

GOVERNANCE AND AUDIT COMMITTEE

**MEETING TO BE HELD AT 12.00 PM ON THURSDAY, 3 AUGUST 2017
IN COMMITTEE ROOM B - WELLINGTON HOUSE, LEEDS**

A G E N D A

- 1. APOLOGIES FOR ABSENCE**
- 2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS**
- 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 OF THE GOVERNANCE AND AUDIT COMMITTEE HELD ON 6 APRIL 2017**
Copy attached.
(Pages 1 - 4)
- 5. APPOINTMENT OF DEPUTY CHAIR**
(Pages 5 - 6)
- 6. TERMS OF REFERENCE AND FORWARD PLAN OF WORK 2017-18**
(Pages 7 - 10)
- 7. ANNUAL INTERNAL AUDIT REPORT AND OPINION**
(Pages 11 - 28)
- 8. INTERNAL AUDIT PROGRESS REPORT**
(Pages 29 - 56)
- 9. REVIEW OF INTERNAL CONTROL AND EFFECTIVENESS OF INTERNAL AUDIT**
(Pages 57 - 58)
- 10. EXTERNAL AUDIT UPDATE**
(Pages 59 - 60)

11. APPROVAL OF ANNUAL ACCOUNTS 2016-17
(Pages 61 - 154)

12. INTERNAL CONTROLS & FINANCIAL MONITORING
(Pages 155 - 158)

Signed:

A handwritten signature in black ink, consisting of the letters 'BSM' in a stylized, cursive font, with a horizontal line underneath.

WYCA Managing Director



**MINUTES OF THE MEETING OF THE
GOVERNANCE AND AUDIT COMMITTEE
HELD ON THURSDAY, 6 APRIL 2017 AT COMMITTEE ROOM A, WELLINGTON
HOUSE, 40-50 WELLINGTON STREET, LEEDS**

Present:

Roger Marsh OBE (Chair)	Leeds City Region Enterprise Partnership
Councillor Andrew Carter CBE	Leeds City Council
Councillor David Sheard	Kirklees Council
Councillor Tim Swift	Calderdale Council

In attendance:

Steve Appleton	Mazars Auditors
Mark Kirkham	Mazars Auditors
Russell Gott	WYCA
Angela Taylor	WYCA
Ruth Chaplin	WYCA (Democratic Services)

27. Chair's Comments

The Chair welcomed Councillor Swift to his first meeting.

28. Apologies for Absence

There were no apologies for absence.

29. Declarations of Disclosable Pecuniary Interests

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

30. Exclusion of the Press and Public

There were no items on the agenda requiring exclusion of the press and public.

31. Minutes of the Meeting of the Governance and Audit Committee held on 1 December 2016

Resolved: That the minutes of the meeting held on 1 December 2016 be approved.

32. External Audit Matters

The Committee considered a report of the Director, Resources which provided information on:

- The proposed response to Mazars with regard to fraud and legal compliance with reference to the 2016/17 audit.
- Mazars audit planning for the 2016/17 audit.
- Progress in appointing auditors for future years following approval to progress this with Public Sector Audit Appointments Ltd (PSAA).

The Committee discussed the proposed response to Mazars as part of the year end reporting process in respect of fraud and legal compliance. It was agreed that a formal statement confirming there had been no significant breaches (or otherwise) of internal control would be provided to the Committee on a quarterly basis. Members asked for further detail on the definition of “significant” and what constituted a breach of compliance.

Mazars’ Audit Strategy Memorandum was presented by Mark Kirkham and Steve Appleton. This set out their planning for the 2016/17 year end audit, key risks and further information on how the audit will be approached.

Members noted the update on progress with the appointment of auditors for 2018/19 through Public Sector Audit Appointments Ltd (PSAA) which was outlined in the submitted report. A consultation process would be undertaken with individual authorities to appoint auditors before the statutory deadline of 31 December 2017 and the first year of the national scheme’s operation would be for audit of the 2018/19 accounts.

Resolved:

- (i) That the draft response to fraud and legal compliance attached at Appendix A to the submitted report be approved.
- (ii) That the Audit Strategy Memorandum from Mazars be noted.
- (iii) That the next steps in the appointment of auditors for 2018/19 be noted.

33. Internal Audit Progress Report

The Committee considered a report of the Internal Audit Manager on work

undertaken by the Internal Audit Section from 1 December 2016 to 31 March 2017.

It was noted that a number of audit reviews were currently in progress and information concerning their status was provided in Appendix A of the submitted report. It was noted that although only one audit had been completed in the period, a further 17 reviews would be finalised in the near future. Details of outstanding high priority recommendations were attached at Appendix B. It was considered helpful to provide members with a comparator of previous year's opinions to indicate the 'direction of travel'. A note regarding the completion of the 'improvements required' on the skills apprenticeship audit was requested.

Members discussed the audit review undertaken on Creditors and the conclusions which had received a 'Controlled' opinion. It was noted that payments are currently made to creditors within 30 days or on the required credit terms.

Resolved: That the report be noted.

34. Internal Audit Plan 2017/18

The Committee considered a report of the Internal Audit Manager on the proposed internal audit plan for 2017/18.

Members were advised that the draft plan for 2017/18 was a flexible document and it was requested that the CityConnect project be included as a future audit review.

It was reported that the provision of internal audit services as detailed in the Audit Plan required an additional resource of 39 days. Members were assured that this shortfall would be monitored throughout the year and an update would be provided to a future meeting with the intention that this be managed through the use of contingency and/or time savings on individual assignments.

Members discussed risk assessment and it was suggested that the Committee be involved in a refresh of the Risk Register and a report would be prepared for a future meeting.

Resolved:

- (i) That the internal audit plan 2017/18 be approved.
- (ii) That the forecast shortfall in available audit resource be noted and that the Internal Audit Manager be requested to monitor this situation and provide an update to a future meeting of the Committee.
- (iii) That a report on the Risk Register be prepared for a future meeting.

35. Internal Controls & Financial Monitoring

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

Internal Controls

It was reported that there had been no significant changes to internal controls since the last meeting. The revenue budget for 2017/18 and associated financial limits had been approved by WYCA on 2 February 2017 and monitoring against it had commenced.

Key Indicators

The key indicators showed no matters for concern. There had been one reportable RIDDOR accident in the period 1 April 2016 to 31 January 2017 which related to a fall at a bus station and there was no indication of any defect having contributed to the incident.

Financial Monitoring – Revenue Budgets

Members noted the revenue update which provided information on the revised forecast for 2016/17 and the approved budget for 2017/18.

Financial Monitoring – Capital Budgets

It was noted that delivery of the Transport Fund and Local Growth Fund projects was being monitored by the Investment Committee. Comment was made that the forecast for the Growth Deal spend seemed ambitious and members were advised that this would be considered by the Investment Committee and WYCA in June 2017.

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 on the corporate plan for 2017/18 included a review of the strategic risks and a report would be prepared for a future meeting of the Committee.

Resolved: That the report be noted.

Director and author: Angela Taylor, Director of Resources



Report to: Governance and Audit Committee

Date: 3 August 2017

Subject: Appointment of Deputy Chair

1. Purpose

1.1. To appoint a Deputy Chair to the Governance and Audit Committee.

2. Information

2.1. The Committee is not required to appoint a Deputy Chair but may do so if it chooses. The Committee is asked to consider whether such an appointment would be useful and to then nominate and appoint a Deputy Chair.

3. Financial Implications

3.1. None arising.

4. Legal Implications

4.1. The Committee may appoint a Deputy Chair.

5. Staffing Implications

5.1. None arising.

6. Recommendations

6.1. To consider the appointment of a Deputy Chair of the Governance and Audit Committee for the municipal year 2017/18.

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Director and author:
Angela Taylor, Director,
Resources



Report to: Governance and Audit Committee

Date: 3 August 2017

Subject: Terms of Reference and Forward Plan of Work 2017-18

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 2017-18.

2. Information

- 2.1. The terms of reference for this Committee are set out in **Appendix A**. These were reviewed and re-approved at the annual meeting of the CA in June. No changes have been made to them.
- 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 July/August meeting the Committee will receive the annual accounts and 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.
- 2.4. 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 under consideration.
- 2.5. At the October meeting the Committee will receive confirmation that all required external audit work is complete (including grant returns and submission of whole of government accounts). It is also proposed that risk management arrangements are considered in some detail at this meeting, following requests from Committee members.

- 2.6. At the January meeting the Committee will consider the internal audit strategy, early input to the internal audit plan for the following year, and any changes required to treasury arrangements for the coming year.
- 2.7. At the March meeting the Committee will receive the audit fee letter, early planning from the external auditors with regard to the year end audit and approve the internal audit plan for 2018/19.
- 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 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. The Committee has already recommended to, and had approved by, the CA that Public Sector Audit Appointments Ltd (PSAA) be used to manage this process. Engagement with PSAA over new appointments will take place later this year and reports will be brought to this Committee as required. Further information on this matter is set out under agenda item 10.

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;

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.

- arrangements for investigating and making decisions about allegations of failing to comply with the Members' Code of Conduct.
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.

Director: Angela Taylor, Director,
Resources
Author: Russell Gott



Report to: Governance and Audit Committee
Date: 3 August 2017
Subject: Annual Internal Audit Report and Opinion

1 Purpose

1.1 To provide notice of the Annual Internal Audit Report and Opinion of the risk management, governance and control environment in operation during 2016/17.

2 Information

2.1 Public Sector Internal Audit Standard, PSIAS 2450, requires the Chief Audit Executive to provide an annual report to the Governance & Audit Committee 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 Governance and Audit Committee 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 at **Appendix 1** to the report for information.

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 External Consultees

- 6.1 None.

7 Recommendations

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

8 Background Documents

- 8.1 None.

West Yorkshire Combined Authority

Internal Audit Annual Report and Opinion 2016/17

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). 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 2016/17 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 2016.

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 was updated in 2016 and has been adopted and applied as proper practice by WYCA.

The opinion on governance, risk and 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 2016/17

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 2016/17 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 2017.
- 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 2016/17

From the work undertaken during the financial year 2016/17 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 key 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 identifying and aligning strategic risks to 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.

Business Continuity/Disaster Recovery

It was established that whilst elements of business continuity and disaster recovery arrangements are in place, this structure is limited to outlining the response to an emergency. It was acknowledged that business continuity and disaster recovery is a substantive subject which requires a new pro-active and pre-emptive organisational approach.

Governance

Corporate Governance

WYCA demonstrates how it meets the principles of governance through the review and annual production of its Code of Corporate Governance.

It is recognised that the organisation is responding to significant changes in relation to its purpose, accountability, governance and stakeholders. Examples of this include the appointment of an Information Governance Officer and the completion of a management review of corporate governance arrangements, including interfaces with structures operated by the Leeds City Region Local Enterprise Partnership, the development of policies to comply with the introduction of the General Data Protection Regulations and the commencement of a management review of information governance within WYCA.

Transparency

A review was undertaken which assessed the level of compliance with the principles provided by the Department for Communities & Local Government within the Transparency Code (2015).

It was established that overall WYCA complies with these requirements although some changes were identified to improve the availability and frequency of data published.

Internal Control

Data Security/Data Protection

A follow up review of internal audit recommendations originally provided in 2015/16 identified a number of key issues which were not fully resolved. These included the documentation of business critical systems, improvements to the monitoring and reporting of key security settings, the development of ICT back-up and recovery policy and the performance of periodic test restores of key programmes.

Programme/Project Management Assurance Framework

Internal Audit have provided opinion and assurance concerning the following programmes and projects;

- Skills Capital Funding
- Apprenticeship Grant for Employers
- Housing & Regeneration
- Superfast Broadband
- Growing Places Fund
- Business Growth Programme

The results of these reviews highlighted a number of common themes associated with programme and project management arrangements. Consequently, with the establishment of the Portfolio Management Office, WYCA have introduced an assurance framework for assessing the eligibility, development, delivery and evaluation of corporate programmes and projects.

Procurement Review

Opportunities to strengthen the control environment in respect of the monitoring of costs against approved tender values and the development of guidance for the submission of information required when submitting reports for the approval of tender awards were identified.

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 2016/17, 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.

Further information is provided within WYCA's Disciplinary, Conduct and Capability Policy and Procedure which contains guidance to employees where they suspect that bribery, fraud or corruption may be/have occurred.

During the period no referrals were made to Internal Audit.

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. However there are some areas where WYCA have accepted non-compliance with the standards or that require development.

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 should 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 2017 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 2016/17 and other identified timescales.

	<u>Actual</u>	<u>Benchmark¹</u> <u>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	88%

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 favorably against public sector benchmarks and is performing well against the targets set. However, it is recognised that the audit resource falls 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 most criteria.

The cumulative results from questionnaires completed throughout 2016/17 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	5	1	
2	Throughout the audit process I was kept informed of the work being done and issues arising.	6	4	2	
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	1	
4	Internal audit staff demonstrated a pragmatic approach to developing solutions to issues identified during the audit.	4	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	3	
6	Internal audit staff acted in a professional manner throughout the assignment.	8	4		
Scale ; 1 = Strongly agree, 2 = Agree, 3 = Disagree, 4 Strongly disagree					

Audit Plan 2016/17

Details of the work performed by Internal Audit in 2016/17 and audit opinions provided are set out below.

Further information concerning the definition of internal audit assurance opinion categories is provided in the appendix to this report.

Audit Area	Assurance	Opinion
Skills Capital Projects	Project management controls, authorisation of expenditure, review of business processes. Compliance with conditions of grant, evaluation of eligibility of claims.	Requires Improvement
West Yorkshire Broadband	Processes & procedures. Certification of expenditure. Compliance with funding agreements. Compliance with partnership agreements/claw back provisions	Requires Improvement
Local Transport Plan Capital Programme Management	Review of arrangements to identify, monitor, control and report on the Capital Programme.	Controlled
Transparency	Compliance with principles of the Local Government Transparency Code 2015	Controlled
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.	Controlled
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.	Controlled
ERDF & ESF Technical Assistance Project	Head of IA assurance. Periodic report and claim review and certification.	Substantial Assurance
Growth Deal – Economic Development	Scheme Evaluation Criteria (SAF) Gateway Review Compliance (SAF) Third-Party Assurances Certification of Expenditure Governance Arrangements – Consultation/Compliance	Requires Improvement
LTP	Head of IA assurance.	Substantial

Audit Area	Assurance	Opinion
	Periodic report and claim review and certification. Systems and procedures to control the allocation of payments and provide evidence of eligible expenditure.	Assurance
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.	Well Controlled
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.	Controlled
Business Growth Programme	Project management controls, authorisation of expenditure, review of business processes. WYCA expenditure - over £110k Compliance with SLA for schemes administered by LCC – less than £100k	Requires Improvement
Resource Efficiency Fund including ESIF + LGF	Processes & procedures, assessment of grant applications Compliance with funding agreements	Substantial Assurance
Apprenticeship Grant	Processes & procedures, assessment of grant applications Compliance with funding agreements	Requires Improvement
Central Heating Fund	Processes & procedures, assessment of grant applications Compliance with funding agreements – provided through 3 rd party	Substantial Assurance
Interreg Carbon Responsible Transport Strategies (SHARE NORTH)	Head of IA assurance. Periodic report and claim review and certification.	Substantial Assurance
Growing Places Fund	Administration of loans, evaluation criteria and	Requires

Audit Area	Assurance	Opinion
	monitoring procedures.	Improvement
Housing & Regeneration Projects	Provision of funding for; Barnsley Town Centre, Kirklees Housing Sites and Northgate House.	Controlled
Contract Monitoring - CDM	Compliance with The Construction (Design and Management) Regulations 2015	Requires Improvement
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.	Requires Improvement
Transport Fund	Scheme evaluation – NTEM forecasts, compliance with WEBTAG Review of operation of Strategic assurance framework	Requires Improvement-
Procurement	Review of the operation of key controls including tendering, ordering, commitments, compliance with Standing Orders and Financial Regulations, e- procurement, purchasing cards.	Requires Improvement
Business Contingency/Disaster Recovery	Review of plan to be implemented in the event of incident(s) which impact on WYCA being able to operate.	Requires Improvement-
Fraud Awareness	Maintaining employees' awareness of WYCA's counter- fraud arrangements.	Controlled
Smart Card & Information Programme (SCIP)	Provision of independent, 3 line of defence programme assurance. (Smart transactions Web Customer Hubs and Service Experience (CHASE))	Controlled
Payroll & HR Records	Review of the operation of key controls including arrangements for starters, leavers, pay points, member's allowances, expenses & deductions.	Controlled
Metro Travel Centre Operations	Ticket sales, stock, cash collection/handling security. Fraud prevention controls and associated back-office operations.	Controlled
Main Accounting –	Review of the operation of key controls	Well

Audit Area	Assurance	Opinion
General Ledger	including System user rights, review, control, adequacy and timeliness, budgetary control, systems interface – education, Haven, and payroll. VAT.	Controlled
Creditors	Review of the operation of key controls including segregation, authorisation, reconciliation of supplier statements, BACS controls, and sub-contractors records.	Controlled
Debtors	Test arrangements for write offs, requisitioning, reporting, review of accounts, debt age monitoring and reporting.	Requires Improvement
Treasury Management	Review of the operation of key controls including treasury management, segregation, review, authorisation, third part services and assurances, prudential code.	Well Controlled
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.	Requires Improvement
Growth Deal - WY+Transport Fund	Head of IA assurance.	Substantial Assurance
Green Deal Communities Fund	Head of IA assurance. Periodic report and claim review and compliance with MOU with LCC.	Substantial Assurance
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).	Controlled

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>

Director: Angela Taylor, Director,
Resources
Author: Russell Gott



Report to: Governance and Audit Committee

Date: 3 August 2017

Subject: Internal Audit Progress Report

1. Purpose

1.1 To inform WYCA 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 2017 to 30 June 2017 and provides progress in delivering the 2017/18 audit plan, audit opinions on reviews completed, summaries of significant issues identified and the status of any high priority recommendations which have not been implemented within 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:

- Growing Places Fund
- Business Growth Fund
- Housing & Regeneration Projects
- Creditors Payments Systems
- Health & Safety
- CDM Regulations Compliance
- Growth Deal
- Risk Management
- Business Continuity
- Superfast Broadband Programme
- Prepaid Tickets & Concessionary Fares
- Main Accounting System
- Debtors Processing Systems

- Resource Efficiency Fund
- Procurement

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	There is an inadequate control framework.

