendations made are of high or a combination of high and moderate risk concerning the operation of key controls.</p>
Poorly Controlled	<p>There is an inadequate control framework.</p> <p>Key controls are absent or not operating.</p> <p>The operation of the system is currently providing an unacceptable risk.</p> <p>Recommendations made are high risk concerning the operation of key controls.</p>

Originator: Russell Gott
Internal Audit Manager



ITEM 8

Report to: Governance and Audit Committee

Date: 25 July 2016

Subject: Internal Audit Progress Report

1. Purpose

1.1 To inform the Authority of the work undertaken by the Internal Audit Section.

2. Information

2.1 In accordance with the Accounts and Audit (England) Regulations 2015 West Yorkshire Combined Authority, (WYCA) must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.

2.2 This report provides details of activities undertaken by the Internal Audit Section in the period from 1 April 2016 to 30 June 2016 and provides progress in delivering the audit plan, audit opinions on reviews completed, executive summaries of any significant issues identified and the status of any high priority recommendations which have not been implemented by the agreed timescales.

2.3 The Internal Audit Section has undertaken work contained within WYCA's Audit Plan through the performance and release of the following audit reports:

- IT Service Provision Yorcard (poorly controlled)
- Travel Centre Procedures (controlled)
- Risk Management Arrangements (requires improvement)
- ICT Operations (requires improvement)

3. How Control is Assessed

- 3.1 There are three elements to each internal audit review. Firstly, the objectives and key risks associated with the audit entity are identified. Secondly, controls which internal audit would expect to be present to mitigate risk are determined and finally an audit programme is developed to review the existence and operation of those controls through a combination of substantive and compliance testing.
- 3.2 An evaluation of the presence and effectiveness of controls tested is provided within each audit report along with an indication of any residual risk. This is then used as the basis for forming an audit opinion of the entity. Details of audit opinion assurance categories are provided below:

Assurance Level	Definition
Well Controlled	<p>There is a robust control framework in place for the system.</p> <p>All necessary controls are in place and are operating effectively.</p> <p>Any recommendations made are low risk and relate to enhancements of existing controls.</p>
Controlled	<p>There is an acceptable control framework in place. Key controls are in place and operating effectively.</p> <p>Some changes to controls and how they operate would be beneficial.</p> <p>Recommendations made are moderate or a combination of moderate and low risk, including the development of existing controls, and do not relate to key controls.</p>
Requires Improvement	<p>Controls in place for some elements of the system are not always appropriate or effective or are not consistently applied.</p> <p>Recommendations made are of high or a combination of high and moderate risk concerning the operation of key controls.</p>
Poorly Controlled	<p>There is an inadequate control framework.</p> <p>Key controls are absent or not operating.</p> <p>The operation of the system is currently providing an unacceptable risk.</p> <p>Recommendations made are high risk concerning the operation of key controls.</p>

4. Audit Summary

4.1 The Audit Plan is forecast to overrun by 209 days. This imbalance between audit resource and the level of assurance required was identified and reported to WYCA in April 2016. There has been a delay in implementing measures to address this resource shortfall however, it is important that this issue is resolved quickly to enable sufficient audit work to be completed to adequately inform the annual audit opinion as required by the Accounts and Audit Regulations. The Director, Resources and Internal Audit Manager are exploring options and will report the outcome back to the next meeting of this Committee. Full details of the Audit Plan are provided within **Appendix A**.

4.2 The reviews undertaken in the latest period were assessed as controlled, requires improvement and poorly controlled.

A summary of the internal audit reviews performed where significant issues were identified are provided in sections 4.3.1 to 4.3.3 of this report.

4.3 Progress in implementing all audit recommendations is monitored through Internal Audit's outstanding recommendations tracking system. Information relating to the number of recommendations issued by internal audit and the status of management responses is provided below:

	Priority High	Priority Medium	Priority Low
Number of Audit Recommendations Issued (2016/17)	36	31	3
Number of Audit Recommendations Fully Implemented (2016/17)	2	3	0
Total cumulative number of Audit Recommendations, in progress	37	33	2
Total cumulative number of Overdue Audit Recommendations.	4	6	0

The majority of the overdue medium and low recommendations are partially implemented at the date of writing this report. WYCA's directorate management teams will continue to overview and report progress to internal audit on these matters.

Information relating to the overdue high priority recommendations is provided in **Appendix B** of this report.

4.3.1 IT Service Provision - Yorcard

Opinion – “poorly controlled”

There is a lack of formal documentation of core ICT operations provided by Yorcard Ltd including capacity and performance, network security and back-up.

There is concern that Yorcard may not comply with Data Protection legislation.

WYCA should formalise account management arrangements with Yorcard Ltd.

Objectives

Yorcard is a joint venture company established by WYCA and South Yorkshire PTE for the development and delivery of ICT services and hosted by South Yorkshire PTE. There is a unique relationship between WYCA and Yorcard where the latter provides core systems, including the provision of public transport ticketing / activity data, for WYCA. In addition to this they are currently developing a customer services database.

The objectives of this review were to assess the arrangements in place against key ICT control standards.

Observations

The review has highlighted a number of issues regarding the management and operation of the ICT systems and data, at Yorcard. Briefly these are:

- A key area of concern is Yorcard’s current approach to compliance with the Data Protection legislation particularly as system development work is likely to involve access to some personal data.
- There is an absence of any formal structure to oversee Yorcard’s performance. In addition, WYCA has not received information regarding other key ICT related activity, such as Disaster Recovery / Business continuity arrangements. Finally full Yorcard performance criteria is not available / reported to WYCA representatives.
- The review identified weaknesses with network security i.e. high numbers of Yorcard staff have administrator equivalent ID’s.
- Environmental controls for the provision of servers did not meet the expected standards.

- “Local” servers, which include development work, are only backed up weekly to another server. There is therefore no off site backup of key work being completed.
- Capacity and performance management activity for Yorcard (WYCA) services is not formalised.

4.3.2 Risk Management

Opinion – “requires improvement”

There are opportunities to develop the effectiveness of risk management arrangements which consider all activities of the organisation.

Objectives

The objectives and scope of this review were to assess the reliability of systems for ensuring that risk management arrangements are properly administered, authorised and recorded.