	<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>
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4. Audit Resource

- 4.1 Members are aware that the approved Internal Audit Plan for 2017/18 produced an imbalance between the audit resource which could be provided by the in-house service and specialist external audit providers when compared with the estimated resource required to complete audit reviews identified in the plan. This situation will be further exasperated due to the requirement to recruit a new member of Internal Audit Team as a consequence of an internal appointment. The Internal Audit Manager will provide an update to the next meeting of the Governance & Audit Committee which will provide a forecast of the impact that this has had on the resourcing of the Audit Plan in 2017/18 and any subsequent actions required.

5. Summary of Audit Reviews Undertaken

5.1 Growing Places Fund.

Opinion

Requires Improvement

Improvements were identified in relation to project management. Factors need to be addressed such as the anticipated longevity of the fund, appetite to accept associated risk and consideration of legacy agreements.

Objectives

The review considered the presence and the operation of the following key controls:

- Arrangements for the communication, publicity and promotion of the fund along with guidance and eligibility criteria.
- Recording of enquiries, expression of interest and full business case including supporting documentation and appraisal.
- Completion and compliance of due diligence steps in line with documented process.
- Loan award including approval, terms and evidence of legally enforceable agreements.
- Financial control including drawdown procedure, repayments and monitoring of loans along with the oversight of revenue costs.

- Project management arrangements including risk, lessons learned, benefits, tolerance and exceptions reporting.
- Compliance with regulations and legislation – Freedom of Information, Data Protection and State Aid.

Principal Observations

A clearly defined end to each project should be established to trigger hand-over and review. The establishment of a benefit review plan will outline how and when a measurement of the achievement of the project's benefits can be made.

Arrangements for the handover of financial monitoring of loan repayments should be confirmed, acceptance criteria agreed and responsibilities assigned.

5.2 Business Growth Fund

Opinion

Requires Improvement

There is a need to continue developing the business grants process to improve the assurance arrangements related to the Service Level Agreement with the local authority partner.

Objectives

The audit considered the presence and operation of the following key controls:

- Grant applications are assessed in terms of funding criteria requirements. Evidence of review and decision making / approval.
- Evidence of due diligence tests undertaken for schemes which are progressed beyond initial receipt / phase.
- Evidence that schemes have been approved for funding and that appropriate information is recorded where schemes have been rejected.
- Scheme level financial monitoring and regular reporting regime is in place and operating effectively.
- Service Level Agreement is effectively managed, compliance with requirements are regularly undertaken.
- Evidence of expenditure by grant recipients is provided through source documentation and periodic independent certification.
- Evidence of the attainment of scheme objectives is provided and reviewed.
- Checks are performed at scheme exit which assess the deliverables and outputs produced as a result of funding.
- Principles of project management arrangements are clearly documented in relation to risk management, cost control and benefits realisation.
- Principles of programme level management and reporting are demonstrated.
- Measures to counter fraud are in operation including the division of duties between scheme approval, authorisation of grant payments, evidence of appropriate expenditure, management review and reporting.

Principal Observations

That user system access rights to the Evolutive system be identified and documented within the Business Growth procedures.

That appropriate user access privileges are enforced and that controls are applied to detect changes to data.

That the criteria concerning the eligibility of funding is clearly stipulated within written procedures and consistently applied.

5.3 CDM Compliance

Opinion

Requires Improvement

Arrangements for compliance with CDM Regulations were found to be sufficient for the specific contractor observed for the purpose of this review. However, there is a lack of effective corporate oversight to ensure that these required arrangements are in place for all eligible contractors.

Objectives

The review considered the presence and operation of the following key controls:

- Collation and retention of key contractor documentation.
- Approvals on key contract documentation.
- Completion of contractor personnel checks.
- Completion of management checks on contractor performance.
- Corporate oversight and centralised collation of key contractor documentation.

Principal Observations

That arrangements are considered for the centralised record system. This may involve creating a file system on a shared drive where contract managers are required to save their electronic documents, therefore ensuring the ongoing validity of the hyperlinks. Alternatively, the authority may wish to consider embedding documents in the spreadsheet or utilising record management software.

5.4 Growth Deal

Opinion

Requires Improvement

Management have developed a plan to address significant under-spends on the Growth Deal and Transport Scheme. Some improvements have already been made. However there are a significant number that have yet to be implemented.

Objectives

The review considered the presence and the operation of the following key controls:

- The Governance Structure (WYCA, Investment Committee and the Transport Committee).
- The Assurance Framework.
- Programme management, monitoring and reporting arrangements.
- Identification of Growth Fund expenditure and confirmation this is for capital investment and Growth Deal funding objectives.
- Programme risk management arrangements.
- Role of WYCA's Leadership Team.

Principal Observations

That reports are presented to the Investment Committee at least quarterly regarding spend against all schemes and programmes.

That WYCA closely monitor the improved arrangements which have recently begun to be implemented. As a result, implementation dates should be set for all key improvements and processes, and reported to members quarterly.

5.5 **Debtors Processing Systems**

Opinion

Requires Improvement

A significant debt, the details of which had been provided to the bus operator's liquidators, was not written off at the 2015/16 year-end. Procedures should be developed to deal with bus operators who develop financial health issues and subsequently go into liquidation

Objectives

The review considered the presence and the operation of the following key controls:

- Authorisation of Debtor accounts raised
- Separation of processing between the creation and maintenance of debtor records and the processing of payments.
- Unique and sequential identification controls for sales orders and debtor invoices.
- Independent reconciliation of debtor account records with income received.
- Monitoring and management of debtor accounts including arrangements for debt recovery.
- Procedure and authorisation for debt write-off.
- Compliance with requirements laid down in Contract Standing Orders & Financial Regulations.

Principal Observations

In relation to a debt concerning an organisation which entered into administration in 2015, consideration should be given to including the following information in the Annual Bad Debts Report:

- the background to the debt; and
- the reasons why it was not written off at the end of the 2015/16 financial year.

There should be a comprehensive financial health assessment/check carried of certain operators (depending on size of provider and value of contract) before a bus contract is awarded to them. Consideration should also be given to repeating such financial health assessments/checks when such is viewed appropriate.

5.6 Procurement

Opinion

Requires Improvement.

Improvements are required in the quality of information provided to support the approval of the award of tenders and the control of costs associated with contracts awarded through competitive tendering processes.

Objectives

The review considered the presence and the operation of the following key controls:

- Compliance with Contracts Standing Orders, Financial Regulations and EU directives relating to category B, C, D and E requirements.
- Request for Decision papers are clear and comprehensive and the contents support the paper's recommendation.
- The ordering system is used in an appropriate manner.
- Monitoring, maintenance and cost control of existing contracts WYCA is getting value for money in relation to purchases made through tenders and quotes.
- Adequate written procedures are in place to support the ordering system.

Principal Observation

When considering the approval of the award of tenders, the Request for Decision papers produced for the Leadership team should always:

- specify the proposed contract sum and the proposed contractor in both its Recommendation and Decision Required Sections;
- provide details of the tendering process followed and its outcomes, that is, number of tenders obtained; tender prices and overall evaluation scores;
- make clear in those circumstances where the lowest tender submitted has not been accepted, why the proposed contractor has been selected; and
- provide details when viewed relevant, of the proposed contractor's past and current involvement with WYCA.

To ensure that evidence to support each tendering exercise is readily available for independent review and increase transparency, it is recommended that the Purchasing Team should take part, be consulted and maintain records for every contract put out to tender.

To ensure that there is a clear audit trail from the Request for Decision paper to the Proactis Order, the latter should always reflect the agreed tender price which was approved by the Request for Decision paper.

If either the budget-holder or person associated with the purchase order raises a Note on Proactis expressing concerns about the invoice, then there should be a clear mechanism which suspends the payment of the invoice until the Note has been updated by its author to provide evidence that the concerns expressed have been addressed.

5.7 Risk Management

Opinion

Requires Improvement

In the main, the elements of an effective risk management framework are present but the fundamentals are not consistently applied.

Objectives

The review considered the presence and the operation of the following key controls:

- Risk appetite, tolerances and constraints identified.
- Established risk architecture and risk escalation procedures.
- Developed risk awareness culture.
- Risk assessments and protocols in place for the management of risks.
- Significant risks and key risk indicators identified and managed.
- Sources of assurance in risks identified to the Authority.
- Risk Maturity.

Principal Observations

The risk appetite statement should be presented to the Governance and Audit Committee on an annual basis for approval.

The Risk Manual should make it clear the process through which risks can be escalated. The existing management groups should be used to provide the structure for this and regular review of risks at service and directorate level should be undertaken to identify any new and emerging risks.

WYCA should look to identify and coordinate all risk records maintained and introduce a minimum timescale for review of service, directorate and corporate level risks.

Reviews should be scheduled so as to ensure that risks are updated ahead of any management group meeting at which risk management is to be considered or meeting of the Governance and Audit Committee (in the case of corporate risks).

Now that the organisation's objectives have been defined through the Strategic Economic Plan and corporate plan, a corporate risk register must be produced to reflect the key strategic risks to the authority. The corporate risk register should be reported at least bi-annually to the Governance & Audit Committee.

5.8 Business Continuity

Opinion

Requires Improvement

Whilst elements of Business Continuity and Disaster Recovery arrangements are present, there are concerns over the overall management and coordination.

Objectives

The audit considered the presence and operation of the following key controls:

- There is a business continuity management system.
- There is a periodic backup of all necessary data files and application programs, stored in a suitable off-site location.
- Risk assessment is carried out periodically.
- There is a disaster recovery plan.
- There is a business impact analysis for service areas.
- All service areas have an incident management plan.

Principal Observations

A business continuity policy that includes a section on disaster recovery should be developed. This would include clear roles and responsibilities for the overall management of business continuity arrangements, including how this impacts on disaster recovery. It should also set out a clear review and maintenance programme/schedule.

A risk assessment needs to be carried out which will inform the disaster recovery approach. This should be drawn from the work carried out on business continuity management, and reflect the needs of the organisation as whole. Develop, implement, and adhere to a disaster recovery plan for the IT functions at WYCA.

5.9 Superfast Broadband Programme

Opinion

Requires Improvement

There is a need to continue developing project management and governance arrangements, linking risks and issues at all levels of the project

Objectives

The review considered the presence and the operation of the following key controls:

- Legal agreements in place for managing compliance arrangements with the programme.
- Agreed partnerships arrangements in place and established protocols.
- Agreed Service Level Agreement in place with Leeds City Council as the delivery authority.
- Contract compliance checks performed in relation to Milestone to Cash process and quarterly grant claims.
- Project management arrangements in place for managing risks and issues, tolerances, reports issued to the Project Board.
- Grant payment procedure for processing quarterly and annual claims.
- Separation of duties in terms of processing and approval of grant claims.
- Financial arrangements for year end in terms of compliance with the BDUK contract.

Principal Observations

That the service level agreement with the Local Authority partner for services required to support the delivery of this programme is put in place.

5.10 Prepaid Tickets & Concessionary Fares

Opinion

Controlled.

There is an acceptable control framework in place although some changes to controls around data security, management of ticket stock and alignment of procedures would be beneficial.

Objectives

The review considered the presence and the operation of the following key controls;

- Evaluate new processes established for ticket sales made through payzone outlets and corporate sales systems.
- Daily ticket sales cash reconciliations for Travel Centres.
- Adequate segregation of duties and access rights for all back office systems.
- Stock reconciliations performed for all ticketing systems interfacing with the back office.
- Agent sales are correctly calculated in terms of sales and commissions and evidence of review.
- Products that interface with the back office follow the relevant business rules.
- Payzone income is accurately posted into the corporate financial management system.
- Review and approval of the reconciliation of the prepaid ticket pool.
- Review and approval of concessionary fares.

Principal Observation

That documented processes be revised and updated to identify all key control reconciliations with clear links provided to supporting evidence.

5.11 Main Accounting System

Opinion

Well Controlled

There is a robust control framework in place for the system. All necessary controls are in place and are operating effectively

Objectives

The review considered the presence and the operation of the following key controls:

- Interfaces with supporting systems.
- Separations of duties between officers responsible for the input and review of data.
- Bank reconciliation performed on a regular, monthly basis and are reviewed by a senior officer.
- Re-perform a bank reconciliation for general operating account and prepayment account.
- Verify a sample of transactions on main accounting system (MAS) back to source documentation.
- Review suspense and holding accounts and ensure that they are regularly reviewed and items investigated promptly.
- Review journals to ensure that they were authorised and input into MAS by staff independent of those originating or authorising the transaction.
- Review and monitoring of postings within MAS.
- There is an appropriate chart of accounts that meets the WYCA's accounting requirements.
- Budgets identify any significant amendments to the budgets during the year and check that the amendments were referred to and approved.
- Confirm that controls ensure procurement commitments are confirmed as being within budget before they are processed.
- Ensure that regular stewardship reports are made to WYCA.

Principal Observations

There were no significant issues identified.

5.12 Housing & Regeneration Projects

Opinion

Controlled

There is an acceptable control framework in place. Key controls are in place and operating effectively although some changes to controls and how they operate would be beneficial.

Objectives

The review considered the presence and the operation of the following key controls:

- Arrangements for the communication, publicity and promotion of the programme along with guidance and eligibility criteria.
- Receipt of outline and full business case including associated appraisal and approval.
- Completion and compliance of due diligence steps in line with documented process.
- Loan award including approval, terms and evidence of legally enforceable agreements.
- Financial control including drawdown procedure, repayments and monitoring of loans along with the oversight of revenue costs.
- Project management arrangements including risk, issue, benefit, tolerance and exception reporting.

Principal Observation

The project management team should ensure timely receipt and review of project monitoring information from bodies in receipt of loan funding

5.13 Creditors Payments

Opinion

Controlled

Controls were found to be present and operating however the reconciliation of transactions with entries through WYCA's bank account was not performed on a timely basis at the time of this review.

Objectives

The review considered the presence and the operation of the following key controls:

- The authorisation and certification of invoices and credit notes.
- Independent internal review of payment runs.
- Arrangements for the secure holding of cheques and adequacy of supporting procedures and records.
- Enforced segregation of system access rights and separation of duties.
- Bank mandate accurately reflects officers' responsibilities/authority and is up to date.
- Reconciliation of transactions through Dream compared with movements on the general operating bank account.
- BACs payments processes are secure and independently reviewed.
- Creditor payment systems are secure and backed up at frequent intervals.
- Arrangements for the processing of purchase card transaction are secure.
- Written financial procedures are maintained and are up to date.
- Compliance with Contract Standing Orders and Financial Regulations.

Principal Observations

The reconciliation of the General Operating Bank Account with the nominal account should be maintained on a timely basis.

5.14 Health & Safety

Opinion

Controlled

There is an acceptable control framework in place. Key controls are in place but are not always operating effectively.

Objectives

The audit considered the presence and operation of the following key controls:

- The organisation has a health and safety policy which is clearly communicated to members of staff.
- Good risk management arrangements in place to ensure that hazards are minimised.
- Adequate arrangements for recording accidents, illness and first aid.
- Set up of emergency fire and bomb procedures.
- Reporting of certain injuries, diseases and dangerous occurrences to the enforcing authority (RIDDOR).
- Adequate arrangements are in place for co-ordinating external inspections regarding outcomes and findings.

Principal Observations

That emergency evacuation procedures for all WYCA sites are designed and tested regularly to ensure that they are appropriate for the various properties and the resources available at each site. These procedures should then be stored in easily accessible areas both on site and co-ordinated on corporate network drives.

5.15 City Cycle Ambition Grant

A review was undertaken of the programme and contract management arrangements in relation to city cycle superhighway project which is part of a programme of works funded through the City Cycle Ambition Grant. It was established that WYCA have a framework in place whereby Local Authority partners perform aspects of contract procurement and management under the delegation of the Programme Board. The review identified that works on phase 1 of this project were complete and officers were now engaged in determining the final account with the main contractor.

The review concluded that information concerning the progress and costs relating to this project were provided on a regular and timely basis to the Programme Board. Procurement of main contractor construction works had been achieved through competitive tendering processes and the contract awarded on a target cost basis which provided protection and a level of cost certainty to the project. However,

there were a number of lessons learnt which should be considered the Programme Board and Portfolio Management Office functions.

6. Audit Recommendations

- 6.1 Progress in implementing all audit recommendations is monitored through Internal Audit's outstanding recommendations tracking system. Information relating to overdue high priority recommendations is provided in **Appendix 2** of this report.

7. Work in Progress

- 7.1 In addition to the completion of scheduled audit reviews provided in section 5 of this report, a significant number of audit reviews are currently in progress and include:

Travel Centre Processes
Gifts & Hospitality
LTP Programme Management
Resource Efficiency Fund
Anti-Fraud Corruption & Bribery Policy
Money Laundering Policy
Members Code of Conduct

Further information concerning the status of each of these reviews is provided within **Appendix 1**.