Observations

A number of management teams and groups have been established under the Combined Authority each with their own priorities and approach to risk management. Although it is sensible to provide a level of flexibility it can lead to inconsistencies in the level and frequency of risk management activity and in their approach to risk escalation. WYCA should further coordinate risk management activity throughout the organisation.

Methods of recording risks in operation throughout the organisation should be identified and mapped to improve awareness and understanding of WYCA’s risk management framework and to provide an indication of any inter-dependencies, gaps and/or duplication in these arrangements.

WYCA have developed a number of strategic corporate risks which have been recorded. It is accepted that these need to be developed as the organisation evolves along with the development of corporate planning and organisational objectives.

4.3.3 ICT Operations

Opinion – “requires improvement”

There is a lack of documented procedures relating to areas of ICT activity e.g. service desk operations, management of leavers, handling a computer virus incident and the release and management of all equipment.

Objectives

The ICT section provides core ICT Services for the West Yorkshire Combined Authority i.e. the management of the infrastructure and ICT hardware, whilst responsibility for managing applications, in the main, rests with key users in the Directorates.

The objectives of this review were to assess the arrangements in place against key ICT control standards.

Observations

Overall we note that a considerable amount of work is planned to enhance and develop ICT operations and management linked to the implementation of the ITIL service management standard. However, at the time of this review key ICT controls were either absent or lacked the appropriate level of formality required.

Our work identified a number of key weaknesses. Briefly these were:

- Weaknesses exist regarding the overall approach to ICT security and its management.
- Weaknesses were identified in relation to physical security of network devices and servers.
- Some weaknesses exist regarding the alerting and actions relating to backup activity including the testing of backup processes and having documentation relating to restarts and shutdowns of services.
- Although ICT change management processes are in the process of being fully established, the upgrade / patching process, for ICT services, is not formalised and documented.
- Capacity and performance management activity for ICT services is not formalised.
- ICT performance criteria, and services for users, are not available / reported.

5. Work in Progress

- 5.1 In addition to the completion of scheduled audit reviews provided in section 4 of this report, audit testing work has been performed in relation to English National Concessions Ticketing Systems, Skills Capital Funding, Local Transport Plan Governance, Transparency Code, Facilities Contract Management, Compliance and West Yorkshire and York Broadband Programme. Final release of these audit reports is now subject to quality reviews of the audit files and the agreement of

implementation actions. A summary of the results from these reviews will be provided to this Committee at the next meeting.

6. Financial Implications

6.1 None relating directly to the Internal Audit function.

7. Legal Implications

7.1 None relating directly to the Internal Audit function.

8. Staffing Implications

8.1 The performance of some elements of the Audit Plan requires the buying-in of third party specialist services.

9. Recommendations

9.1 That the Internal Audit progress report be noted.

9.2 That the forecast audit resource shortfall be considered.

Appendix A



Internal Audit Plan 2016/17

Report Type: Actions Report

Report Author: Russell Gott

Generated on: 1st July 2016

ACTIVITY	OUTLINE DESCRIPTION	ALLOCATED RESOURCE	ACTUAL RESOURCE	COMMENTS
Skills Capital Projects	Project management controls, authorisation of expenditure, review of business processes. Compliance with conditions of grant, evaluation of eligibility of claims.	25	16	In progress
West Yorkshire Broadband	Processes & procedures Certification of expenditure Compliance with funding agreements Compliance with partnership agreements/claw back provisions	25	10	In progress
Local Transport Plan Capital Programme Management	Review of arrangements to identify, monitor, control and report on the Capital Programme.	15	14	Drafted

Transparency	Compliance with principles of the Local Government Transparency Code 2015	10	9	Drafted
Code of Corporate Governance	Arrangements to ensure compliance with applicable statutes and assessment against SOLACE/CIPFA principles framework including appropriate arrangements for the safeguarding and accountability of public funds, clear and effective communication with WYCA's stakeholders, clearly defined roles and responsibilities at the head of the organisation.	10	8	Completed
Annual Governance Statement	Financial reporting including compliance with relevant standards and codes of corporate governance. The establishment, monitoring and reporting on the systems of internal control.	5	5	Completed
Pro –Active Anti- Fraud Exercise	Statistical analysis for duplicate payments, data matching for creditor payments into inappropriate bank accounts. Sample review of changes to bank payment master records.	5	0	
ERDF & ESF Technical Assistance Project	Head of IA assurance. Periodic report and claim review and certification.	5	6	
Growth Deal – Economic Development	Scheme Evaluation Criteria (SAF) Gateway Review Compliance (SAF) Third-Party Assurances	25	0	

	Certification of Expenditure Governance Arrangements – Consultation/Compliance			
LTP	Head of IA assurance. Periodic report and claim review and certification. Systems and procedures to control the allocation of payments and provide evidence of eligible expenditure.	10	0	Rescheduled to P2, (replaced by AGE review)
English National Concessions Travel Scheme (ENCTS)	Data handling and protection requirements, access rights to ENCTS database, agreements with the third parties concerning the handling and maintenance of ENCTS data. Validation rules for applicants to provide evidence of identity, residency. System is secure and backed up at frequent intervals with limited access rights. Awareness and communication of requirements of Concessionary Bus Travel Act.	20	18	Drafted
QUARTER 1		155	86	
Tendered Subsidised Contracts	Tendering arrangements, batches, de minimis contracts, insurance, operator's licences, lost mileage, payment calculations and processes. Arrangements support and provide contract compliance. Public and education services.	15		
Business Growth Programme	Project management controls, authorisation of expenditure, review of business processes. WYCA expenditure - over £110k	20		

	Compliance with SLA for schemes administered by LCC – less than £100k			
Resource Efficiency Fund including ESIF + LGF	Processes & procedures, assessment of grant applications Compliance with funding agreements	10		
Apprenticeship Grant	Processes & procedures, assessment of grant applications Compliance with funding agreements	10	4	Brought forwards to P1
Central Heating Fund	Processes & procedures, assessment of grant applications Compliance with funding agreements – provided through 3 rd party	10		
Better Bus Area Fund	Head of IA assurance. Periodic report and claim review and certification.	3		
Smartcard Enabling Gateline Huddersfield	Head of IA assurance. Periodic report and claim review and certification.	3		
Interreg Carbon Responsible Transport Strategies (SHARE NORTH)	Head of IA assurance. Periodic report and claim review and certification.	3		
Interreg HORIZON project	Head of IA assurance. Periodic report and claim review and certification.	3		