Details of the respective audit opinions, objectives and any significant issues arising from these reviews will be provided to this Committee once this work has been completed and reports are produced.

8. Financial Implications

- 8.1 The costs of the audit team have been included in approved budget for the year.

9. Legal Implications

- 9.1 None relating directly to the Internal Audit function.

10. Staffing Implications

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

11. External Consultees

None.

12. Recommendations

- 12.1 That the Internal Audit progress report be noted.
- 12.2 That the Internal Audit Manager provide an update on Internal Audit resourcing requirements to the next meeting of the Committee.

13. Background Documents

None.

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Appendix 1



Internal Audit Plan 2017/18

Report Type: Actions Report

Report Author: Russell Gott

Generated on: 19 July 2017

45 Audit	Overview of Assurance	Resource Requirement 2017/18	Actual Resource	Comments
Period 1		115 Days	59	
City Cycle Ambition Grant ¹	Consideration of procurement arrangements and officer appointments	12	6	Completed
LTP Capital Programme Management	Assessment of the extent of compliance with WYCA's assurance framework including arrangements to identify, monitor, control and report on the Capital Programme.	12	11	In progress
Data Sharing	Assessment of the arrangements for the secure transfer and sharing of data.	10		Contractor
C.A. Members Code of Conduct	Review of compliance with the requirements of the code of	6	4	Drafted

¹ Request from CA –Governance & Audit Committee

	conduct including declarations of interest			
Code of Corporate Governance	Assessment to ensure compliance with applicable standards 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.	8	6	Drafted
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	3	In progress
Gifts, Hospitality & Interests	Assessment of arrangements in place for officers' declarations of gifts, hospitality and interests. Independent examination of records.	8	8	Drafted
46 Pro –Active Anti- Fraud Exercise	Statistical analysis for duplicate payments, data matching for creditor payments into staff inappropriate bank accounts. Sample review of changes to bank payment master records.	6		
Anti-Fraud, Corruption & Bribery.	Review of policy and supporting guidance and processes	6	6	Drafted
Money Laundering	Development of WYCA's policy in respect of Money Laundering Regulations.	8	6	Drafted
BSOG	Head of IA assurance. Periodic report and claim review and certification	3		
Growth Deal Fund	Head of IA assurance. Periodic report and claim review and	8		

	certification			
Growth Hub Grant	Head of IA assurance. Periodic report and claim review and certification	3	3	Completed
Data Hosting Arrangements	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.	12		Contractor
Resource Efficiency Fund	Head of IA assurance. Periodic report and claim review and certification	8	6	
Period 2		111 Days	16	
↖ Sector Skills Initiative	Operation of controls in respect of Digital, Manufacturing and construction initiatives	12		Possible defer p4
Resource Efficiency Fund	Governance framework, operation & application of assurance framework, programme management, monitoring & reporting, cost control, risk management.	12	6	Initial overview in P2 followed up with further substantive testing in P4
SCIP Programme	Provision of independent, 3rd line of defence programme assurance in respect of Smart transactions Web and development of on-line payment facilities.	12		
Growing Places Fund	Evaluation of expressions of interest, business case, due diligence, loan agreements, drawdown arrangements, monitoring of loans. Administration of loans, evaluation criteria and monitoring procedures.	16		

Cashbook/Treasury Management	Review of the operation of key controls including treasury management, segregation, review, authorisation, third part services and assurances.	12	1	Scoping
Data Security/ Protection	System penetration testing -arrangements to protect WYCA ICT systems from attack	15		
Local Transport Plan	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.	8	2	In progress
Interreg SHARE NORTH	Head of IA assurance. Periodic report and claim review and certification	4	4	
Cycle City Grant	Head of IA assurance. Periodic report and claim review and certification	3		
48 L- CREATE – ERDF & ESIF	Head of IA assurance. Periodic report and claim review and certification	4	3	
Green Deal Communities Fund	Head of IA assurance. Periodic report and claim review and certification	3		
Housing & Regeneration Projects ²	Healthcheck. Publicity & promotion, outline business case appraisal, full basis case evaluation, due diligence, loan agreements, drawdown, programme monitoring, cost management.	10		

² Light touch follow up on review completed in 2016/17

Period 3		136 Days		
Human Resources	Assessment of employee engagement, recruitment & selection, performance management, training & development and compliance with employment law.	15		
Metro Travel Centre Operations	To review the adequacy of Ticket sales, stock, cash handling security, reconciliations & reviews performed Cash collected is administered and properly controlled to reduce the risk of loss or fraud. Associated back-office operations	15		
Tendered Subsidised Contracts 49	Tendering arrangements, batches, de minimis contracts, insurance, operator's licences, lost mileage, payment calculations and processes. Arrangements support and provide contract compliance. To include "gross cost" contracts.	20		
English National Concessions Travel Scheme	Validation rules for applicants, disabled and blind person applications are processed in liaison with district social services departments, robust processes and validation requirements for issuing replacements and renewals. Awareness and communication of requirements of Concessionary Bus Travel Act	12		
Skills Service & Skills Fund	Processes & procedures, assessment of grant applications Compliance with funding agreements	12		
West Yorkshire + York Broadband	Processes & procedures, Certification of expenditure, Compliance with funding agreements and compliance with partnership agreements/claw back provisions.	20		

Payroll	Review of the operation of key controls including arrangements for starters, leavers, pay points, member's allowances, expenses & deductions	12		
50 Health & Safety ³	<p>Health & Safety Policy meets legal requirements as provided in the Health & Safety at Work Act and other relevant Acts.</p> <p>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.</p> <p>Provision of protective clothing or equipment, Reporting of injuries, diseases and dangerous occurrences to the enforcing authority (RIDDOR).</p> <p>The control and management of asbestos, management of contractors, smoke free legislation, alcohol and substance abuse.</p>	10		
Business Growth Programme/ Access to Capital Grants Programme	<p>Appraisal of applications & due diligence, grant claims and payment processes, project monitoring/reporting, compliance with SLA, cost monitoring control.</p> <p>WYCA expenditure - over £100k</p> <p>Compliance with SLA for schemes administered by LCC – less than £100k.</p>	20		
Period 4		145 Days		
Prepaid Tickets & Concessionary	Calculations of prepaid ticket pool and distribution, concessionary fares reimbursements, on account payments	25		

³ Light touch follow up of review undertaken in 2016/17

Travel	and quarterly adjustments, Haven system controls and reporting. Arrangements for accounting for stocks, cash. Consider controls for smartcard transactions. Payzone sales processing system.			
Business Continuity ⁴	Assessment of the plan to be implemented in the event of incident(s) which impact on WYCA being able to operate.	8		
CDM Compliance ⁵	Compliance with The Construction (Design and Management) Regulations 2015	8		
Growth Deal 51	Independent assessment of the extent of compliance with WYCA's assurance framework for a selection of specific schemes including governance, programme management – scheme evaluation, risk, cost, progress/delivery.	40		
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, bleep, and payroll. VAT.	10		
Creditors	Review of the operation of key controls including segregation, authorisation, reconciliation of statements, BACS controls	10		
Debtors	Test arrangements for write offs, requisitioning, reporting, review of accounts, debt age monitoring and reporting	8		
Procurement	Review of the operation of key controls including tendering, ordering, commitments, compliance with SOFRs, e-procurement, purchasing cards.	16		

⁴ Light touch follow up of review undertaken in 2016/17

⁵ Light touch follow up of review undertaken in 2016/17

	Examination of the procurement of consultants services including an independent assessment of vfm and management arrangements			
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	20		
Fraud Investigations	Contingency for any required investigations in response to allegations of fraud, bribery or corruption	20 Days		
Audit Plan Contingency	Contingency for any requirement for additional audit assurance and for other unplanned audit work identified in year.	25 Days		
52 Total		552	75	

Forecast Outturn @ 12 July 2017

Audit Resource available to 31 March 2018	419	
Bought – in	<u>20</u>	439
Required to complete the plan		<u>(477)</u>
Projected overrun		(38)

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APPENDIX 2

Overdue High Priority Audit Recommendations



Report Type: Actions Report

Report Author: Russell Gott

Generated on: 21 July 2017

Code & Title	Due Date		Progress	Latest Note	Last Modified Date
M/SD/P29/AR308 Risk Management - Strategic Risks 55	30-Sep-2016	WYCA have developed a number of strategic corporate risks which have been recorded on covalent. It is accepted that these need to be developed as the organisation evolves along with the development of corporate planning and organisational objectives.	0%	WYCA is currently undergoing significant organisation change. Business objectives have been identified relating to the Strategic Economic Plan. However, further organisational development and business planning is being undertaken. It is felt prudent to further develop and align strategic risks once these processes have advanced.	28 Dec -2016
M/SD/P29/AR313 Yorcard ICT - Data Sharing Agreement	31-Oct-2016	A formal data sharing agreement should be drafted between WYCA and Yorcard relating to IT services provided. Such an agreement should be subject to at least an annual review.	0%	There is a service level agreement in place.	21 July-2017
M/SD/P29/AR319 Yorcard ICT - network administrator privileges.	31-Jul-2016	Yorcard management should reduce the number of users with network administrator privileges. No user should have two network administrator equivalent ID's. A regular review of these users should be completed and evidenced.	0%	Yorcard have reduced this as far as is possible within a small team.	21 July 2017
M/SD/P29/AR332 Yorcard ICT - Capacity Performance	31-Jul-2016	Steps should be taken to formalise the approach to capacity and performance management i.e. documenting threshold levels, reviewing these accordingly and the management of major fluctuations / incidents.	80%	Service level agreement is currently being updated by Yorcard in the context of future service support. Arrangements.	21 July 2017
M/SD/P29/AR355 WYCA ICT - Test Restores	28 Feb 2017	A periodic test restores of key programs / data from backup media should be undertaken. All test restores should be documented accordingly. Such a test should be completed to an area separate to the "live" application.	0%	Head of ICT Services recommended: Revised Due Dates: 1) Simple restore tests: 30th April 2017. 2) Systems restore to separate environment (at the same site): 31st December 2017. 3) Reproduction of major applications to DR	20 July 2017

Code & Title	Due Date		Progress	Latest Note	Last Modified Date
				environment (at a different site): 31st March 2018. The current position is that: <ul style="list-style-type: none"> • Part 1 is done. • Parts 2 and 3 are on course for completion for the revised dates. 	
M/SD/P29/AR394 Skills Capital - Retention of documents	31Jan 2017	The project should stipulate what the retention period is for some of the project documentation kept and maintained both by WYCA and the Colleges clearly defined within the policies and procedures	0%	The Information Governance project that will take place during 2017/17 will refresh the current document retention guidelines. It is the responsibility of individual project managers to ensure that they meet retention requirements of each project.	21 July 2017

Director and author: Angela Taylor, Director, Resources



Report to: Governance and Audit Committee

Date: 3 August 2017

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 Corporate Governance Code and Framework, approved by the CA at its annual meeting in June. The Code was extensively rewritten compared to the previous version in response to changes required by the revised CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework 2016' which is applicable for the 2016/17 year end onwards. The redrafted Corporate Governance Code and Framework now uses the seven principles as recommended by the new Framework. The revised principles reflect changes in local authority governance that have arisen since 2007 when the original guidance was issued, including but not restricted to, new roles and responsibilities, the impact of reduced funding and decisions that need to be made as a result, and the potential risks of working in new collaborative ways.

2.3 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 2016/17 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 2017 is included within the 2016/17 annual accounts which are appended in full to agenda item 11 that seeks the approval of the accounts.

- 2.4 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 2017/18.

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.

Director and author: Angela Taylor, Director, Resources



Report to: Governance and Audit Committee

Date: 3 August 2017

Subject: External audit update

1. Purpose

1.1. This report sets out information on the progress in appointing auditors for future years following approval to progress this with Public Sector Audit Appointments Ltd (PSAA).

2. Information

2.1. The external auditors Mazars have recently completed their audit work on the annual accounts and this is covered under the next agenda item.

2.2. Members will recall that they recommended, and CA approved, the use of Public Sector Audit Appointments Ltd (PSAA) to appoint auditors in future years. PSAA has now confirmed that 484 of 493 eligible local authorities have elected to appoint through PSAA.

2.3. Since the last meeting of this Committee PSAA has completed the major procurement process to identify the firms which will carry out audits under contract to PSAA. The successful tenderers are Grant Thornton, EY, Mazars, BDO, Deloitte and a consortium of Moore Stephens/Scott-Moncrieff. These contracts will cover a five year period commencing with the audit of accounts for 2018/19. PSAA has an option to extend the contracts for a further two year period, to a total of seven years, if it chooses to do so.

2.4. PSAA will commence a consultation process in early August to run to 22 September. If a body accepts the proposed auditor then no further action will be required and a confirmation letter will be sent out in due course. There is however an opportunity to present to PSAA any valid reasons why the proposed firm may not be appointed – the period for making representations will be 16-27 October and 10-24 November. Valid reasons may include a conflict on independence or relevant joint working arrangements already in place. The Committee may wish to consider how it will

make a response to the proposed auditor arrangement as the consultation takes place and concludes prior to its next meeting.

2.5. A further consultation process, commencing in October 2017, will lead to the approval of fee scales for audits of the 2018/19 accounts, the first year of the national scheme's operation. Following the procurement process PSAA estimate that a fee reduction in the order of 18% could be achieved.

2.6. Further updates will continue to be provided to this Committee.

3. **Financial Implications**

3.1. None arising directly from this report. Audit fees are included in the annual revenue budgets.

4. **Legal Implications**

4.1. None arising directly from this report.

5. **Staffing Implications**

5.1. None arising directly from this report.

6. **Consultees**

6.1. None.

7. **Recommendations**

7.1. That the Governance and Audit Committee note the next steps in the appointment of auditors for 2018/19 and determine a mechanism for responding to the initial proposed auditor appointment.

8. **Background Documents**

8.1. None.

Director and author: Angela Taylor, Director, Resources



Report to: Governance and Audit Committee

Date: 3 August 2017

Subject: Approval of Annual Accounts for 2016/17

1. Purpose

1.1. To present to the Committee for their approval the annual accounts for 2016/17 for the West Yorkshire Combined Authority (WYCA).

2. Information

2.1. There is a statutory requirement for approval of the annual accounts by 30 September. Mazars and WYCA have worked together to complete this work to an earlier deadline, reflecting the timing of the audit work and the fact that in previous years work has been completed on the actual accounts well ahead of the 30 September date. It should be noted that the September date is being brought forward over the coming years.

2.2. The accounts have been presented for audit and Mazars have completed their audit work. This report provides the information required to consider the accounts for approval. The following appendices are attached:

- Appendix 1** Final accounts of WYCA
- Appendix 2** Treasury management statement
- Appendix 3** Audit completion report

2.3. The accounts have been prepared on an International Financial Reporting Standards (IFRS) basis in accordance with the CIPFA Code of Practice on Local Authority Accounting UK. This is the third year of accounts for WYCA and the second that include the impact of being the accountable body for the Leeds City Region Enterprise Partnership (LEP) and the second set of accounts audited by Mazars.

2.4. There are a number of accounting matters in the accounts which are drawn to the Committee's attention below.

2.5. **International Accounting Standard (IAS)19 Employee Benefits** requires a particular accounting treatment of pension costs and liabilities. In effect the accounts provide

a snapshot in time of the organisation's element of the West Yorkshire Pension Fund at the balance sheet date, based on information from the actuaries. In common with most local authorities this results in a deficit on the scheme but under the Account and Audit Regulations (England) 2011 this apparent deficit is funded by the creation of a corresponding reserve. The reality is that the deficit in the scheme is being addressed through the annual employer contribution rates set by the actuary and will reduce within the required timescales. The liability will only crystallise should either the West Yorkshire Pension Fund cease to exist or WYCA cease to exist without a successor organisation to take on the liability. The Fund has undergone its triennial valuation and employer rates have been reset for the next three years and underlying assumptions revisited. The deficit has increased during the financial year 2016/17 from £61.2m to £72.4m as a result of the financial actuarial assumptions changing over the course of the year.

- 2.6. **The going concern principle** is always required to be considered as part of the year end process. The outcome of the accounting entries for pensions set out in the previous paragraph often results in a negative balance sheet which would ordinarily give rise to a question regarding going concern. For 31 March 2017 this is not the case, due to an increase in both cash and short term investments and the capital grants unapplied reserve which are increasing the total assets at the year end. In any event it is not thought likely that the pension deficit will crystallise and the authority is making contributions to address this deficit as determined by the actuary. The IFRS Code's underlying assumption is that accounts shall be prepared on a going concern basis where the functions of the 'authority' will continue in operational existence for the foreseeable future. WYCA's accounts have therefore been prepared on a going concern basis.
- 2.7. **Impairment** – officers have considered, in preparing the accounts, whether there are any circumstances arising in the year that would trigger the need for an impairment review of the carrying value of the properties of WYCA. The conclusion is that there are none and this was also supported by the property valuation undertaken by independent surveyors Lambert Smith Hampton.
- 2.8. Note 17 to the accounts sets out the details regarding the impairment of one of the growing places loans in recognition of the operating difficulties under which the company is operating. It is recognised that there is a higher level of risk attached to these types of loans and there is no impact on reserves as this is fully funded by external grant.
- 2.9. **Accounting policies** – these have not changed from those approved in previous years.

Final accounts of WYCA (Appendix 1)

- 2.10. WYCA's accounts comply fully with the required accounting standards. Whilst this year sees some changes in the format and presentation of the income and expenditure account this statutory format of the income and expenditure account does not require a comparison against budget. The narrative statement to the accounts shows perhaps a more useful presentation comparing the actual results

against the budget detail as agreed at WYCA's budget meeting. In both instances the key figure to note is the use of reserves figure which is the same in both presentations.