Growing Places Fund	Administration of loans, evaluation criteria and monitoring procedures.	10		
Access to Capital Grants Programme	Project management controls, authorisation of expenditure, review of business processes	10		
Housing & Regeneration Projects	Provision of funding for; <ul style="list-style-type: none"> - Barnsley Town Centre - Brownfield, Leeds - Kirklees Housing Sites - Northgate House - Redhall 	35		
Contract Monitoring - CDM	Compliance with The Construction (Design and Management) Regulations 2015	25		
QUARTER 2		157	4	
Prepaid Tickets & Concessionary Travel	Arrangements for accounting for stocks, cash, Haven system controls and reporting, calculations of prepaid ticket pool and distribution, concessionary fares reimbursements. Controls for smartcard transactions and use of smart data/provision of service monitoring information. Payzone sales system.	25		

Transport Fund	Scheme evaluation – NTEM forecasts, compliance with WEBTAG Review of operation of Strategic assurance framework	30		
Procurement	Review of the operation of key controls including tendering, ordering, commitments, compliance with Standing Orders and Financial Regulations, e- procurement, purchasing cards.	12		
Business Contingency/Disaster Recovery	Review of plan to be implemented in the event of incident(s) which impact on WYCA being able to operate.	10		
Data Hosting	To provide assurance on the delivery of robust service in line with contract and ensure adequate management controls exist relating to operations and the security of data including recovery if necessary.	15		contractor
Data Security/ Protection	System penetration testing -arrangements to protect WYCA ICT systems from attack	15		Contractor
Fraud Awareness	Maintaining employees' awareness of WYCA's counter- fraud arrangements.	2		
Smart Card & Information Programme (SCIP)	Provision of independent, 3 line of defence programme assurance. (Smart transactions Web Customer Hubs and Service Experience (CHASE))	15		
Bus Services Operator Grant	Head of IA assurance.	3		

Payroll & HR Records	Review of the operation of key controls including arrangements for starters, leavers, pay points, member's allowances, expenses & deductions.	12		
QUARTER 3		139	0	
Energy Accelerator Projects including European Investment Bank funding (ELENA)	Processes & procedures, loans provided through EIB Eligibility criteria Compliance with funding agreements	10		
Employment Ownership Pilot (Skills Service)	Processes & procedures, assessment of grant applications Compliance with funding agreements	10		
Metro Travel Centre Operations	Ticket sales, stock, cash collection/handling security. Fraud prevention controls and associated back-office operations.	15		
Main Accounting – General Ledger	Review of the operation of key controls including System user rights, review, control, adequacy and timeliness, budgetary control, systems interface – education, Haven, and payroll. VAT.	8		
Creditors	Review of the operation of key controls including segregation, authorisation, reconciliation of supplier statements, BACS controls, and sub-contractors records.	8		
Debtors	Test arrangements for write offs, requisitioning, reporting, review of accounts, debt age monitoring and reporting.	6		

Treasury Management	Review of the operation of key controls including treasury management, segregation, review, authorisation, third part services and assurances, prudential code.	15		
On-line Payments	Review of controls for the processing of on-line payments and credit/debit card payments received.	8		
Risk Management	Effectiveness of risk management processes, risk management guidance and support, Identification of risk, risk evaluation, risk mitigation and control, monitoring risks, reporting the status of key risks and controls, recording the management of risks, including the effectiveness of the controls and other responses to them, risk awareness and training.	15		
Cycle City Grant	Head of IA assurance. Periodic report and claim review and certification.	3		
Growth Deal - WY+Transport Fund	Head of IA assurance.	10		
Interreg Carbon Responsible Transport Strategies (SHARE NORTH)	Head of IA assurance. Periodic report and claim review and certification.	2		3 + 2
Interreg HORIZON project	Head of IA assurance. Periodic report and claim review and certification.	2		3 + 2

Green Deal Communities Fund	Head of IA assurance. Periodic report and claim review and compliance with MOU with LCC.	3		
Health & Safety	Health & Safety Policy meets legal requirements as provided in the Health & Safety at Work Act and other relevant Acts. Workplaces and welfare requirements, recording accidents, illness and first aid, use and maintenance of work equipment, control of exposure to hazardous substances, electrical equipment, noise and radiation, (RIDDOR).	15		
Follow up	Follow up on implementation of key audit recommendations.	20		
QUARTER 4		150	0	
Fraud Investigations	Contingency for fraud investigation.	20		
Audit Plan Contingency	Contingency for any requirement for additional audit assurance and for other unplanned audit work identified in year.	30		
Total		651	90	

Forecast Outturn @ 1 July 2016

Audit Resource available to 31 March 2017	322	
Bought – in	<u>30</u>	352
Required to complete the plan		<u>(561)</u>
Projected Shortfall		(209)

Appendix B

Overdue High Priority Audit Recommendations

Title	Recommendations	Action	Due Date	Progress Reported
M/SD/P29/AR234 Risk Management – Corporate Planning	<p>Corporate Planning Risks associated with corporate objectives be assessed, recorded and monitored.</p> <p>This recommendation is being addressed through the WYCA Development programme.</p>	AD Corporate Development	31 March 2016	10%
M/SD/P29/AR248 CHASE CRM – Security and Access	<p>Security and Access Steps should be urgently taken to establish baseline security and access controls for the CRM system</p> <p>Consultants have completed a security assessment. Progress has slipped due to the developers at Yorcard having to resolve issues relating to the reporting module.</p>	Project Manager	1 May 2016	25%
M/SD/P29/AR295 PPT & Cons – Segregation of duties	<p>Segregation of Duties & Access Rights That business rules are agreed for access rights and segregation of duties in terms of the CHASE system</p> <p>No further management comments provided.</p>	Process Development Manager	1 April 2016	0%
M/SD/P29/AR272 Payzone – Automated Alerts	<p>Automatic Alerts An automatic alert should be defined to alert Yorcard staff in the event that output/reports are not produced as expected.</p> <p>Issue to be raised at next Yorcard Board meeting.</p>	Concessions & Integrated Ticketing Manager	31 March 2016	0%

Originator: Angela Taylor,
Director, Resources



ITEM 9

Report to: Governance and Audit Committee

Date: 25 July 2016

Subject: Review of Internal Control and Effectiveness of Internal Audit

1. Purpose

1.1 To inform the Committee of the outcome of a review of internal control and the effectiveness of internal audit.

2. Information

2.1 There is a requirement under the Accounts and Audit (England) Regulations 2015 that 'The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control.....The findings...must be considered....by the members of the body meeting as a whole.' There is a further requirement that 'A larger relevant body must, at least once in each year, conduct a review of the effectiveness of its internal audit. The findings of the review...must be considered, as part of the consideration of the system of internal control ... by the committee or body...' As a Combined Authority the appropriate body to consider these reviews is the Governance and Audit Committee.