- 2.11. The final position for 2016/17 is a decrease in the use of reserves figure from the budgeted position of £4.1m to £2.7m. This 'saving' against budget is a net position made up of £1m saving on concessionary travel reimbursement, a £700k overspend on bus tendered services and a number of smaller savings across a range of budget heads including staffing vacancies, recharges and pensions.
- 2.12. In comparison to 2015/16 WYCA's balance sheet shows some significant growth in assets. As accountable body for the Leeds City Region Enterprise Partnership (LEP) WYCA has been in receipt of large Growth Deal payments as well as a number of other upfront grant payments. This has resulted in increases in capital grants unapplied of £38m and in cash balances and short term investments of £58m. Whilst good progress is being made on accelerating the delivery of the capital programme, at 31 March 2017 much of this funding had still not been approved – all projects are subject to the assurance framework and funding will only be released when the relevant information has been received and the appropriate approval is in place. The projected expenditure for 2017/18 shows, on Growth Deal alone, a minimum spend of £100m, some of which will be utilising funding already received. A number of projects that are currently spending relatively low levels of money on pre-development and feasibility are expected to get approval to move through to the delivery phase during 2017/18.

Treasury Management statement (Appendix 2)

- 2.13. The Treasury Management Statement for the year is set out in **Appendix 2**. The budget report to WYCA in February 2017 confirmed the treasury management arrangements in place for the year and no subsequent changes are proposed at this stage. These arrangements and prudential borrowing rules will continue to be applied throughout the coming year.

Capital expenditure

- 2.14. Total capital expenditure in the year was £147m, funded through a combination of income streams but primarily grants from the Department for Transport and the Department of Communities and Local Government (in relation to the Growth Deal). These included the LTP Integrated Transport block funding and highways maintenance grant totalling £41m which is then utilised by WYCA and the constituent District Councils. WYCA also applied capital grants for the Cycle City Ambition scheme of £6.7m. Some funding was carried forward from 2015/16, reflecting the change by the DfT in paying multi-year grants in advance and also reflecting some reprofiling of LTP funded projects. Similarly funding will be carried forward to 2017/18 enabling committed schemes and projects to be delivered despite changes in the timing of delivery.
- 2.15. The Growth Deal funding of £127m received for 2016/17 has been applied to some £85m of projects originally identified within the programme submitted to

government. Recognising the need to reprofile some of the projects within that programme the flexibility awarded with the Growth Deal has been applied resulting in Growth Deal funding being utilised for some projects in WYCA's capital portfolio with their original funding stream being carried forward to use in 2017/18. An underspend on the Growth Deal has been accounted for in capital grants unapplied and will be utilised on projects that have been reprofiled to 2017/18.

Audit Completion Report (Appendix 3)

- 2.16. Mazars have completed their audit work on the annual accounts and their conclusions are set out in their Audit Completion Report which is attached as **Appendix 3**. The Committee is required to consider this report before considering and approving the annual accounts. The Audit Partner Mark Kirkham and the Audit Senior Manager Steve Appleton will be in attendance at the meeting to present their report and answer any questions.
- 2.17. The key messages are set out in the Executive Summary on page 3 of the report which confirm that an unqualified audit opinion, without modification, is to be given on the financial statements and an unqualified value for money conclusion.
- 2.18. The rest of the report goes on to consider how the significant audit risks identified at the planning stage and the key areas of management judgement have been addressed and the outcome of that work. It also sets out observations on the internal control environment. In all these areas there are no findings or deficiencies that WYCA is required to address other than a low priority requirement to work with a local authority counterparty that has treated a loan as a grant despite a signed loan agreement being in place.
- 2.19. **Appendix 1** on page 11 sets out some minor changes to the accounts that management agreed to make, which are largely reclassifications/presentational and therefore have no impact on the results for the year. There is one misstatement with regard to the desktop property valuation (a full revaluation was performed last year) which is shown as unadjusted as management has chosen not to alter the accounts. The auditors have accepted that this does not have to be adjusted in determining their audit opinion.
- 2.20. The auditors will require a representation letter to be signed by management. This is a standard part of the process and effectively provides assurances that WYCA has provided all necessary information and disclosures to the auditors. The wording of that representation letter is included on pages 15-17 of Mazars report and the Director, Resources will provide a signed copy of this to the auditors. The letter of representation also confirms that no events have occurred in the period from the completion of the audit to the date of the signing of the accounts which would require any changes to the accounts.
- 2.21. Mazars are required to issue an audit completion notice by the statutory date of 30 September to confirm that they have completed their work in relation to the annual accounts. The final element of this is the audit of the Whole of Government Accounts submission which will take place in August/September. DCLG have not yet

issued the pack for completion to WYCA but once it is received it will be completed as soon as practicable.

3. Financial implications

- 3.1. The audit fee is set nationally by Public Sector Audit Appointments Ltd (PSAA) and is included in the WYCA's annual budget. Future audit fees will be the subject of a consultation process with the PSAA.

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 Treasury Management Statement in Appendix 2 be recommended for approval.
- 6.2. That Mazars audit completion report be considered.
- 6.3. That the Committee approve the attached annual accounts for the year ended 31 March 2017.

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West Yorkshire Combined Authority

Statement of Accounts

For the year ending 31 March 2017

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West Yorkshire Combined Authority

Narrative Report to the Annual Accounts 2016/17

Introduction

The Narrative Report has been prepared to provide an outline of the activities for the year 2016/17, providing both a guide to West Yorkshire Combined Authority's accounts and to its achievement in delivering growth through transport and economic development and regeneration as well as setting out the economy, efficiency and effectiveness in its use of resources in doing so.

The West Yorkshire Combined Authority (WYCA) came into being on 1 April 2014 by virtue of the West Yorkshire Combined Authority Order 864/2014 (the 2014 Order). At the same time, the West Yorkshire Integrated Transport Authority (WYITA) and the West Yorkshire Passenger Transport Executive (WYPTE) were dissolved. All of the functions, assets, liabilities and powers of WYITA and WYPTE were transferred to the WYCA under the provisions of the 2014 Order. WYCA is now the Local Transport Authority for West Yorkshire and also has power to exercise economic development and regeneration functions in conjunction with the District Councils of West Yorkshire. WYCA also includes as members the leader of the City of York Council and the Chair of the Leeds City Region Local Enterprise Partnership (LEP). WYCA has established a Transport Committee, through which it conducts the majority of Local Transport Authority functions, and an Investment Committee which provides strategic guidance in relation to the investment in and funding of transport and economic development schemes. Membership of WYCA committees is drawn from all District Councils within West Yorkshire, together with City of York Council.

These are the third set of annual accounts for the Combined Authority, and the second since it took over accountability for the activities of the Leeds City Region LEP.

Responsibilities

The West Yorkshire Combined Authority's vision is 'We want Leeds City Region to be recognised globally as a strong, successful economy where everyone can build great businesses, careers and lives.' The Combined Authority is the guiding organisation behind this collective vision, working to ensure it, with local councils and businesses, is delivering economic prosperity with a high quality of life, supported by world-class connectivity.

With regard to transport WYCA fulfils the functions of the local transport authority and is responsible for determining public transport policies in West Yorkshire, operating the concessionary travel scheme and producing the statutory local transport plan.

With regard to the economy WYCA is the accountable body for the Leeds City Region Local Enterprise Partnership (LEP). The LEP determines the policies and strategies to drive the economic growth and regeneration agenda with WYCA ensuring funding is properly managed to ensure delivery of the interventions required to achieve the growth targets.

WYCA has an important role to play in providing the vehicle for closer partnership working between the local authorities of West Yorkshire and York and the LEP in order to ensure improved economic outcomes for local people. It focuses on the areas that make the most sense to deliver at the city region level.

Review of the year

2016/17 is the third year of business for West Yorkshire Combined Authority and only the second which fully includes the activities and funding of the LEP. The WYCA and LEP Boards have agreed the vision for the City Region which is set out in a revised and refreshed Strategic Economic Plan (SEP) that has been updated to reflect the current economic case and to take account of the local and national changes that have taken place over the last year.

The revised SEP, endorsed by both the WYCA and the LEP, sets out an agenda of economic growth for West Yorkshire that would improve the quality of life for its residents. This will only be achieved through working closely together with the constituent local councils and other public bodies.

The statutory Local Transport Plan, covering the period 2011-2026, has been reviewed in the light of the aspirations in the SEP. It has been substantially redrafted with a working title of the Single Transport Plan (STP) and has been subject to a full public consultation during 2016/17. In parallel consultation has also taken place on the bus strategy and work on these policies will be concluded in 2017/18.

During 2016/17 the focus for WYCA has been on three key themes. Firstly, work has progressed on a 'One Organisation' transformation programme that focuses on bringing together the right skills and organisational structures to achieve WYCA priorities. Secondly, there has been a focus on delivering at pace the projects and services that support WYCA priorities. Thirdly there has been a focus on ensuring that all WYCA activities are contributing towards good or inclusive growth that sees benefits for everyone in the City Region.

Key achievements by each of the newly established Directorates are set out below.

Policy, strategy and communications

- Secured an additional £67.5m devolved investment from the Government's Growth Deal funding programme.
- Secured a successful bid for £173.5m from the Department for Transport to invest in Leeds's bus, rail and road network, following the cancellation of the NGT project by the Secretary of State in May 2016.
- Published the first Leeds City Region flood review, setting out 20 measures to minimise the risk of future flooding in the region.
- Reached an estimated 24.5 million people in target regional, national and international markets.

Delivery

- Opened two new rail stations in the region – Low Moor in Bradford and Kirkstall Forge in Leeds.
- Opened 8.7 miles of cycle superhighway across Leeds and Bradford.
- Helped 732 households in the City Region to reduce their heating bills by installing energy saving measures.
- Put in place an improved more robust and transparent project and programme management system, supported by a revised assurance framework that meets government requirements.

- Provided a further 10,483 homes with access to superfast broadband.
- Invested £30.4m in new world class learning facilities at FE colleges in Bradford, Shipley, Halifax, Huddersfield, Leeds and Wakefield.
- Completion of the Wakefield Eastern Relief Road, one of the early win projects within the West Yorkshire plus Transport Fund and providing an environment where business can grow, up to 3,700 jobs can be created and 2,500 new homes built.

Transport Services

- Maintained and operated 14 bus stations across West Yorkshire.
- Established the Bus 18 project to bring together the bus operators to work with WYCA in improving bus services and encouraging more people to use them.
- Served over 1.9m customers at the Metro branded travel centres across West Yorkshire.
- Provided 2.5m people every month with travel information to help them plan their bus or train journey.
- Increased the products available via the MCard smartcard offer.

Economic Services

- Supported over 2,000 small and medium sized businesses in the region to grow through the LEP Growth Service
- Provided £10m grant investment that will create 1,340 jobs for local people
- Recruited 106 local business people to act as 'Enterprise Advisors' providing advice and inspiration to young people in schools across the City Region
- Brought 21 inward investment projects into the region, creating almost 700 jobs.

Resources

- Oversaw the One Organisation transformation programme and supported the organisation wide restructure
- Shaped new values and behaviours for the organisation that guide how employees work within the business and with partners
- Supported the other directorates with the necessary finance, legal, HR and ICT input.

The general economic outlook continues to be difficult with the public sector continuing to face funding challenges. The revenue funding for many of WYCA's activities comes from the West Yorkshire local authorities, with further contributions from them and the other City Region authorities for some of the economic activities. All areas of the budget are being reviewed as part of the One Organisation Programme to ensure that resources are focussed on the organisational priorities. Recognising the pressure on local authority budgets WYCA has agreed a cut in the transport levy for 2017/18 and work is progressing on the detail of how the agreed savings and cuts can be delivered. WYCA still has significant capital funding through the Growth Deal, the Local Transport Plan funding and the Leeds Public Transport Infrastructure Programme amongst others and further work will be undertaken during 2017/18 to ensure the most effective use is

being made of all the capital and revenue income streams available to WYCA, with the focus being the delivery of the objectives and outcomes as set out in the SEP.

The accounts

The accounts have been prepared in accordance with The Code of Practice on Local Authority Accounting UK 2016/17 which is based on approved International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards. The accounts consist of the following:-

The Summary of Accounting Policies which explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts. This includes the basis of charges to revenue and the calculation of balance sheet items.

The Statement of Responsibilities for the Statement of Accounts.

The Comprehensive Income and Expenditure Statement which shows the net cost for the current year of all the services for which the Authority is responsible and demonstrates how that cost has been financed.

The Movement in Reserves Statement reconciles the outturn on the income and expenditure account to the balance on the General Fund that is established by complying with the relevant statutory provisions. It facilitates a full presentation of the financial performance of the Authority for the year.

The Balance Sheet shows the Authority's assets and liabilities.

The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with other parties for revenue and capital purposes.

The Annual Governance Statement is not part of the Statement of Accounts but is required to be provided with them. It provides information regarding the system of internal control during the financial year and covers the effectiveness of this for WYCA.

Following the IFRS Based Code requirements means that WYCA has a significant liability arising from the requirements of IAS19 Accounting for Pension Costs. This requires WYCA to show in their accounts any deficit arising on their proportion of the West Yorkshire Pension Fund obligations as measured by the Actuary. Whilst this is in accordance with the requirements of the Accounts and Audit Regulations 2015 it is offset by a negative Pensions Reserve. However, the impact of the deficit is long term and action is being taken to address it in accordance with the Actuary's projections.

Review of Revenue Expenditure for the West Yorkshire Combined Authority

	2016/17 Approved Budget	2016/17 Actual
	£m	£m
Funding		
Special Rail Grant	0.9	0.9
LEP General Funding	1.4	1.3
Growing Places Fund Interest	0.3	0.4
Enterprise Zone Receipts	0.5	0.6
Transport levy applied	96.2	96.2
Transfer to reserves	4.1	2.7
	103.4	102.1
Revenue Expenditure		
<u>Transport Services:</u>		
Concessionary Fares	57.0	56.0
Subsidised Bus Services	19.0	19.7
Passenger Services	8.2	6.9
Rail SRG spend	0.9	0.9
<u>Economic Services</u>	1.8	5.5
<u>Policy, Strategy and Communications</u>	2.6	0.3
<u>Resources</u>		
Pension&Financing Charges	7.6	6.7
Corporate inc one organisation	6.3	6.1
	103.4	102.1

The presentation above reflects the agreed format in which the budget is approved by the Authority and therefore provides a more meaningful analysis of expenditure for the users of the accounts. The transfer to reserves figure is the same irrespective of the presentation adopted. This figure is lower than budgeted due to a number of savings being realised across the operational areas, of which the most significant is the £1m saving on concessionary travel reimbursement.

Revenue funding

In 2016/17 grant income was received from Central Government to cover the administrative costs of managing the rail franchises. Since 1 April 2016 rail franchise payments have been paid via Rail North and not via WYCA. Grants formerly received directly from central Government towards the costs of the English National Concessions Scheme and rural bus services are now paid to the District councils as part of the revenue support grant. The remainder of the Authority's expenditure was met by a levy on the five constituent District Councils (Bradford, Calderdale, Kirklees, Leeds and Wakefield) and contributions from them and the City Region authorities for the economic activities. Funding is also received from government in support of LEP core costs and to fund business and skills activities, such as grants to businesses for apprentices. Income from the City Region Enterprise Zones accrues to WYCA and a sum of £0.6m has been accounted for in 2016/17, with this set to rise as more businesses locate to the EZ.

In 2006/07 the government introduced free local bus travel for senior citizens and disabled passengers and funded this through increases to the revenue support grant provided to the constituent District Councils. There was an uneven distribution between Districts and the levy was issued to adjust for this with any excess being returned to the Districts. This agreement has subsequently been continued and the transport levy shown in the accounts for 2016/17 is the net amount.

Revenue expenditure

Overall the net Levy available for normal transport purposes has stayed the same as that paid to the WYCA in 2015/16. The levy was actually increased by 0.41% with the full value of the increase being set aside for the West Yorkshire plus Transport Fund (WY+TF). This is in addition to the amounts set aside in previous years for this purpose, demonstrating the local commitment to establishing the WY+TF.

The continuing levy freeze for normal transport purposes has only been possible as a result of the approach taken by WYCA to ongoing cost reductions. The approach agreed by the former WYITA in 2012 to reduce the costs of tendered bus services has been successful, along with the changes to the reimbursement of discretionary concessionary fares. As well as these other efficiency savings have continued to be pursued.

Funding awarded for economic services is managed through the LEP Growth Service and focuses on helping local businesses to grow, and to address skills shortages at all levels.

WYCA expects to face challenging financial constraints over the coming years as local government funding is being severely reduced at a time when the activities of the Combined Authority are increasing. Previous years have seen significant amounts taken out of the concessions and tendered services budgets through a managed process which has seen much of the cost picked up by the operators but further opportunities for savings on this scale are not achievable without considering the policies driving these areas. Concessionary reimbursement remains the largest single element of the budget and from 1 April 2017 operators will be reimbursed on the basis of smartcard data rather than survey information which will give earlier visibility of costs but may introduce an element of volatility to payment profiles.