2.2 The elements of the system of internal control are set out in the Code of Corporate Governance, an updated version of which was approved at the annual meeting of the Authority in June. The review of the system of internal control is effectively set out in the Annual Governance Statement (AGS) which is required to be included in the annual accounts. This sets out the governance framework in place during the year and is in accordance with the guidance set out by CIPFA/SOLACE. It is also informed by the work undertaken by internal audit in the year and their overall conclusion in their Internal Audit Annual Report which is:

'From the work undertaken during the financial year 2015/16 and taking into account other sources of assurance, Internal Audit have reached the opinion that WYCA's framework of governance, risk management and control is operating adequately.'

The full report from the Internal Audit Manager is included under agenda item 7. The AGS for the year to 31 March 2016 is attached as Appendix A and is also included within the 2015/16 annual accounts, the audit of which is covered under agenda item 9.

- 2.3 The Director Resources has undertaken a review of internal audit, using the Public Sector Internal Audit Standards (PSIAS) checklist and the information in the Internal Audit Annual Report which sets out the work undertaken in the year. The overall conclusion is that the internal audit function complies with the necessary standards and has worked to an adequate standard during the year. There are a few instances of non-compliance with the PSIAS but these are deemed immaterial (they include for instance the non-involvement of the Chair of the Governance and Audit Committee in staffing appraisals for the Internal Audit Manager) and a number of partial compliance mainly arising from the transition from previous working arrangements to those appropriate for the WYCA governance. These areas will be addressed as the governance arrangements of the Combined Authority are further developed during 2016/17.

3. Financial Implications

- 3.1 None arising directly from this report.

4. Legal Implications

- 4.1 None arising directly from this report.

5. Staffing Implications

- 5.1 None arising directly from this report.

6. Recommendations

- 6.1 That the Committee approve the outcome of the review of internal control and of the effectiveness of internal audit.

Annual Governance Statement

1. Scope of Responsibility

The West Yorkshire Combined Authority (WYCA) is responsible for ensuring that its 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. The WYCA also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the WYCA is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions including arrangements for the management of risk. The WYCA has approved Code of Corporate governance that is consistent with the principles of CIPFA Solace framework delivering good governance in Local Government. This statement explains how the WYCA in accordance with the Accounts and Audit Regulations 2015 'ensures that the financial management is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.'

2. The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the WYCA is directed and controlled and its activities through which it accounts to and engages with the community. It enables the WYCA to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the WYCA's policies, aims and objectives, to evaluate the likelihood of those risks being realised and their impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the WYCA throughout the year ended 31 March 2016 and up to the date of approval of the financial statements.

3. The governance framework

There are a number of key elements of the systems and processes that comprise the WYCA's governance arrangements. They are also encapsulated in the Local Code of Corporate Governance which has been approved by the WYCA and which is available on its website. From 1 April 2015 the WYCA has taken on accountable body status for funding awarded to the Leeds City Region Enterprise Partnership (LEP) and governance arrangements reflect this responsibility. The LEP Board and its panels provide the policy direction and guidance with the WYCA providing the financial approvals.

a) Corporate policies and objectives are set and communicated by the WYCA. At its initial meeting on 1 April 2014 the WYCA clearly set out its ambitions to work with its partners across the region to effect economic growth in West Yorkshire. The Strategic Economic Plan (SEP) produced in 2014 by the LEP set out investment priorities across the four pillars of supporting business, developing a skilled workforce, building a resource smart City Region and delivering the infrastructure for growth. This has been adopted by the WYCA and during 2015/16 a refresh of the SEP, led by the LEP but contributed to by WYCA, has taken place, aimed at updating for developments over the intervening two years and reflecting experience in that period. The revised version was approved by the WYCA on 31 March 2016 and by the LEP on 5 April 2016.

3. The governance framework (continued)

b) The statutory Local Transport Plan (LTP) is also undergoing a refresh and will be relaunched later in 2016 as the Single Transport Plan. This will provide close links to the SEP and include new projects and initiatives that have emerged since the LTP was published in 2011.

A suite of supporting plans and strategies set out further detail on a range of priority areas, including housing and regeneration, digital infrastructure, green infrastructure, skills and trade and investment.

c) The WYCA has sole responsibility for LTP3. A system of governance has been agreed to manage the delivery and financial management of LTP3 with the District partners. This includes officer and Member groups which can report as required to the Transport Committee and to the Combined Authority. These groups include representation from the District Councils who are an important part of delivering transport projects across the region.

d) The West Yorkshire Transport Fund Assurance Framework sets out the appropriate safeguards and processes to be put in place to ensure the proper use of public funds and that value for money is secured when investing in transport schemes that form part of the Fund.

This includes the prioritisation process for identifying the schemes that are included in the Fund and the following 3 stage Gateway Approval process on which investment decisions for prioritised schemes are based:

Development Approval (Gateway 1) - scheme sponsors undertake modelling, appropriate feasibility work and the preparation of a high level business case;

Procurement Approval (Gateway 2) - scheme sponsors continue to develop more robust cost estimates, undertake high level WebTAG appraisal appropriate to the nature and complexity of the scheme, progress detailed design work, refine risk levels, prepare to seek a price from the market to implement the scheme and update the business case;

Implementation Approval (Gateway 3) – before implementation is approved, the WYCA needs to be satisfied that the final cost estimates are robust, risk exposure is acceptable, and that forecast outcomes remain comparable with those agreed in earlier gateways.