Capital expenditure

Total capital expenditure in the year was £147m, funded through a combination of income streams but primarily grants from the Department for Transport and the Department of Communities and Local Government (in relation to the Growth Deal). These included the LTP Integrated Transport block funding and highways maintenance grant totalling £41m which is then utilised by the Combined Authority and the constituent District Councils. WYCA also applied capital grants for the Cycle City Ambition scheme of £6.7m. Some funding was carried forward from 2015/16, reflecting the change by the DfT in paying multi-year grants in advance and also reflecting some reprofiling of LTP funded projects. Similarly funding will be carried forward to 2017/18 enabling committed schemes and projects to be delivered despite changes in the timing of delivery.

The Growth Deal funding of £127m received for 2016/17 has been applied to some £85m of projects originally identified within the programme submitted to government. Recognising the need to reprofile some of the projects within that programme the flexibility awarded with the Growth Deal has been applied resulting in Growth Deal funding being utilised for some projects in WYCA's capital portfolio with their original funding stream being carried forward to use in 2017/18. An underspend on the Growth Deal has been accounted for in capital grants unapplied and will be utilised on projects that have been reprofiled to 2017/18.

The significant capital schemes delivered in the year are set out in the above narrative and as well as these there have also been investments in ICT, new bus shelters, contributions to highways schemes and contributions to rail schemes and carparks and further investment in smartcard technology.

Treasury management

WYCA has continued to follow its approved treasury management policy and full details are set out in the accounts. Changes to this policy have been made during the year to enable WYCA to better manage its increasing cash balances. There has been significantly more income received in the year with the trend set to continue, as a result of WYCA taking on the responsibility of accountable body for funding awarded to the LEP. This has resulted in fixed deposits of £98m being invested as at 31 March 2017.

WYCA's short term borrowing at the year end was £500k with long term borrowing at £75m, a £4m reduction on the balance at the end of 2015/16 due to the repayment of two temporary fixed rate loans, £3m other local authority loan and £1m PWLB loan. During the year the difficult financial situation has meant there have been no opportunities to undertake any refinancing of loans. The Authority's borrowing requirement is reducing over coming years, reflecting the increase in cash grants rather than borrowing approvals for capital expenditure, and thus no further loans have been required. This will be reviewed as the West Yorkshire plus Transport Fund and other activities of the West Yorkshire Combined Authority are further developed and it is expected that borrowing will be required to support the capital programme.

Statement on the economy, efficiency and effectiveness of WYCA in its use of resources

WYCA, in line with other public sector bodies, has always been mindful of the requirement to demonstrate value for money in its activities. This value for money can be described in terms of the 'three Es' of economy i.e. careful use of resources to save expense, time or effort, efficiency i.e. delivering the same level of service for less cost, time or effort and effectiveness i.e. delivering a better service or getting a better return for the same amount of expense, time or effort.

Previous sections of this narrative statement have set out the work that has been undertaken to understand the revenue budgets and levy and contributions funding these activities. The transport levy has long been lower per head than those received in other metropolitan areas yet customer expectations have been met. For 2016/17 a cut to the transport levy has been agreed with WYCA agreeing to seek to reduce expenditure on bus services and other operational transport services. This will involve considering the policies that drive the supported bus network and whether these are still fully aligned with the objectives and policies of the SEP.

Investment in infrastructure projects is driven by the SEP which sets out the outcomes required to create good growth in the region. All projects are subject to the Single Appraisal Framework (SAF) which tests the robustness of each scheme in the pipeline to ensure it performs best against the WYCA objectives than other comparable schemes. An assurance framework, reviewed annually by WYCA and by BEIS, supports the Growth Deal investments; this has been substantially updated during the year and is being utilised as part of the new project approval pathways introduced during the year. The new pathways assist in ensuring a robust evaluation of any project against strategic fit along with a financial and economic appraisal.

The appointment of a Managing Director to WYCA in February 2016 set in process a review of the structure and processes at WYCA. The corporate plan for 2016/17 was closely linked to the aims of the SEP and a clear vision, mission, objectives and outcomes for WYCA have been developed. Clear and measurable targets and outcomes for key priorities were identified and included in the corporate plan with KPIs being measured regularly. Organisational changes will complement this enhanced focus.

Further Information

WYCA's accounts can also be supplied in large print, Braille or audiotape. Anyone wanting these options should contact WYCA on 0113 251 7227.

Further information on the Authority is available on its website www.westyorks-ca.gov.uk

Address: Wellington House, 40/50 Wellington Street, Leeds LS1 2DE

Telephone for general enquiries: 0113 251 7272

Metroline for travel enquiries etc: 0113 245 7676

STATEMENT OF RESPONSIBILITIES FOR THE COMBINED AUTHORITY

1. The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer was the Director, Resources who is designated as Chief Financial Officer;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Statement of Accounts.

2. The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code of Practice'), is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2017.

In preparing this Statement of Accounts, I have selected suitable accounting policies and then applied them consistently, made judgements and estimates that were reasonable and prudent and complied with the Code of Practice.

I have also kept proper accounting records which were up to date and taken reasonable steps for the prevention and detection of fraud and other irregularities.

3. Certification of the Accounts

I certify that the Statement of Accounts present a true and fair view of the financial position of the West Yorkshire Combined Authority at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.

A Taylor
Chief Financial Officer

4. Approval of the Accounts

I certify that the Statement of Accounts was authorised for issue and approved by a resolution of the West Yorkshire Combined Authority Governance and Audit Committee meeting on 3 August 2017 in accordance with the Accounts and Audit Regulations 2015. There are no material events after the balance sheet date that require reflecting in the Statement of Accounts.

Councillor Box
Chair of the Authority
3 August 2017

WYCA Annual Governance Statement 2016/17

1. Scope of Responsibility

West Yorkshire Combined Authority ('the CA') 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 CA 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 CA 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 CA has previously approved a Code of Corporate governance that was consistent with the principles of CIPFA Solace framework "Delivering good governance in Local Government" issued in 2007. This framework was updated in 2016 and a revised Corporate Governance Code and Framework has been produced ensuring all relevant governance elements have been properly reflected.

In accordance with the Accounts and Audit Regulations 2015 this Annual Governance Statement (AGS) considers compliance with the Corporate Governance Code and Framework, and sets out how the CA '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 CA is directed and controlled and its activities through which it accounts to and engages with the community. It enables the CA to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services for its customers.

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 CA'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 CA throughout the year ended 31 March 2017 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 CA's governance arrangements. They are also encapsulated in the revised Corporate Governance Code and Framework which has been approved by the CA and which is available on its website. The CA took on accountable body status for funding awarded to the Leeds City Region Enterprise Partnership (LEP) from 1 April 2015 and governance arrangements reflect this responsibility and continue to develop to further enhance this. The LEP Board and its panels provide the policy direction and guidance with the CA providing the financial approvals.

- a) Corporate policies and objectives are set and communicated by the CA. The CA has clearly defined its ambitions to work with its partners across the region to effect economic growth in the Leeds City Region; these ambitions are set out in the Strategic Economic Plan (SEP). Originally produced in 2014 by the LEP and revised during 2015/16, the SEP presents 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. The SEP has been endorsed by both the LEP and CA Boards and will be kept under review to ensure it continues to align with the region's needs and recognises relationships with new and emerging strategies such as the Industrial Strategy for example.
- b) The statutory Local Transport Plan (LTP) is also undergoing a refresh and will be relaunched later in 2017 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. The CA will continue to work closely with its partner authorities in the delivery of projects under the LTP3 heading. Whilst the CA has responsibility for expenditure officers and Members from across all the partner authorities are engaged in establishing the types of interventions to be put forward for funding through the LTP.

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 Leeds City Region Growth Deal Assurance Framework was produced in 2015, building on existing good practice and drawing on government guidance. This has been updated and refreshed in 2016/17 with a detailed review by Overview and Scrutiny Committee and endorsement from the Investment Committee, LEP and CA Boards. It supports decision making on projects and guides investment decisions across the full portfolio of capital interventions. It 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 and outcomes are clearly agreed when investing in schemes. This includes the prioritisation process for identifying the schemes that are included for funding with a three stage approval process now in place to enable the prioritisation of schemes. As a minimum all projects will formally need to pass decision points 2 and 5 as set out below, highlighted in green below, with the requirement to meet the intervening activities deemed on a project by project basis. The Investment Committee will consider all projects at these points with the CA making the decisions.



- d) The CA's scrutiny arrangements are fulfilled through 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.

In addition Scrutiny committees within the West Yorkshire Districts and City of York Council will also often challenge the work being undertaken by the CA 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.

- e) The CA'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. During the year changes in legislation enabled the Committee to take responsibility for the approval of financial matters, including the annual accounts, rather than having to refer these on the CA Board. An officer Audit and Risk Management Committee chaired by the Director, Resources, provides an operational level of management and review of arrangements in place.
- f) Roles are defined and documented through new style role profiles which have started to be introduced during 2016/17. These set out clear competencies and accountabilities for each role and are key to making successful recruitment decisions. 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 (Director, Resources), and the Monitoring Officer (Head of Legal and Governance Services).
- g) Staff behaviours are guided by CA'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 values and behaviours expected of all employees were redefined during 2016/17 with input from a wide range of internal and external stakeholders.
- h) The Authority conforms to the requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government (2015)*. 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 CA's financial arrangements through a suitably qualified and resourced Finance function.

- i) An internal team provide the internal audit service to the CA. 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.
- j) 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 CA. 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.
- k) Risk management is embedded in the activities of the CA 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 CA'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 the CA's risk management framework have been considered and a plan agreed to develop these arrangements.
- l) Communication on transport operational matters has taken place with stakeholders through the District Consultation Sub-Committees and Operator Groups. 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.
- m) A system of Procedure and Contracts 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.
- n) 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.
- o) With regard to the transport ticketing systems the CA has in place arrangements whereby an enhanced assurance statement is sought from Northern 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 CA.

4. Review of Effectiveness

The CA 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 CA who have responsibility for the development and maintenance of the internal control environment, and also by comments made by External Auditors.

The CA 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 CA's management and Internal Audit. Standing orders and financial regulations are updated as required and re-approved annually by the CA at its Annual Meeting. In terms of financial accounting the CA 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. Regular reports are also provided to the Audit and Risk Management Group that key controls have been operating in the period.

One of the key responsibilities within the CA is to determine, agree and monitor the annual budget. This responsibility involves setting an appropriate budget to fulfil the resource requirements of the CA in undertaking its transport, economic development and regeneration activities. For 2016/17 this budget was an integrated one for the full breadth of the activities of the CA and work was undertaken during 2015/16 with the Members to understand the changes and opportunities introduced by the bringing together of transport and economic policy funding. During 2016/17 organisational redesign and restructuring has been taking place to ensure the most effective arrangements are in place to enable delivery of the CA's objectives and the budget has been redefined to follow these new arrangements.

The budget setting process requires a comprehensive budget report to be presented to the full CA 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 Members.

Regular review of revenue and capital budgets is undertaken through Organisational Management Team and Leadership Team with regular updates to the CA presented through the year.

Within the CA 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 CA 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 CA. 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 CA's Governance and Audit Committee for consideration and approval. 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 CA 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 CA continues to develop and refine its project management framework to ensure that there is greater accountability and improved governance with regard to the management and delivery of projects. During 2016/17 a new Delivery Directorate was defined and senior appointments made to the team. A Portfolio Management Office was established along with a three stage pipeline approval process, designed to support the Leeds City Region Assurance Framework. All partner authorities delivering schemes funded by the CA follow this assurance and approval framework and closer working with partner authorities will be key to successful delivery of the portfolio.

Regular reports are provided to the Investment Committee and the CA on progress with Local Growth Deal schemes, including the projects within the West Yorkshire plus Transport Fund.

The CA 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. 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 CA's strategic risk register is considered regularly by the Governance and Audit Committee. These arrangements will evolve and be further developed to meet the changing needs of the CA. 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 organisational restructuring which is underway.

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 CA 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

During 2016/17 the CA embarked on its 'One Organisation' Programme aimed at ensuring the CA has the right structures, processes and people to enable the successful delivery of its objectives and priorities. Over the last twelve months significant progress has been made with regard to new directorate structures and subsequent alignment of budgets and a new set of values.

Improvements planned for the coming year include embedding the values and behaviours throughout the organisation, and further recruitment to posts particularly in the Delivery directorate to maintain the focus on project delivery. Discussions have taken place with the LEP and CA Members on how to enhance current decision making processes and proposals to bring together LEP Panels with CA Committees will be considered during 2017/18. The focus on transparency continues with the timely publication of LEP agendas and minutes during the year.

In 2017/18 new ICT systems to be introduced will facilitate and streamline the production of all meeting papers and all CA and LEP papers will be readily available to the public; enhanced information on Members, declarations of interest and attendance at meetings will also be available.

Other developments with regard to transparency and scrutiny include the appointment in 2017/18 of an independent person to be part of the Governance and Audit Committee, the designation of a Scrutiny Officer and the extension of call in arrangements to significant officer decisions as well as Member decisions. From May 2017 a forward plan of decisions will be made available on the CA website.

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 CA 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 revised Corporate Governance Code and Framework which captures and summarises these updated principles. We are also satisfied with the improvements that are continuing under the guidance of the Governance and Audit Committee.

Councillor Box
Chair

B Still
Managing Director

July 2017

Movement in Reserves Statement

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the Combined Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and 'unusable reserves'. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve, where amounts would only become available to provide services if the assets are sold); and reserves that hold timing differences (for example the Capital Adjustment Account). The net surplus on provision of service shows the economic cost of providing the Authority's services and the provision of grants to fund the introduction of capital assets, more details of which are shown in the Comprehensive Income and Expenditure Statement.

2015-16		General Fund	Capital Grants	Rail Reserve	WY Transport Fund	NGT Reserve	Total Usable reserves	Capital Adjustment Account	Financial Instruments	Revaluation Reserve	Donated Asset A/C	Pension Reserve	Total Unusable reserves	Total
Note	Balance	Unapplied	Reserve	Fund	Reserve	Reserve	reserves	Account	Adj A/C	Reserve	Asset A/C	Reserve	reserves	£000's
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
	Balance at 1st April 2015	7,945	25,297	2,075	1,933	1,066	38,316	(15,283)	(40)	11,861	668	(68,850)	(71,644)	(33,328)
	Transfer of balances 1 April 2015													
	Movement in reserves during 2015/16													
	Surplus on Provision of Service	48,732	-	-	-	-	48,732	-	-	-	-	-	-	48,732
7	Remeasurement of the net defined benefit liability	-	-	-	-	-	-	-	-	-	-	8,874	8,874	8,874
11,22	Net increase in liability on disposal/aquistn	-	-	-	-	-	-	-	-	-	-	(95)	(95)	(95)
	Revaluation of non-current assets	-	-	-	-	-	-	-	-	468	-	-	468	468
	Total Comprehensive Income and Expenditure	48,732	-	-	-	-	48,732	-	-	468	-	8,779	9,247	57,979
	Adjustments between accounting basis and funding basis under regs													
3	Minimum Revenue Provision (MRP)	(3,531)	-	-	-	-	(3,531)	3,531	-	-	-	-	3,531	-
6	Finance costs early settlement discounts	76	-	-	-	-	76	-	(76)	-	-	-	(76)	-
22	Revenue Expenditure Funded from Capital under Statute (Refcus)	112,243	-	-	-	-	112,243	(112,243)	-	-	-	-	(112,243)	-
22	Capital grants applied	(151,777)	-	-	9,014	(77)	(142,840)	142,840	-	-	-	-	142,840	-
22	Capital Grants unapplied	(10,799)	10,799	-	-	-	-	-	-	-	-	-	-	-
11	Depreciation	5,414	-	-	-	-	5,414	(5,414)	-	-	-	-	(5,414)	-
	Transfer W/down of Soft Loans	920	-	-	-	-	920	-	(920)	-	-	-	(920)	-
	Transfer to pension reserve	1,091	-	-	-	-	1,091	-	-	-	(1,091)	-	(1,091)	-
	Impairment GPF Loans	4,800	-	-	-	-	4,800	(4,800)	-	-	-	-	(4,800)	-
	Total adjustments between accounting basis and funding basis under regs	(41,563)	10,799	-	9,014	(77)	(21,827)	23,914	(996)	-	-	(1,091)	21,827	-
	Increase/ (decrease) in year before	7,169	10,799	-	9,014	(77)	26,905	23,914	(996)	468	-	7,688	31,074	57,979
	Transfer to ear-marked reserve	(5,283)	-	-	5,283	-	-	-	-	-	-	-	-	-
	Increase/ (decrease) in year	1,886	10,799	-	14,297	(77)	26,905	23,914	(996)	468	-	7,688	31,074	57,979
	Balance at 31st March 2016	9,831	36,096	2,075	16,230	989	65,221	8,631	(1,036)	12,329	668	(61,162)	(40,570)	24,651
2016-17		General Fund	Capital Grants	Rail Reserve	WY Transport Fund	NGT Reserve	Total Usable reserves	Capital Adjustment Account	Financial Instruments	Revaluation Reserve	Donated Asset A/C	Pension Reserve	Total Unusable reserves	Total
Note	Balance	Unapplied	Reserve	Fund	Reserve	Reserve	reserves	Account	Adj A/C	Reserve	Asset A/C	Reserve	reserves	£000's
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
	Balance at 1st April 2016	9,831	36,096	2,075	16,230	989	65,221	8,631	(1,036)	12,329	668	(61,162)	(40,570)	24,651
	Transfer of balances 1 April 2016													
	Movement in reserves during 2016/17													
	Surplus on Provision of Service	41,969	-	-	-	-	41,969	-	-	-	-	-	-	41,969
7	Remeasurement of the net defined benefit liability	-	-	-	-	-	-	-	-	-	-	(10,401)	(10,401)	(10,401)
11,22	Net increase in liability on disposal/aquistn	-	-	-	-	-	-	-	-	-	-	-	-	-
	Revaluation of non-current assets	-	-	-	-	-	-	-	-	596	-	-	596	596
	Total Comprehensive Income and Expenditure	41,969	-	-	-	-	41,969	-	-	596	-	(10,401)	(9,805)	32,164
	Adjustments between accounting basis and funding basis under regs													
3	Minimum Revenue Provision (MRP)	(3,389)	-	-	-	-	(3,389)	3,389	-	-	-	-	3,389	-
6	Finance costs early settlement discounts	76	-	-	-	-	76	-	(76)	-	-	-	(76)	-
22	Revenue Expenditure Funded from Capital under Statute (Refcus)	139,336	-	-	-	-	139,336	(139,336)	-	-	-	-	(139,336)	-
3,22	Capital grants applied	(146,986)	-	-	-	(18)	(147,004)	147,004	-	-	-	-	147,004	-
22	Capital Grants unapplied	(36,031)	36,031	-	-	-	-	-	-	-	-	-	-	-
11	Depreciation	4,917	-	-	-	-	4,917	(4,917)	-	-	-	-	(4,917)	-
	Transfer W/down of Soft Loans	512	-	-	-	-	512	-	(512)	-	-	-	(512)	-
7	Transfer to pension reserve	821	-	-	-	-	821	-	-	-	(821)	-	(821)	-
	Asset Held For Sale Revaluation loss	50	-	-	-	-	50	(50)	-	-	-	-	(50)	-
	Impairment GPF Loans	1,698	-	-	-	-	1,698	(1,698)	-	-	-	-	(1,698)	-
	Total adjustments between accounting basis and funding basis under regs	(38,996)	36,031	-	-	(18)	(2,983)	4,392	(588)	-	-	(821)	2,983	-
	Increase/ (decrease) in year before	2,973	36,031	-	-	(18)	38,986	4,392	(588)	596	-	(11,222)	(6,822)	32,164
	Transfer to ear-marked reserve	(5,702)	-	-	5,703	-	-	-	-	-	-	-	-	-
	Increase/ (decrease) in year	(2,729)	36,031	-	5,703	(18)	38,986	4,392	(588)	596	-	(11,222)	(6,822)	32,164
	Balance at 31st March 2017	7,102	72,127	2,075	21,933	971	104,207	13,023	(1,624)	12,925	668	(72,384)	(47,392)	56,815

Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards ("IFRS") adopted by the Code of Practice on Local Authority Accounting 2016/17 and the Accounts and Audit Regulations 2015.