The WYCA is responsible for the approval for schemes passing through the above gateways. Changes to schemes are carefully monitored by promoters through project and programme exception reporting and change control processes. If a scheme is subject to significant change, the WYCA could re-prioritise the scheme and could require the promoter to renew its mandate and revisit the business case.

e) In April 2015 the Leeds City Region Growth Deal Assurance Framework was produced, building on existing good practice and drawing on government guidance. This has been endorsed by the Governance and Audit Committee and has been used during 2015/16 by the WYCA and the LEP to support its decision making on Growth Deal funded projects.

f) The WYCA established new scrutiny arrangements by setting up an Overview and Scrutiny Committee. This meets regularly and consists of 18 members co-opted from the five West Yorkshire Councils and City of York Council and reflecting political balance. During its second year of operation the Committee has not exercised its call-in function but has continued to engage positively in the development and understanding of policy and projects across the region. Task and finish groups have been established and have met regularly to consider progress on devolution and on achieving organisational priorities.

g) In addition Scrutiny committees within the West Yorkshire Districts and City of York Council will also often challenge the work being undertaken by the WYCA in such areas as accessibility and local bus services. The District Consultation Sub-Committees in each District give a level of local involvement and allow the public the opportunity to scrutinise any new policy initiatives.

h) Member working groups have been established to enable more detailed consideration of bus tender awards (Bus Working Group) and budget matters (Finance Working Group). The Finance Working Group has scrutinised a large number of budget areas and has overseen the development of a medium term financial strategy and detailed budget that bring together the funding available for both the transport and economic agendas.

3. The governance framework (continued)

i) The WYCA's Governance and Audit Committee is responsible for overseeing the effective operation of the systems of governance, risk management and internal control. It oversees the work programme of the Internal Audit team and scrutinises the annual accounts including the Annual Governance Statement. An officer Audit and Risk Management Committee chaired by the Director, Resources, provides an operational level of management and review of arrangements in place.

j) Roles are defined and documented through job descriptions and competency based employee specifications. Appointments have been made to all the posts required by statute, including Head of Paid Service (which forms part of the Managing Director's role, s73 Officer, and the Monitoring Officer. Staff behaviours are guided by WYCA's values and its Code of Conduct and a similar Code exists for Members; both employees and Members are required to maintain a register of interests. The Authority conforms to the requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government (2010)*. The Chief Financial Officer is the Director Resources who is a key member of the leadership team and is responsible for the proper administration of the WYCA's financial arrangements through a suitably qualified and resourced Finance function.

k) An internal team provide the internal audit service to the WYCA. Public Sector Internal Audit Standards (PSIAS) require the purpose, authority and responsibility of the internal audit activity to be defined in an internal audit charter, consistent with the definition of Internal Auditing, the Code of Ethics and the Standards. The Internal Audit Charter establishes internal audit's position within the organisation, including the mandatory nature of the Chief Audit Executive's role; functional reporting relationship with the management team; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

l) Compliance with established procedures, laws and regulations is ensured by a system that requires all decisions to set out all legal and financial implications. Schemes of officer delegation ensure that decisions are made at the appropriate level within the WYCA. Procedures and policies are in place to ensure compliance with the Freedom of Information Act, Data Protection Act and Health and Safety requirements. A whistleblowing policy and guidance notes are available on the website.

m) Risk management is embedded in the activities of the WYCA with regular reviews of the risk registers and exception reporting through the officer Audit and Risk Management Group and through the Member Governance and Audit Committee. A Risk Manual, endorsed by the Governance and Audit Committee sets out the risk management strategy in place and the way in which risks are identified, recorded and monitored. Covalent, the Authority's performance management system, is available for the recording of operational risk registers and can provide reports based on a traffic light system, highlighting 'red' risks that may require action. Comments provided from an internal audit review of WYCA's risk management framework have been considered and a plan agreed to develop these arrangements.

n) Communication with stakeholders through the District Consultation Sub-Committees and Operator Groups take place. Consultation events have taken place during the year on the Strategic Economic Plan, the Single Transport Plan, major schemes and the bus area network reviews which have successfully sought to contain costs but retain accessibility for bus users.

o) A system of Standing Orders and Financial Regulations protect the organisation. These are reviewed annually. Procedural manuals and notes underpin these and ensure the reporting of financial transactions is properly managed. Officer schemes of delegation are also considered on an annual basis.

p) External reviews carried out by auditors and other agencies to achieve Customer Service Excellence and other accreditations with any recommendations identified creating a workplan for future improvements.

q) With regard to the transport ticketing systems the WYCA has in place arrangements whereby an enhanced assurance statement is sought from Northern Rail stating that their systems have operated adequately with no material errors or weaknesses. Payzone sales have replaced the Post Office network and are reconciled to the back office system ensuring that card sales through payzone are fully reimbursed to the WYCA. An internal audit led review engaged an independent ICT systems specialist to assess the payzone systems control environment and a number of improvements were identified.

4. Review of Effectiveness

The WYCA has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. This review is informed by the work of the Internal Audit section and that of management within the WYCA who have responsibility for the development and maintenance of the internal control environment, and also by comments made by External Auditors.

The WYCA has in place a system based on a framework of standing orders, financial regulations and administrative controls including codes of conduct and administrative policies and procedures. All key administrative controls and financial instructions are reviewed on a regular basis by the WYCA's management and Internal Audit. Standing orders and financial regulations are updated as required and re-approved annually by the WYCA at its Annual Meeting. In terms of financial accounting the WYCA utilises a core financial system which is tested and evaluated annually by Internal and External Audit. During the last year the Chief Financial Officer has provided to the Governance and Audit Committee a regular confirmation that key controls have been operating in the period. The Assistant Director Finance reports regularly to the Audit and Risk Management Group that key controls have been operating in the period.

One of the key responsibilities within the WYCA is to determine, agree and monitor the annual budget. This responsibility involves setting an appropriate budget to fulfil the resource requirements of the WYCA in undertaking its transport, economic development and regeneration activities. For 2016/17 this budget is an integrated one for the full breadth of the activities of the WYCA and work was undertaken during 2015/16 with the Members on the Finance Working Group to understand the changes and opportunities introduced by the bringing together of transport and economic policy funding.