2015/16 Restated			2016/17				
Gross Expenditure £000's	Gross Income £000's	Net Expenditure £000's		Gross Expenditure £000's	Gross Income £000's	Net Expenditure £000's	
282,216	(99,215)	183,001	Transport Services	224,628	(57,569)	167,059	
28,332	(8,957)	19,375	Economic Services	72,327	(9,211)	63,116	
-	-	-	Policy, Strategy & Communications	280	-	280	
9,294	-	9,294	Resources	8,683	(2)	8,681	
319,842	(108,172)	211,670	Net cost of services	305,918	(66,782)	239,136	
3,289	-	3,289	Interest Payable	6	3,241	-	3,241
-	(1,712)	(1,712)	Interest and Investment income	6	-	(1,384)	(1,384)
2,078	-	2,078	Net interest on the pension defined benefit liability	7	1,954	-	1,954
325,209	(109,884)	215,325	Net Expenditure after financing and investment	311,113	(68,166)	242,947	
Non-Specific Grant Income							
-	(101,481)	(101,481)	District Council Levies	12	-	(101,900)	(101,900)
-	(162,576)	(162,576)	Government and Other Grants (Capital)	9	-	(183,016)	(183,016)
325,209	(373,941)	(48,732)	(Surplus) on Provision of Services	311,113	(353,082)	(41,969)	
-	(8,874)	(8,874)	Remeasurement of the net defined benefit liability	7	-	10,401	10,401
-	-	-	Deficit/(Surplus) on Revaluation	-	-	-	-
95	-	95	Net increase in pension liability from disposal/ acquisitions	-	-	-	-
-	(468)	(468)	Surplus on revaluation of non-current assets	11,22	-	(596)	(596)
95	(9,342)	(9,247)	Other Comprehensive Income and Expenditure	-	9,805	9,805	
			(57,979)			(32,164)	

* CI&E 2015/16 has been restated in line with the CIPFA Code 2016/17 where net cost of services is based on the organisational structure (segmental basis). There is no change in the Surplus of Provision of Services.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Combined Authority. The net assets (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories being usable and unusable. Usable reserves are those reserves that may be utilised to provide services, subject to the requirement to maintain a prudent level of reserves and any statutory limitations on their use. Unusable reserves are those that the Authority is not able to use for the provision of services. This category of reserves includes reserves that hold unrealised gains and losses such as the revaluation reserve and those that support the timing differences in capital investment (the Capital Adjustment Account).

<u>31 March 2016</u>	£000s	<u>31 March 2017</u>	notes
	<i>Non-current assets</i>		
82,969	Property, plant and equipment	81,885	11(e)
22,823	Long-term debtors	23,654	17
105,792		105,539	
	<i>Current assets</i>		
650	Assets held for sale	600	11(e)
70,314	Short term investment	98,274	21
14,406	Short term debtors	26,310	15
12,400	Cash and cash equivalents	42,475	16
97,770		167,659	
	<i>Current liabilities</i>		
(5,072)	Short term borrowing	(1,553)	19
(31,688)	Trade and Other payables	(51,565)	18
(5,315)	Accruals and deferred income	(14,207)	18
(174)	Provisions for current liabilities	(189)	23
(42,249)		(67,514)	
161,313	Total assets less current liabilities	205,684	
	<i>Long-term liabilities</i>		
(75,500)	Long-term borrowing	(75,000)	19,21
(61,162)	Net pensions liability	(72,384)	7
(136,662)		(147,384)	
24,651	Total assets less liabilities	58,300	
	Financed by		
9,831	General Fund Reserve	7,102	
	Usable Capital Receipts Reserve		
36,096	Capital grants unapplied	73,608	22
2,075	Rail Reserve	2,075	22
989	NGT Reserve	971	22
16,230	WY Transport fund Reserve	21,933	22
65,221	<i>Usable reserves</i>	105,689	
8,631	Capital Adjustment Account	13,023	22
(1,036)	Financial Instruments Adjustment Account	(1,623)	22
(61,162)	Pensions Reserve	(72,384)	22
12,329	Revaluation Reserve	12,927	22
668	Donated Asset Account	668	11(c)
(40,570)	<i>Unusable reserves</i>	(47,389)	
24,651	Total reserves and balances	58,300	

Cash Flow Statement

The cashflow statement is a financial statement that shows changes in balance sheet account and income after cash and cash equivalents, and breaks the analysis down to operating, investing and financing activities. Essentially, the cashflow statement is concerned with the flow of cash in and cash out of the business.

<u>2015/16</u>	£000s		<u>2016/17</u>
		Operating activities :	
48,732	Surplus on the Provision of Service		41,969
5,414	Depreciation	11e	4,917
5,721	Write down of loans		2,287
1,110	Increase in creditors	18	28,769
6,710	(Increase)/decrease in debtors	15	(8,815)
1,091	Transfer to the Pension Reserve	22	821
20	Provisions	23	15
(129)	Profit from the sale of property, plant & equipment		-
-	Asset Held For Sale revaluation loss	11e	50
290	Fixed assets charged to revenue	11e	858
68,959	Net cash generated from operating activities		70,871
	Cash flows from investing activities		
(1,819)	Purchase of property, plant & equipment,	11e	(4,094)
(28,669)	New long term debtor loans advanced	17	(6,830)
(35,000)	Short term investment	21	(28,000)
129	Proceeds from the sale of property, plant & equipment		-
(65,359)	Net cash flows from investing activities		(38,923)
	Cash flows from financing activities		
500	Receipt of new loans		-
(1,000)	Repayment of loans	19	(4,019)
125	Receipt of Debtor Loan repayments	17	2,145
(375)	Net cash used from financing activities		(1,873)
3,225	Increase in cash and cash equivalents		30,075
9,175	Cash and cash equivalents at the beginning of the reporting period		12,400
12,400	Cash and cash equivalents at end of reporting period	16	42,475

The surplus on the provision of service includes the following items:

<u>2015/16</u>	£000's		<u>2016/17</u>	£000's
3,289	Interest paid	6	3,241	
(1,712)	Interest received	6	(1,384)	

Cash and cash equivalents comprises operational cash balances, cash at bank and short-term bank deposits. Bank overdrafts that are repayable on demand also form an integral part of the Authority's cash management arrangements. Included in cash and cash equivalents is cash at bank held on behalf of third parties where the liability to repay these amounts is recognised under creditors.

Explanatory Notes to The Accounts

1. Accounting policies for the West Yorkshire Combined Authority

I. BASIS OF PREPARATION

The Statement of Accounts summarises the Combined Authority's position for the year end of 31 March 2017. The Combined Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 supported by International Financial Reporting Standards (IFRS).

Statement of Compliance with IFRS

The following accounting standards have been issued but not yet adopted by the Code:

- IFRS 14 Regulatory Deferral Accounts (Issued Jan 14, Adoption 1 Jan 16)
- IFRS 15 Revenue from Contracts with Customers (Issued May 14, Adoption 1 Jan 18)
- IFRS 16 Leases (Issued Jan 16, Adoption 1 Jan 19)

Impact of these standards are considered not to be significant upon the organisation.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The statements are prepared on a going concern basis with the accounts being prepared on the assumption that the functions of the West Yorkshire Combined Authority will continue in operational existence for the foreseeable future.

Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Critical Accounting Estimates and Judgements

The preparation of financial statements in accordance with IFRS requires management to make certain assumptions, estimates and judgements that may affect the reported amounts of assets, liabilities, income and expenses. These are based on historical experience and any other factors, including expectations of future events, that are considered appropriate, and these are continually reviewed. Subsequent actual results may however differ from these estimates and judgements. Areas where assumptions, estimates and judgements may give rise to adjustments to the carrying values of assets and liabilities in the financial year are as follows:

- Property revaluation (note 11): the Authority carries its non- infrastructure land and buildings at current value. Periodically, external surveyors are used, and the last full independent survey was carried out as at 31 March 2015. Such valuations and any attached estimates are subject to some professional judgement.
- Leases (note 26): The Authority has classified leases as either finance or operating leases based on the extent to which the risks and rewards incidental to ownership lie with the lessee or lessor. The Authority has classified certain contracts as operating leases although the legal form of the arrangement is not a lease.
- Retirement benefit obligations (note 7): the cost of defined benefit pension plans is determined using an independent actuarial valuation, involving the use of assumptions about discount rates, returns on assets, future salary increases, mortality rates, inflation and future pension increases. Such assumptions are reviewed at each period end, and determined jointly between the pension fund management and the actuaries.

II. REVENUE EXPENDITURE FINANCED FROM CAPITAL UNDER STATUTE

Expenditure incurred by the Authority that may be capitalised under statutory provisions but does not result in the creation of a non-current asset (i.e. rail infrastructure) is charged to the Comprehensive Income and Expenditure account. The Authority meets this expenditure from existing capital resources with capital grants reversed against the expenditure charged to revenue so there is no impact on the revenue grant requirement.

III. a) **PROPERTY PLANT AND EQUIPMENT**

- Infrastructure Assets and Plant and Equipment are stated at depreciated historical cost, net of accumulated impairment losses. Non-Infrastructure Land and buildings are measured at current value which is Existing Use Value (EUV) where there is an active market or Depreciated Replacement Cost (DRC) where it relates to a specialised asset. Full valuations are performed at intervals of no more than five years to ensure that the current value of a revalued asset does not differ materially from its carrying amount. A full revaluation of the Authority's Non-Infrastructure Land and Buildings and the office building (Wellington House) was carried out by an MRICS qualified valuer of Lambert Smith Hampton, a firm of external Chartered Surveyors. The revaluation was carried out as at 31 March 2015 on an Existing Use Value (EUV) and Depreciated Replacement Cost (DRC) basis in accordance with IAS 16. A revaluation update of Non-Infrastructure Land and Buildings was undertaken by Lambert Smith Hampton as at 31 March 2017. A revaluation of the Authority's on-street furniture was carried out as at 31 March 2008 however under IFRS these are infrastructure assets and are valued at historical cost.
- Infrastructure Assets, Plant and Equipment and Vehicles are recorded at original cost less accumulated depreciation and any recognised impairment loss. Cost includes professional fees and for assets constructed by the Authority, any related works to the extent that these are directly attributable to the acquisition or construction of the asset. The gain or loss arising on disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement. Subsequent costs are included in the carrying value of an asset when it is probable that additional future economic benefits will flow to the Authority and the cost of the item can be measured reliably. All other repairs and renewals are charged to the income statement as incurred.
- Depreciation or amortisation is provided so as to write off, on a straight-line basis, the cost of property, plant and equipment and intangible fixed assets including those held under finance leases. These charges are commenced from the dates the assets are available for their intended use and are spread over their estimated useful economic lives. The estimated useful lives of assets are reviewed regularly and, when necessary, revised. Accelerated depreciation or amortisation is provided where an asset is expected to become obsolete before the end of its normal useful life or if events or changes in circumstances indicate that an impairment loss needs to be recognised, as discussed below. No further charges are provided in respect of assets that are fully written down but are still in use. The estimated useful lives for the main categories of property, plant and equipment and intangible assets are:

Freehold and Long Leasehold Buildings between 5 and 50 years

On-street Furniture and Infrastructure 20 years

Vehicles Between 4 and 16 years

Plant and Equipment Between 4 and 10 years

Office Furniture and Equipment Between 4 and 10 years

- Freehold land, either at cost or valuation, is not depreciated. Management regularly considers whether there are any indications of impairment to carrying values of property, plant and equipment. Impairment reviews are based on risk adjusted discounted cash flow projections. Significant judgement is applied to the assumptions underlying these projections which include estimated discount rates, growth rates, future selling prices and direct costs. Changes to these assumptions could have a material impact on the financial position of the Authority and on the result for the year.

b) **Progress payments for capital assets**

Progress payments for capital assets or schemes not yet completed are held in Payment on Account and Assets In the course of Construction. The assets are transferred to the appropriate heading and are subject to depreciation when they become available for use. The Authority writes out directly attributable costs on capital schemes where no tangible asset exists to reflect a true and fair view of the asset base.

c) **Discontinued Operations and Non-current Assets Held for Sale**

Discontinued operations and Non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. Discontinued operations and current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This is the case, when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and the sale is considered to be highly probable. A sale is considered to be highly probable if the appropriate level of management is committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan has been initiated.

d) **Donated Assets**

Donated assets are assets that have been transferred to the Authority at nil value or acquired at less than fair value. Donated assets are initially recognised at fair value at the date of acquisition. After initial recognition the donated assets will be revalued and depreciated in accordance with the Authority's revaluation and depreciation policy. A Donated Assets account recognises the benefit received from these assets where conditions apply to the assets use.

IV. **RAIL INFRASTRUCTURE**

Expenditure now incurred by the Authority on any rail infrastructure projects is not capitalised. The Authority has no ownership/legal rights in respect of the infrastructure and as a consequence the costs are charged directly to revenue.

V. **CHARGES TO REVENUE**

For the Authority depreciation has been shown as part of the service expenditure. The Authority has considered the impairment of fixed assets in accordance with IAS 36 and no charges for impairment have been made. Such depreciation or impairment is then required by the Code to be credited in the Movement in Reserves Statement on the General Fund Balance to avoid it being a net charge to the accounts. Amounts set aside from revenue for the repayment of external loans are also shown separately through the Movement in Reserves Statement on the General Fund Balance.

VI. **GOVERNMENT GRANTS**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as deferred income. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Capital Grants

Grants to fund capital expenditure from government and other bodies are credited to the Comprehensive Income and Expenditure Statement (CIES) where the grant conditions have been met. In order to recognise that the capital grants are provided to finance capital expenditure the grants are subsequently transferred from the CIES to the Capital Adjustment Account. If expenditure has not been incurred at the balance sheet date the grant is transferred to the Capital Grants Unapplied Account.

The Comprehensive Income and Expenditure Statement will recognise capital grants to the extent that they offset capital expenditure charged directly to revenue (see policy V. above). Details of capital grants receivable and released are set out in Note 9 to the Authority Accounts.

VII. INVESTMENTS

Investments are shown on the Balance Sheet at amortised cost less provision, where appropriate, for loss in value. Investment income is credited to the revenue account when it falls due.

VIII. RESERVES

The General Fund Balance is a revenue reserve and transfers to and from the reserve are recognised through the Movement in Reserves Statement. Expenditure is charged to revenue and not directly to the reserve. Other reserves (capital adjustment, financial instruments adjustment, revaluation and pension reserves) are not available for revenue purposes and can only be used for specific statutory purposes.

IX. PENSION COSTS

The requirements of IAS 19 "Retirement Benefits" have been fully adopted in the financial statements of the Authority. Detailed disclosures can be found in note 7 to the Accounts.

The Combined Authority is an employing authority within the West Yorkshire Pension Fund which is a funded pension scheme. Most employees participate in this scheme which provides defined benefits payable to members on and after their retirement. Contributions made to the fund for both current and past services are charged to the revenue account as they are paid. Contribution levels are determined by the Fund. The Fund is a statutorily established pension fund and the benefits are paid under the provisions of the Local Government Pension Scheme Regulations 2014.

The Combined Authority has a continuing responsibility for any payments to the Fund in respect of all staff who were transferred to Yorkshire Rider Limited (now First West Yorkshire) as a consequence of the Transport Act 1985. The annual cost of this responsibility is charged to the revenue account under Transport Services and Resources.

The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employees turnover rates, etc. and projections of projected earnings for current employees.

The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

- ◆ Quoted securities at current bid price
- ◆ Unquoted securities based on professional estimate
- ◆ Unitised securities at current bid price
- ◆ Property at market value

The change in the net pensions liability is analysed into seven components:

Current service costs - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employee worked;

Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the service costs;

Interest expense on the defined benefit obligation - the interest on the present value of liabilities and interest on the net changes in those liabilities during the year calculated using the discount rate at the start of the period debited to the Pensions interest expense/income on the net liability in the Comprehensive Income and Expenditure Statement;

Interest income on assets - the interest income applied to the asset and net changes in the asset during the year - credited to the Pensions interest expense/income on the net liability in the Comprehensive Income and Expenditure Statement;

Gains or losses on settlements and curtailments - the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the service costs;

Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Pensions Reserve; and

Contributions paid to the pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to the retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable that are unpaid at the year-end. The balance that arises on the Pensions Reserve thereby measures the adverse impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

X. PROVISIONS

A provision is recognised in the balance sheet when the Authority has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for restructuring is recognised when management has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. In accordance with the Authority's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated. Provisions for environmental issues are judgemental by their nature and more difficult to estimate when they relate to sites no longer directly controlled by the Authority. The Authority has taken a consistent approach to estimating environmental provisions.

XI. EXCEPTIONAL ITEMS

The Authority presents certain items separately as 'exceptional'. These are items, which in management's judgement, need to be disclosed by virtue of their size and incidence in order for the user to obtain a proper understanding of the financial information. The determination of which items are separately disclosed as exceptional items requires a significant degree of judgement.

XII. TAXATION

Corporation, Income and Capital Gains Tax

The West Yorkshire Combined Authority is exempt from Corporation, Income and Capital Gains tax by virtue of regulations section 74 of the Local Government Finance Act 1988.

Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- Irrecoverable VAT on the purchase of assets or services is recognised as an expense in the income statement.
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

XIII. **DEBTORS**

Debtors are adjusted for doubtful debts which are provided for with known uncollectable debts being written off.

XIV. **LEASED ASSETS**

Assets acquired under finance leases, where substantially all the risks and rewards of ownership of the assets have passed to the Authority, are capitalised in the balance sheet and depreciated over their useful lives. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability.

Rentals payable under operating leases (where the risks and rewards incidental to ownership remain with the lessor), are charged to the income statement on a straight line basis over the lease term. When the lease becomes onerous full provision is made of the expected discounted future cost of the lease.

XV. **FINANCIAL INSTRUMENTS**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The term 'financial instrument' covers both financial assets and financial liabilities.

Financial Assets

Financial assets can be classified as cash and cash equivalents (short term deposits) trade receivables and loans receivable. The Authority does not hold instruments designated as available-for-sale assets. Financial assets are initially recognised at fair value and subsequent measurement depends on their classification as follows:-

Cash and cash equivalents: consist of funds placed with banks and other institutions with deposit terms of 3 months or less. For the purpose of the cash flow statement, cash and cash equivalents are as defined above, net of outstanding bank overdrafts.

Loans and receivables: Consist of non-derivative financial assets with fixed or determinable payments not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. This means for most of the loans advanced by the Authority the amount presented in the balance sheet is the principal plus accrued interest, with the exception of soft loans where a present value calculation of future cashflows discounted at the higher effective interest rate is undertaken. Gains and losses are recognised in the Income and Expenditure Statement when the assets are amortised, derecognised or impaired.

Trade and other receivables: recognised and carried at invoice or contract value less an allowance for any amounts which may not be collectable. Should an amount become uncollectable, it is written off to the income statement in the period in which it is recognised.

Impairment of financial assets: the Authority assesses at each period end whether there is any evidence that a financial asset, or group of assets, is impaired. Financial assets are impaired if, and only if, there is objective evidence of one or more events that will negatively impact future expected cash flows, and the impact can be reliably estimated. Objective

evidence may be that a debtor is experiencing financial difficulty to the extent that cash flows are, or are likely to be, negatively impacted. If such objective evidence exists, then the financial asset is impaired to the extent of the present value of estimated cash flow shortfall. The amount of the allowance for impairment is recorded separately to the asset, and written off against income. Financial assets are derecognised when the appropriate cash flows have been received, or when the rights to receive cash flows from the asset have expired.

Financial Liabilities

Financial liabilities can be classified as loans and borrowings and trade and other payables and are initially recognised at fair value. Subsequent measurement of liabilities depends on their classification as follows:

Loans and borrowings: non-derivative financial liabilities with fixed or determinable payments not quoted in an active market. Such interest-bearing liabilities are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income and Expenditure Statement when the liabilities are amortised, derecognised or impaired.

Trade and other payables: recognised and carried at invoice or contract value. Should an amount become non-payable, it is written back to the Statement of Income and Expenditure in the period in which it is recognised.

Financial liabilities are derecognised when the appropriate cash flow obligations have been discharged, expired or otherwise cancelled.

Offsetting of Financial Assets and Liabilities

Financial assets and liabilities are offset, and the net amount reported in the Balance sheet, if and only if there is an enforceable legal right to offset, and there is an intention to settle on a net basis in order to realise the assets and discharge the liabilities simultaneously.

XVI. FOREIGN CURRENCY TRANSLATION

All foreign currency income and expenses are translated at the rate ruling on the day of the transaction with the resultant profit or loss recognised immediately in the revenue account. All foreign currency assets and liabilities in the balance sheet are translated at the balance sheet date.

XVII. CONTINGENT LIABILITY

Contingent Liabilities (note 28): A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

XVIII. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts are authorised for issue by the Chief Financial Officer as at 3 August 2017. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of the information (adjusting events).

Events indicative of conditions that arose after the reporting period are not adjusted (non-adjusting events).

XIX. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES , ESTIMATES AND ERRORS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in estimation techniques are accounted for prospectively and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practice or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or performance. Changes are made retrospectively by adjusting opening balances and comparative amounts for the prior period.

XX. CONSOLIDATION OF JOINT VENTURE

The concept of materiality has been considered in respect of the consolidation of Yorcard Ltd into the Authority's accounts. Materiality is determined as an omission or misstatement that may influence an economic decision of the user of the accounts. On this basis Management have adopted a policy to exclude the Yorcard Ltd Joint Venture from full consolidation but have disclosed in note 24 the financial performance and position in accordance with IAS31 "Interests in Joint ventures".

2. The Account

The CIPFA Code of Practice on Local Authority Accounting based on International Financial Reporting Standards in the United Kingdom 2016/17 (IFRS based code): The IFRS based code requires all authorities who have a group interest in another organisation to produce group accounts based on IFRS 3 business combinations and IAS 27 consolidated and separate financial statements except where interpretations or adaptations for public sector apply. The accounts of the West Yorkshire Combined Authority however have not been prepared as group accounts reflecting that the West Yorkshire Combined Authority is a single entity with a small joint venture which is not consolidated within the financial statements as disclosed at note 24.

3. Capital Expenditure and Financing

The Authority has a statutory obligation to make adequate provision to meet its liabilities in respect of capital expenditure financed by external borrowing. The method of calculating the provision is defined by statute. For 2016/17 the amount is £3.389m.

The provision has been charged to service revenue accounts as a depreciation charge for fixed assets related to that service. The balance has been transferred from the Capital Adjustment Account to the General Fund Balance to ensure that the charge to the amount met from Government Grant and Local Taxation equates to the Minimum Revenue Provision (MRP).

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

Capital Financing Requirement		
	2016/17	2015/16
	£000's	£000's
Opening Balance	84,736	88,267
	84,736	88,267
Capital Investment		
Property, Plant and Equipment	4,095	1,819
Housing and Regeneration Investment	4,430	5,232
Growing Places Fund Loans		23,837
Revenue Funded from Capital		
Under statute	138,477	111,953
Sources of Finance		
Government grants and other capital contributions	(140,772)	(151,777)
Capital Reserve contributions	(6,231)	8,936
Minimum Revenue Provision (MRP)	(3,389)	(3,531)
Movement in year	(3,390)	0
	(3,390)	(3,531)
Closing Capital Financing Requirement	81,346	0
	81,346	84,736

The capital financing requirement decreased in 2016/17 by the level of provision for the repayment of debt as there was no increase in the requirement to borrow to fund capital expenditure.

4. Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate how the funding available to the authority for the year has been used in providing services in comparison with those resources consumed in accordance with general accepted accounting practices.

A disclosure on the nature of expenses is presented as recommended by the Code. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

4 (a). Expenditure and Funding Analysis

EXPENDITURE AND FUNDING ANALYSIS 2016/17

2015/16			2016/17			
Expenditure Chargeable to GF	Adjustment between funding and accounting	Net Expenditure in the CI&E		Expenditure Chargeable to GF	Adjustment between funding and accounting	Net Expenditure in the CI&E
			£000s			
79,503	103,498	183,001	Transport Services	83,190	83,869	167,059
5,981	13,394	19,375	Economic Services	3,974	59,142	63,116
-	-	-	Policy, Strategy & Communications	280	-	280
7,438	1,856	9,294	Resources	6,569	2,112	8,681
						-
92,922	118,748	211,670	Net cost of services	94,013	145,123	239,136
1,390	2,265	3,655	Financing and investment income and expenditure	4,914	(1,102)	3,812
(96,198)	(167,859)	(264,057)	General grant income	(96,198)	(188,719)	(284,917)
(1,886)	(46,846)	(48,732)	(Surplus) / deficit on provision of services	2,729	(44,698)	(41,969)
General Fund						
(7,945)			Reserve Balance brought forward	(9,831)		
(1,886)			(Increase) / decrease for the year	2,729		
(9,831)			Reserve Balance carried forward	(7,102)		

4 (b). Note to the Expenditure and Funding Analysis

2015/16				2016/17			
Adjustments for Capital Purposes	Net Change for Pensions Adjustments	Other Differences	Total Adjustments	Adjustments for Capital Purposes	Net Change for Pensions Adjustments	Other Differences	Total Adjustments
			£000s				
(103,710)	502	(290)	(103,498)	(84,375)	506		(83,869)
(13,657)	263	0	(13,394)	(59,520)	378		(59,142)
-	-	-	-	-	-		-
-	(1,856)	0	(1,856)	(408)	(1,704)		(2,112)
(117,367)	(1,091)	(290)	(118,748)	(144,303)	(820)	-	(145,123)
			Net cost of services				
(4,800)	-	2,535	(2,265)	(1,698)	-	2,800	1,102
162,576	-	5,283	167,859	183,016	-	5,702	188,718
Difference Between Surplus or Deficit and the Comprehensive Income and Expenditure Statement							
			46,846				44,697
Surplus or Deficit on the provision of Services							

4 (C). Expenditure and Income Analysed by Nature

The authority's expenditure and income is analysed as follows:

<u>2015/16</u>	£000s	<u>2016/17</u>
	<i>Income</i>	
(55,652)	Other service income	(59,078)
(1,712)	Interest and investment income	(1,384)
-	Expected return on pension assets	-
(215,095)	Government Grants	(192,943)
(101,481)	Transport Levy	(101,901)
<u>(373,941)</u>	Total Income	<u>(355,306)</u>
	<i>Expenditure</i>	
16,629	Employee expenses	17,921
297,926	Other service expenses	285,251
5,414	Depreciation, amortisation and impairment	4,917
3,290	Interest payments	3,241
(129)	Gain or loss on disposal of non-current assets	-
-	Gain or loss on AHF	50
2,078	Pension interest costs	1,954
<u>325,209</u>	Total Expenditure	<u>313,335</u>
<u>(48,732)</u>	(Surplus)/ deficit	<u>(41,970)</u>

5 Disposal of Fixed Assets

	2016/17 £000's	2015/16 £000's
Net Book Value of Assets	-	-
Proceeds from sale	0	(129)
(Profit) on disposal of fixed assets by the Authority	<u>0</u>	<u>(129)</u>

	2016/17 £000's	2015/16 £000's
6 Financing Income and Costs		
Interest receivable on Loans, deposits and other debts	<u>(1,384)</u>	<u>(1,712)</u>
Interest payable on Loans	<u>3,241</u>	<u>3,289</u>
Effect of early settlement of Loans	<u>(76)</u>	<u>(76)</u>

7 Pension Costs

7.1 Defined Benefit Pension Scheme

The Authority participates in the West Yorkshire Pension Fund, administered by Bradford Metropolitan District Council. This is a funded defined benefit scheme, meaning that the Authority and their employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The pension assets and liabilities transferred to the Combined Authority were subject to the actuarial valuation carried out at 31 March 2013 which determined the employer contributions for the next three years. In recognising that the WYPTE and WYITA have been dissolved and its pension assets and liabilities transferred to the West Yorkshire Combined Authority at 1 April 2014 a rate has been determined for the new entity of 13.5% plus a lump sum of £0.96m in 2014/15. The contribution rate for 2016/17 is 13.5% (14.6% for 2017/18), and the deficit lump sums are £1.09m and £1.215m for 2016/17 and 2017/18 respectively.

7.2 Capital Cost of Discretionary Increases in Pension Payments.

The Authority is required to disclose the capital cost of discretionary increases in pension payments, which related to the award of added years on the early retirement of employees. Separate disclosure is required for the in year discretionary awards and the ongoing costs of previous years discretionary payments. The capital costs relating to the awards of discretionary added years are set out below:-

	31 March 2017 £000's	31 March 2016 £000's
i) Current Employees	2,817	2,632
ii) Former Employees	1,112	1,167

A large proportion of the pension costs in respect of former employees is in respect of staff transferred to Yorkshire Rider Limited, as explained in the Authority's accounting policy note on pension costs.

7.3 Pension disclosures required under IAS 19

The Authority's West Yorkshire Pension Fund liabilities have been assessed by AON Hewitt Ltd, an independent firm of actuaries. Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The main assumptions used in their calculations have been:

	31/03/2017		31/03/2016	
	Unfunded	Funded	Unfunded	Funded
Duration of liabilities	12yrs	14.3yrs	12yrs	14.4yrs
Inflation : RPI	3.1%	3.1%	2.8%	2.8%
CPI	2.0%	2.0%	1.7%	1.7%
Rate of increase in salaries	3.3%	3.3%	3.2%	3.2%
Rate of increase for pensions in payment	2.0%	2.0%	1.7%	1.7%
Pension account revaluation rate	2.0%	2.0%	1.7%	1.7%
Rate used to discount funded scheme liabilities	2.5%	2.5%	3.3%	3.3%

7.3 Pension disclosures required under IAS 19 (continued)

Mortality assumptions

Post retirement mortality (retirement in normal health) :-

31/03/2017		31/03/2016	
Standard SAPS Normal Health All Amounts		Standard SAPS Normal Health All Amounts	
Males :	CMI 2012 Long term rate of improvement of 1.5%	Males :	CMI 2012 Long term rate of improvement of 1.5%
Females :	CMI 2012 Long term rate of improvement of 1.5%	Females :	CMI 2012 Long term rate of improvement of 1.5%

Life Expectancy

- of a male (female) future pensioner aged 65 in 20yrs time	23.0 (27.0) Years	24.9 (28.0) Years
- of a male (female) current pensioner aged 65	22.1 (25.2) Years	22.7 (25.6) Years

As part of the 2013 actuarial valuation the mortality experience was analysed across the fund over a 3 year period to 31 March 2013 and assumptions have been amended regarding life expectancy. The mortality allowance for future improvements uses the Continuous Mortality Investigation (CMI) Mortality Projections model with the model updated annually to reflect the latest emerging experience. This means there will continue to be regular changes to the assumptions for future improvements in mortality rates as new data is taken into account.