The budget setting process requires a comprehensive budget report to be presented to the full WYCA which gives a detailed forecast outturn for the current financial year and the proposed budget for the forthcoming financial year. The budget process is overseen and scrutinised by the Finance Working Group providing challenge and direction from Members on budget principles.

Regular review of revenue and capital budgets is undertaken through Organisational Management Team and the Growth Deal Monitoring Group and updates to the WYCA are presented through the year.

Within the WYCA budgetary responsibility is devolved to Budget Holders and Controllers who are responsible for monitoring and controlling their assigned budget. Regular budget performance reports are prepared by Finance for those charged with governance to ensure ongoing budgetary control is achieved.

The Treasury Management function for the Authority is undertaken in conjunction with Leeds City Council. Their internal audit section provide an annual certification confirming the work they have undertaken during the year and their conclusions reached.

An internal team provides the internal audit resource for the WYCA. The work of Internal Audit is informed by an assessment of risk and a strategic audit plan is devised based on these assessments. This plan and the audit reviews are submitted to the WYCA's Governance and Audit Committee for consideration and the annual plan is then approved by the full Authority. Regular update reports are provided to the Governance and Audit Committee by the Internal Audit Manager, including progress made on the implementation of audit recommendations. Within the WYCA the Covalent system is used to monitor progress in implementing audit recommendations and is regularly reviewed by the directorate management teams and the Audit and Risk Management Group.

The WYCA continues to develop and refine its project management framework (is in the process of developing a Portfolio Management Office) ensuring that there is greater accountability and improved governance with regard to the management and delivery of projects. Regular reports are provided to the Investment Committee and Combined Authority on progress with Local Growth Deal schemes, including the projects within the West Yorkshire plus Transport Fund. Further work will take place during 2016/17 to ensure that the delivery of capital projects is effectively organised and managed and that the procedures in place are suitably robust for the increasing volume of complex projects that need to be delivered by WYCA and its partners.

4. Review of Effectiveness (continued)

The WYCA has in place comprehensive risk management arrangements. Reviews of risk take place at directorate management team level, supported by the Risk Manual which provides guidance on the identification, assessment and reporting of risk. A risk appetite statement has been developed and approved during 2015/16. An officer Audit and Risk Management Group meets on a periodic basis to ensure consistency in the assessment and management of risk and to provide an overview of the process. The WYCA's strategic risk register is considered quarterly by the Governance and Audit Committee. These arrangements will evolve and be further developed to meet the changing needs of the West Yorkshire Combined Authority. Risks relating to the workstreams and activities brought in to the WYCA by the transfer-in of the LEP employees in April 2015 continue to be assimilated into WYCA's risk management framework. Work is also underway to better align risks to corporate objectives and priorities which are in the process of being further developed following the review of the SEP and the appointment of a new Managing Director.

Internal Audit's Quality Assurance and Improvement Program ensures that activity is assessed against the requirements of professional standards, the Definition of Internal Audit and the Code of Ethics as specified by the Institute of Internal Auditors. The WYCA has reviewed its systems of internal control, including the internal audit function and concluded that it complies with the requirements of PSIAS and the Local Government Application Note.

5. Programme of Improvement

It is now two years since the West Yorkshire Combined Authority Order 2014 dissolved both the West Yorkshire Passenger Transport Executive and the West Yorkshire Integrated Transport Authority from 1 April 2014 and created the new WYCA. The transfer in of the LEP employees on 1 April 2015 coupled with WYCA taking on accountable body responsibilities for funding awarded to the LEP from that date has brought some changes to governance arrangements. It is recognised that further changes could be beneficial, learning from the practical application of arrangements in the first two years of operation and reflecting on changes in the operating environment including the need to focus on economic growth and the recognition of public sector austerity.

Further work will therefore be undertaken in 2016/17 to ensure that all governance arrangements are fully aligned and that the economic policy and development functions are integrated fully into the WYCA's governance framework. This will include for example the development of the WYCA's risk appetite, ensuring that risk registers are expanded to include the new areas of activity and decision-making and assurance frameworks are fully integrated and developed. Any new governance arrangements will be kept under review by the WYCA and will also be reflected in internal audit work programmes.

6. Significant Governance Issues

This section considers any significant issues that have arisen during the year. This is by exception only.

No such significant issues have arisen in the year.

We are satisfied that an effective system of internal control has been in place throughout the financial year and is ongoing.

Throughout 2016/17 the WYCA has demonstrated an ongoing commitment to best practice and good corporate governance consistent with the principles of the CIPFA/SOLACE Framework in Local Government and this is clearly demonstrated by the adoption of a Code of Corporate Governance which captures and summarises these principles. We are also satisfied with the improvements that are continuing under the guidance of the Governance and Audit Committee.

**Cllr Box
Chair**

**B Still
Managing Director**

29 September 2016

Originator: Angela Taylor,
Director, Resources



ITEM 10

Report to: Governance and Audit Committee

Date: 25 July 2016

Subject: External Audit update

1. Purpose

1.1 To provide the Committee with an update on the work of the external auditors, Mazars.

2. Information

2.1 Mazars have been undertaking their first year end audit of the WYCA. The fieldwork for the audit of the 2015/16 financial statements is now largely complete and no significant issues have been identified. The outstanding elements of the audit will be completed over the summer and the final accounts will be presented to this Committee in September for approval ahead of the statutory deadline of 30 September.

2.2 Mazars have provided a progress report on the external audit which is attached as **Appendix A**. It confirms the interim conclusions of the audit work, confirms that the previously agreed audit fee remains unchanged and sets out some publications that Mazars wish to draw to the Committee's attention.

2.3 Mark Kirkham, the Partner and Engagement Lead, and Steve Appleton, the Senior Manager, will be present at the meeting to present their report and take any questions.

3. Financial Implications

3.1 None arising directly from this report. The agreed audit fee is included in current budgets.

4. Legal Implications

4.1 None arising directly from this report.

5. Staffing Implications

5.1 None arising directly from this report.

6. Recommendations

6.1 That the Committee note the external audit progress report from Mazars.

West Yorkshire Combined Authority

External Audit Progress Report
25 July 2016

Contents

- 01 Purpose of this paper
- 02 Summary of audit progress
- 03 Audit fees 2016/17
- 04 Publications
- 05 Contact details

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, the international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England with registered number OC308299.

01

Purpose of this paper

This paper updates the Governance and Audit Committee on progress in meeting my responsibilities as your external auditor. It also highlights key emerging national issues and developments which may be of interest to you.

If you require any further information please contact Mark Kirkham or Steve Appleton using the contact details at the end of this update.

Finally, please note the website address www.mazars.co.uk

which sets out the range of work Mazars carries out across the UK public sector. It also details the services provided within the UK and abroad.

02

Summary of audit progress

Audit of financial statements 2015/16

We have completed most of our on-site work on the draft financial statements involving detailed testing of transactions and balances in line with our Audit Strategy Memorandum which we presented to the Governance and Audit Committee on 19 April.

Some audit work remains outstanding primarily relating to:

- receipt and review of third party confirmations;
- work on the pension fund;
- review of post balance sheet events;
- completion of work to support the value for money conclusion;
- completion of our review procedures and closing processes; and
- work **specified by the National Audit Office on the Combined Authority's Whole Government Accounts** submission.

We will report to you the detailed findings from our audit in our Audit Completion Report at the next meeting of the Committee in September.

At this stage in our audit there are no matters of material significance to bring to your attention.

We have discussed with management a few matters arising from the audit relating to presentation and disclosure within the financial statements. None of these matters **directly impact on the Combined Authority's reported financial performance for the year or the presentation of its financial position.**

We will continue to work with management to conclude our outstanding procedures.

We acknowledge the high level of co-operation of the finance team and other staff whilst conducting our audit.

03

Audit fees 2016/17

Public Sector Audit Appointments Limited (PSAA) oversees the audit contracts let by the Audit Commission until they end at the completion of the 2017/18 audits for local government bodies. PSAA's responsibilities include appointing auditors, setting audit fees and monitoring the quality of auditors' work.

PSAA has concluded its consultation on its 2016/17 proposed work programme and scales of fees. There are no changes to the work programme for principal bodies for 2016/17. PSAA has set scale fees for the main audit at the same level as the fees for 2015/16.

The table below outlines our proposed fees for completion of our Code audit work.

Area of work	Proposed fee 2016/17	Provision fee 2015/16
Audit required by NAO's Code of Audit Practice	£33,720 plus VAT	£33,720 plus VAT

At this stage we are not proposing to carry out any additional services for the Combined Authority. PSAA's scale fee assumes that you are able to provide us with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

Outline of work programme

For 2016/17 we are required to meet the requirements of the National Audit Office's Code of Audit Practice and the Local Audit and Accountability Act 2014. The programme of work we are required to carry out in respect of the new Code remains largely unchanged. Our proposed fee for Code audit work includes:

- the audit of your financial statements;
- our work to conclude on your arrangements to secure value for money in your use of resources; and
- a programme of work specified by the National Audit Office in respect of your Whole of Government Accounts submission.

04

Publications

The following pages outline for your attention some significant publications in respect of:

- English devolution deals, National Audit Office; and
- Fighting fraud and corruption locally: the local government counter fraud and corruption strategy 2016 to 2019, Department for Communities and Local Government, April 2016.

English devolution deals, National Audit Office, April 2016

Devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended, according to the National Audit Office.

Over the last 18 months, 10 devolution deals have been agreed, outlining the transfer of powers, funding and accountability for policies and functions previously undertaken by central government, in Greater Manchester, Cornwall, Sheffield City Region; the North East; Tees Valley; Liverpool City Region; the West Midlands, East Anglia; Greater Lincolnshire; and the West of England. They are the latest in a range of initiatives and programmes designed to support localism and decentralisation.

HM Treasury and the Cities and Local Growth Unit are responsible for managing the negotiation, agreement and implementation of devolution deals on behalf of central government as a whole. All of the deals include an agreement on devolved responsibility for substantial aspects of transport, business support and further education. Other policy areas included in some of the deals are housing and planning, employment support and health and social care.

The government has announced new additional investment funding of £246.5 million a year alongside the devolution deals announced so far. Over time, the government intends to combine this funding with a number of other funding streams **into a 'single pot' to enable more local control over investment decisions, and has** announced £2.86 billion of initial allocations over 5 years for the first 6 mayoral devolution deals.

Central government's management approach to brokering devolution deals is designed to support its policy of localism. The government considers that devolution **proposals should be led by local areas, and that central government's role should** be to respond to these proposals. As a result, the government has decided not to set out a clear statement of what it is trying to achieve through devolution deals.

According to the NAO, however, there are significant accountability implications arising from the deals which central government and local areas will need to develop and clarify. These include the details of how and when powers will be transferred to mayors and how they will be balanced against national parliamentary accountability. The deals agreed so far involve increasingly complex administrative and governance configurations. And as devolution deals are new and experimental, good management and accountability both depend on appropriate and proportionate measures to understand their impact.

To improve the chances of success, and provide local areas and the public with greater clarity over the progression of devolution deals, central government should clarify the core purposes of devolution deals as well as who will be responsible and accountable for devolved services and functions, and should ensure it identifies and takes account of risks to devolution deals that arise from ongoing challenges to the financial sustainability of local public services.

<https://www.nao.org.uk/report/english-devolution-deals/>

Fighting fraud and corruption locally: the local government counter fraud and corruption strategy 2016 to 2019, Department for Communities and Local Government, April 2016

Fighting Fraud and Corruption Locally is the new counter fraud and corruption strategy for local government. It provides a blueprint for a tougher response to fraud and corruption perpetrated against local authorities. By using this strategy local authorities will develop and maintain a culture in which fraud and corruption are understood to be unacceptable, understand their fraud risk and prevent fraud more effectively, use technology to improve their response, share information and resources more effectively to prevent and detect fraud loss, bring fraudsters account more quickly and efficiently, and improve the recovery of losses. This strategy is aimed at council leaders, chief executives, finance directors, and all those charged with governance in local authorities.

The strategy:

- calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment illustrates the financial benefits that can accrue from fighting fraud more effectively;
- calls upon central government to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers to improvement updates and builds upon Fighting Fraud Locally 2011 in the light of developments such as The Serious and Organised Crime Strategy and the first UK Anti-Corruption Plan; and
- sets out a new strategic approach that is designed to feed into other areas of counter fraud and corruption work and support and strengthen the ability of the wider public sector to protect itself from the harm that fraud can cause.

<https://www.gov.uk/government/publications/fighting-fraud-and-corruption-locally-2016-to-2019>

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Contact details

Mark Kirkham Partner and Engagement Lead
mark.kirkham@mazars.co.uk
0113 3878850

Steve Appleton Senior Manager
steve.appleton@mazars.co.uk
07881 283340

Address: Mazars House
 Gelderd Road
 Gildersome
 Leeds
 LS27 7JN

Originator: Angela Taylor
Director, Resources



ITEM 11

Report to: Governance and Audit Committee

Date: 25 July 2016

Subject: Internal Controls and Financial Monitoring

1. Purpose

- 1.1. To consider any changes to the arrangements for internal control in the West Yorkshire Combined Authority since the last meeting of the Committee and to consider the current financial position.

2. Information

- 2.1. This paper is provided to each meeting of the Governance and Audit Committee and provides information and assurance on governance issues. Any changes to, or failures of, internal control will be reported along with significant risk issues and an update on the budget position for the current year.

Internal controls

- 2.2. There have been no significant changes to internal controls in the period. Standing Orders and Financial Regulations were considered at the annual meeting of the WYCA on 23 June 2016 and reapproved along with terms of reference for committees, the officer scheme of delegation and other related governance matters.
- 2.3. Regular governance meetings continue to be held with Leeds City Council (LCC) to consider and review the transactions relating to investments, treasury management being carried out jointly with LCC.

Key indicators

- 2.4. The Committee has requested regular information via key indicators, specifically with regard to accidents reportable to the Health and Safety Executive and with regard to key controls.

- 2.5. There has been one reportable (RIDDOR) accident in the period 1 April to 30 June 2016 relating to a fall at a bus station. There is no indication of any defect that contributed to this fall.
- 2.6. Key indicators are monitored in relation to the suite of financial controls undertaken monthly in both the finance and the concessions and integrated ticketing team. These are both up to date as at the time of writing this report.

Financial monitoring – revenue budgets

- 2.7. The latest forecast position for 2015/16 is set out overleaf with the forecast being as reported and approved by the WYCA as part of the budget report of 4 February 2016. The budget for 2016/17 is also as approved by that meeting and monitoring against it has commenced.
- 2.8. The expected actual position for 2015/16 is an increase in reserves of £1.89m against the forecast position of a £0.42m increase. The improvement in the reserves position for 2015/16 can be attributed to savings in Passenger services relating to bus station running costs and planned works totalling £0.2m, Inward investment savings of £0.1m and a significant saving in Financing costs arising from successful treasury management investment and the recognition of Growing places Fund interest which was not included in the forecasts reported in the budget paper. The Growing Places Fund interest contributed almost £1.1m to reserves, however £0.7m of this relates to accrued interest. The accrued interest, while usable, has risk attached to it as this interest is being rolled up and paid at maturity by borrowers who are deemed to be relatively high risk.
- 2.9. The position for 2016/17 up to the end of May shows overspends in Passenger Services of £0.3m arising from additional smart ticketing transition costs and in Corporate showing an overspend of £0.04m relating to IT security costs, with Economic Policy incurring extra costs relating to Enterprise Zone development of £0.02m. Rail Franchise costs of £0.03m relating to additional timetable printing have also been reported.

Combined Authority				
All £000's	Forecast	Expected	Budget	Latest
		Actual		Estimate
	2015/16	2015/16	2016/17	2016/17
<u>Transport costs:</u>				
Concessionary Fares	55,339	55,452	57,003	57,003
- ENCS	45,029	45,142	46,205	46,205
- rail	646	646	662	662
- young people	9,664	9,664	10,136	10,136
Subsidised Services	19,354	19,614	18,999	18,999
Passenger Services	6,928	6,725	8,216	8,529
Rail - franchise costs	44,371	44,375	904	932
Policy and Delivery	502	526	634	634
Strategic priorities - TF/rail dev/QCS	0	0	350	350
<u>Economy</u>				
Policy and Delivery	1,720	1,797	1,918	1,936
Inward Investment	1,544	1,332	1,778	1,778
<u>Shared/Corporate</u>				
Pensions	1,356	1,240	1,394	1,394
Financing Charges	6,183	5,063	6,160	6,160
Corporate	5,763	5,431	6,049	6,090
	143,060	141,555	103,405	103,805
Funded by:				
Special Rail Grant	44,371	44,372	904	904
LEP Funding	2,913	2,872	1,707	1,707
Enterprise Zone receipts	0	0	500	500
Transport levy applied	96,198	96,198	96,198	96,198
Additional Transport Levy				
Net use of/(addition to) reserves	-422	-1,887	4,096	4,496
	143,060	141,555	103,405	103,805

- 2.10. The expected final position for 2015/16 is still subject to final audit sign off, however at this stage there is no expectation that this position will change.

Financial monitoring – capital budgets

- 2.11. Delivery of the Transport Fund and Local Growth Fund projects is being monitored by the Investment Committee and information on this is available via the papers on the website.

- 2.12. The budget paper in February set out the full position with regard to capital expenditure. There has been an element of underspending on the Growth Deal projects in 2015/16, reflecting the complexity of the programme but by considering the full portfolio of projects and all the funding streams available to the Authority it has been possible to ensure the conditions attached to all funding streams have been met and any underspends made available for carry forward to 2016/17.

Risk management

- 2.13. There have been no significant changes to risk since the last meeting of this Committee. The detailed risk registers and corporate risk register continue to be monitored by officers. Work that is underway on fully integrating the activities of the various teams brought together by WYCA ie the former Passenger Transport Authority/Executive, the Leeds City Region Enterprise Partnership, the inward investment team from Leeds and Partners and the Regional Economic Intelligence Unit will result in a unified set of objectives and priorities aligned with the recently updated Strategic Economic Plan. This will then enable an updated set of corporate risks to be developed and these will be brought to a future meeting of this Committee for consideration.

3. Financial implications

- 3.1. As set out in the report.

4. Legal Implications

- 4.1. None arising directly from this report.

5. Staffing Implications

- 5.1. None arising directly from this report.

6. Recommendations

- 6.1. That the Committee note the report.