Assets in the West Yorkshire Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories set out below. The valuation as at 31 March 2013 of the pension scheme proportion as applied to the Authority is rolled forward for 31 March 2017 (showing the proportion of assets between the classes of investment) and are as follows:-

The assets of the scheme were:

	31 March 2017				31 March 2016			
	Quoted %	Unquoted %	Total %	Asset £000's	Quoted %	Unquoted %	Total %	Asset £000's
Equities	70.3	6.9	77.2	111,041	69.4	6.2	75.6	91,953
Government Bonds	10.1	0.0	10.1	14,528	10.3	0.0	10.3	12,528
Other Bonds	3.9	0.0	3.9	5,610	4.6	0.0	4.6	5,595
Property	4.3	0.0	4.3	6,185	4.9	0.0	4.9	5,960
Cash/Liquidity	1.2	0.0	1.2	1,726	1.3	0.0	1.3	1,581
Other	1.4	1.9	3.3	4,747	1.2	2.1	3.3	4,013
Total	91.2	8.8	100.0	143,837	91.7	8.3	100.0	121,630

Reconciliation of unfunded/funded status to Balance Sheet

	31 March 2017			31 March 2016		
	£000's Unfunded	£000's Funded	£000's All Benefits	£000's Unfunded	£000's Funded	£000's All Benefits
Fair Value of assets		143,837	143,837		121,630	121,630
Present value of unfunded/ funded defined benefit obligation	11,456	204,765	216,221	12,308	170,484	182,792
Funded status	<u>(11,456)</u>	<u>(60,928)</u>	<u>(72,384)</u>	<u>(12,308)</u>	<u>(48,854)</u>	<u>(61,162)</u>
Impact of minimum funding requirement /asset ceiling	-	-	-	-	-	-
Asset/(liability) recognised on the balance sheet	<u>(11,456)</u>	<u>(60,928)</u>	<u>(72,384)</u>	<u>(12,308)</u>	<u>(48,854)</u>	<u>(61,162)</u>

Reconciliation of present value of scheme liabilities

	31/03/2017		31/03/2016	
	£000's Unfunded	£000's All Benefits	£000's Unfunded	£000's All Benefits
Opening balance 1 April	12,308	182,792	13,608	194,405
Balance transferred in at 1 April 2014	-	-	-	-
Current service cost	-	2,764	-	2,805
Interest cost	388	5,898	403	5,901
Member Contributions	-	921	-	837
Past service cost	-	0	-	50
Actuarial gain/loss financial assumptn	735	34,499	(276)	(9,370)
Actuarial gain/loss Demographic	(302)	(5,409)	0	0
Actuarial gain/loss experience	(586)	3,834	(227)	(2,586)
Curtailments	-	0	-	-
Net increase in liabilities from disposals/acquisitions	-	0	-	280
Benefits paid	<u>(1,087)</u>	<u>(9,078)</u>	<u>(1,200)</u>	<u>(9,530)</u>
Closing balance 31 March	11,456	216,221	12,308	182,792

7.3 Pension disclosures required under IAS 19 (continued)

Reconciliation of fair value of scheme assets	£000's		£000's	
	31/03/2017	31/03/2017	31/03/2016	31/03/2016
	Unfunded	All Benefits	Unfunded	All Benefits
Opening balance 1 April	-	121,630	-	125,555
Interest income on scheme assets	-	3,944	-	3,823
Remeasurement of (losses)/gains	-	22,523	-	(3,082)
Contributions paid by employer	1,087	3,897	1,200	3,842
Member Contributions	-	921	-	837
Net increase in liabilities from disposals/aquisitions	-	-	-	185
Benefits paid	(1,087)	(9,078)	(1,200)	(9,530)
Closing balance 31 March	-	143,837	-	121,630

	31/03/2017		31/03/2016	
	£000's		£000's	
Interest income on assets	-	3,944	-	3,823
Remeasurement gain/(loss) on assets	-	22,523	-	(3,082)
Actual return on assets	-	26,467	-	741

The amounts recognised in the Comprehensive Income and Expenditure Statement

	31/03/2017	31/03/2016
	£'000	£'000
Cost of Service		
Current Service Cost	2,764	2,805
Past Service Cost	-	50
Curtailments or settlements	-	-
Financing Investment Income and Expenditure		
Interest on net defined benefit liability	1,954	2,078
Total pension cost recognised	4,718	4,933
Remeasurements in Other Comprehensive Income and Expenditure		
Return on plan assets (in excess)/below that recognised in net interest	(22,523)	3,082
Actuarial (gains)/losses due to change in Financial assumption	34,499	(9,370)
Actuarial (gains)/losses due to change in Demographic assumption	(5,409)	-
Actuarial (gains) due to liability experience	3,834	(2,586)
Total amount recognised in Other Comprehensive income	10,401	(8,874)
Net increase in liabilities from disposals/acquisitions	-	95
Total amount recognised	15,119	(3,846)

Estimated pension expense in future periods

This is an estimate of the charges to the surplus or deficit on the income and expenditure account in future periods, based on the assumptions as at 31 March 2017.

Funded LGPS benefits - Expected amounts charged to Surplus or Deficit on the Provision of Services

	31/03/2018	31/03/2019
	£'000	£'000
Projected service cost	3,771	3,894
Past Service cost	-	-
Interest on the net defined benefit liability/(asset)	1,484	1,536
	5,255	5,430

Unfunded LGPS benefits - Expected amounts charged to Surplus or Deficit on the Provision of Services

	31/03/2018	31/03/2019
	£'000	£'000
Interest on the net defined benefit liability/(asset)	273	261
	273	261

Sensitivity Analysis

The sensitivity analysis showing the impact of changing key actuarial assumptions on the present value of the funded defined benefit obligation as at 31 March 2017 and the projected service cost for the year ending 31 March 2018 is set out below. Only the assumptions mentioned are altered all other assumptions remain the same. There is no sensitivity for unfunded benefits on materiality grounds.

Funded LGPS benefits

Adjustment to discount rate	+0.1%pa	Base Figure	-0.1%pa
Present value of total obligation £000's	201,859	204,765	207,713
% change in present value of total obligation	-1.4%		1.4%
Projected service cost £000's	3,663	3,771	3,882
Approximate % change in projected service cost	-2.9%		2.9%

Adjustment to rate of increase in salaries	+0.1%pa	Base Figure	-0.1%pa
Present value of total obligation £000's	205,269	204,765	204,266
% change in present value of total obligation	0.2%		-0.2%
Projected service cost £000's	3,771	3,771	3,771
Approximate % change in projected service cost	0.0%		0.0%

Adjustment to pension increase rate and the rate of revaluation of pension accounts	+0.1%pa	Base Figure	-0.1%pa
Present value of total obligation £000's	208,246	204,765	201,284
% change in present value of total obligation	1.7%		-1.7%
Projected service cost £000's	3,882	3,771	3,663
Approximate % change in projected service cost	2.9%		-2.9%

Adjustment to mortality age rating assumption	-1 year	Base Figure	+1 year
Present value of total obligation £000's	210,980	204,765	198,592
% change in present value of total obligation	3.0%		-3.0%
Projected service cost £000's	3,915	3,771	3,628
Approximate % change in projected service cost	3.8%		-3.8%

8 Government and Other Grant Income

The Authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement against the appropriate provision of services :-

	2016/17 £000's	2015/16 £000's
Revenue credited to cost of Service		
Transport Services		
Special Rail Grant (SRG) - Department for Transport	919	44,372
Section 31 LSTF - Department for Transport	16	2,825
Smart Grant -Department for Transport	-	56
Community Transport Support Grant - Department for Transport	-	24
Bus Service Operator Grant - Department for Transport	2,063	2,063
Congestion Performance Fund - Department for Transport	-	4
Section 31 Huddersfield Rail Station Gates Grant -DfT	-	31
ERDF Care North Plus/Challenge	1	42
	<u>2,999</u>	<u>49,417</u>
Economic Development Services		
Apprentice Grant for Employers Ph2 - Dept. Business Innovation & Skills	1,634	751
Apprentice Grant for Employers - Dept. Business Innovation & Skills	1,259	-
Enterprise Advisor - Careers & Enterprise Company	140	43
Strategic Heat Network - Dept. Energy and Climate Change	75	59
Employer Ownership Partnership - Dept. Bus Innovation & Skills	2,828	1,700
Business Growth Hub - Dept. Business Innovation & Skills	510	625
Growing Places Fund - DCLG	175	132
Headstart - Skills Funding Agency	166	2,532
Housing Stock Condition - Local Authority Partners	46	93
Better Homes Management - Keepmoat	104	99
Access to Finance - Partnership Investment Fund	-	50
LEP Strategic Growth Funding - Dept. Business Innovation & Skills	-	500
	<u>6,937</u>	<u>6,584</u>

9 Non-Specific Grant Income

The Authority credited the following grants to the Comprehensive Income and Expenditure Statement under non-specific grant income.

	2016/17	2015/16
	£000's	£000's
Capital grants and other Contributions		
Local Growth Fund Allocation -DCLG	127,658	68,266
Growing Places Fund - DCLG	-	35,894
Green Deal -Dept. Energy and Climate Change	-	897
Central Heating Fund - Dept. Energy and Climate Change	1,719	45
Integrated Transport Block/Maintenance - DfT	41,523	42,317
BEACONS - DCMS	218	-
Section 31 Cycle City Ambition Grant - Department for Transport	6,751	11,696
Cleaner Bus Technology Grant - Department for Transport	20	-
Section 31 Kirkstall Forge App Bridge - Department for Transport	-	198
HS2 Strategy Tranche 2	171	-
Other Capital Contributions	4,956	3,263
	<u>183,016</u>	<u>162,576</u>
 District Council Levies	 <u>101,900</u>	 <u>101,481</u>

The funding for the provision of rail services under the franchising arrangements was no longer paid directly to the the Authority from April 2016. The Authority received the contribution to its administration costs. The amounts received as follows:-

	2016/17	2015/16
	£000's	£000's
Payments to Operators	-	43,467
Contribution to the Authority administration costs	919	905
	<u>919</u>	<u>44,372</u>

10 Officers' Remuneration and Members Allowances

	2016/17	2015/16
	£000's	£000's
(a) Employees Costs Amounted to:		
Wages and Salaries	13,242	11,740
Social Security Costs	1,305	854
Other Pension Costs	2,817	2,571
	<u>17,364</u>	<u>15,165</u>

Members' Allowances and Expenses: -

The total members' allowances paid in the year to 31 March 2017 was £146,240.47 (£155,823 31 March 2016) .

(b) The average number of persons employed was:

	<u>Number</u>	<u>Number</u>
Manual	37	43
Management and Administration	440	411
	<u>477</u>	<u>454</u>

c) At 31 March 17 the unused holiday entitlement across the Authority totalled:-

	31/03/17	31/03/16
	£'000s	£'000s
	<u>200</u>	<u>242</u>

The Authority's policy on flexi-leave carried over is that it does not give rise to a financial entitlement.

d) The Accounts and Audit Regulations 2015 requires the disclosure of the number of senior officers whose remuneration in the year was £50,000 or more, grouped in rising bands of £5,000. The following table therefore shows all senior employees of the Authority in their appropriate band.

Band	Senior Officers 2016/17	Senior Officers 2015/16
£50,001 - £55,000	12	8
£55,001 - £60,000	4	3
£60,001 - £65,000	4	6
£65,001 - £70,001	4	-
£70,001 - £75,000	-	2
£75,001 - £80,001	1	-
£90,001 - £95,000	-	2
£95,001 - £100,001	-	-
£100,001 - £105,000	1	2
£115,001 - £120,000	-	1
	<u>26</u>	<u>24</u>

Termination benefits were paid by the Authority arising from the termination of employment incurring liabilities of £68,483 in 2016/17 (£193,691 2015/16). The exit package payable included voluntary redundancy payments and enhanced pension benefits payable arising from the re-structuring and rationalisation of specific business areas.

Senior Employees

		Salary Fees Allowances	Bonuses	Expenses Allowances	Compensation for loss of office	Pension Contribution	Total
Managing Director - Ben Still	2015/16	25,000			19	3,375	28,394
Service (Appointed 1/2/16)	2016/17	151,000			137	20,452	171,589
Director of Passenger Services	2015/16	116,589			88	15,740	132,417
Director of Passenger Services (50% 01/07/16-31/03/17)	2016/17	32,355			60	4,368	36,783
Director, Transport Services (01/10/2016)	2016/17	45,610				6,157	51,767
Director of Development (Resigned 31/10/15)	2015/16	60,699				8,194	68,893
Director of Programme Delivery	2015/16	90,750				12,251	103,001
Director of Programme Delivery (to 30/06/2016)	2016/17	41,853			20,885	4,084	66,822
Director of Delivery (from 14/11/2016)	2016/17	38,368				5,179	43,547
Director of Resources - S73 Officer	2015/16	104,055				14,047	118,102
	2016/17	104,686				14,133	118,819
Director of Policy, Strategy and Communications	2015/16	91,702			167	12,380	104,249
	2016/17	99,403			59	13,419	112,881
Director of Economic Services (from 09/16/2016)	2016/17	67,150				9,065	76,215
Assistant Director, Legal	2015/16	62,214				8,398	70,612
Assistant Director, Legal (to 17/04/2016)	2016/17	3,009				406	3,415
Head of Democratic Services (from 04/07/2016)	2016/17	49,958			131	6,744	56,833

Exit Packages

Exit Package cost band (inc. special payments)	Number of compulsory redundancies		Number of other departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16 £	2016/17 £
£0-£20,000	0	0	10	2	10	2	65,459	22,817
£20,001-£40,000	0	0	5	2	5	2	128,232	45,666
£80,001-£100,000	0	0	0	0	0	0	-	-
Total	0	0	15	4	15	4	193,691	68,483

11 Property, Plant & Equipment

- (a) Previously a revaluation of the Authority's On-Street Furniture was carried out by the Infrastructure Manager as an internal expert. The revaluation was carried out as at 31 March 2008.

All On-Street Furniture was included in the revaluation. The basis of the valuation was depreciated replacement cost as these assets are deemed to be specialised.

The On-street furniture assets under IFRS code are re-classified as infrastructure assets and valued at historical cost deemed to be the value at 1 April 2007 adjusted for subsequent depreciation or impairment. As the valuation method used at 31 March 2008 was on a depreciated replacement cost basis this acts as a suitable proxy for historical cost.

A revaluation of the Authority's non-infrastructure land and buildings was carried out by an MRICS qualified valuer of Lambert Smith Hampton, a firm of external Chartered Surveyors. The revaluation was carried out as at 31 March 2015 on an Existing Use Value (EUV) basis in accordance with IAS 16. This resulted in an overall valuation of £9,198,000 which gave a gain on revaluation of £1,246,000. A revaluation gain of £190,000 was recognised on Apperley Bridge land held as a Donated Asset.

The Authority have considered the impairment of fixed assets in accordance with IAS 36 and after taking into account factors since external surveyors reviewed the property portfolio can identify no circumstances or events that would affect the carrying values of the assets. A revaluation update by the external surveyors as at 31 March 2017 confirmed this position and provided a revaluation gain on two pieces of land at Low Moor station and the Bungalow at Hencorner lane of £596k.

- b) Assets Held for Sale

The Authority has identified Crow Nest Lane office and warehouse facility as an asset to be classified as held for sale as the property is being actively marketed for sale in its current state and a sale is highly probable. The asset was held in non-infrastructure land and buildings and revalued at 31 March 2017, and this value has been used to measure the asset's value for classification as an asset held for sale.

	2016/17 £000's	2015/16 £000's
Balance Outstanding at start of the year	650	650
Assets newly classified held for sale :-	-	-
Property plant and Equipment	-	-
Asset Held for Sale Revaluation Gain/(Loss)	(50)	-
Balance Outstanding at end of the year	<u>600</u>	<u>650</u>

- c) Donated Assets Account

The CIPFA code introduces the concept of Donated Assets where assets have been acquired for less than their fair value. The code stipulates that the difference between the fair value of the asset and the consideration paid shall be recognised immediately in the Comprehensive Income and Expenditure Statement as income, or in the event that the transfer has conditions, recognised in the Donated Assets Account until such time as the conditions have been met. The Authority's leased bus stations and land at Apperley Bridge (finance leases on-balance sheet) meet the criteria of Donated Assets with conditions attached, as failure to fulfil the conditions on an on-going basis would result in the assets being returned to the relevant councils. These assets were received at little or no cost but are recognised on the balance sheet at fair value to reflect the true benefit of these assets with a corresponding reserve created in the form of a Donated Assets Account. The Donated Assets Account also recognises revaluation gains arising before conversion to historical cost basis as at 1 April 2007. After initial recognition Donated Assets are categorised as either Infrastructure Assets and are valued at historical cost or for Non-Infrastructure Assets are valued at current value.

Donated Assets Account	2016/17 £000's	2015/16 £000's
Transfer of balances 1 April 2014		
Movement in year	-	-
Balance C/fwd 31 March 2017	<u>668</u>	<u>668</u>

11. PROPERTY, PLANT AND EQUIPMENT

d) The movements

in the year
1 April 2015 to
31 March 2016 are :

	LAND AND BUILDINGS	INFRA- STRUCTURE ASSETS	DONATED ASSETS	VEHICLES OWNED	VEHICLES LEASED	PLANT & EQUIPMENT OWNED	PLANT & EQUIPMENT LEASED	PAYMENTS ON ACCOUNT AND ASSETS IN THE COURSE OF CONSTRUCTION	TOTAL
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
COST VALUATION									
Opening Balance	-	-	-	-	-	-	-	-	-
Transferred in at 1 April 2015	146,226	8,548	77,309	763	23,067	8	22,215	54	14,262
Additions	1,819	-	292	-	137	-	6	-	1,384
Transfer from payments on assets in course of construction	0	-	178	-	-	-	166	-	(344)
Disposals	(727)	-	(130)	-	(597)	-	-	-	-
Revaluation Adjustments	235	235	-	0	-	-	-	-	-
Reclassification Adjustments	0	-	0	0	-	-	-	-	-
Write off to Revenue	(290)	-	-	-	-	-	-	-	(290)
Transfer Assets held for sale	-	-	-	-	-	-	-	-	-
At 31 March 2016	147,263	8,783	77,649	763	22,607	8	22,387	54	15,012

11/2 ACCUMULATED DEPRECIATION

Opening Balance	59,840	0	24,124	366	14,337	8	20,951	54	0
Charge for the year	5,414	272	2,588	32	1,765	0	757	0	-
Disposals	(727)	0	(130)	0	(597)	-	0	-	-
Reclassification adjustments	0	-	-	-	-	-	-	-	-
Revaluation Adjustments	(233)	(233)	-	-	-	-	-	-	-
Transfer Assets held for Sale	0	0	-	-	-	-	-	-	-
At 31 March 2016	64,294	39	26,582	398	15,505	8	21,708	54	0

NET BOOK VALUES

31 March 2016	82,969	8,744	51,067	365	7,102	-	679	-	15,012
Opening Balance	-	-	-	-	-	-	-	-	-
31 March 2015	86,386	8,548	53,185	397	8,730	0	1,264	0	14,262

11. PROPERTY, PLANT AND EQUIPMENT

e) The movements

in the year
1 April 2016 to
31 March 2017 are :

	TOTAL	LAND AND BUILDINGS	INFRA-STRUCTURE ASSETS	DONATED ASSETS	VEHICLES OWNED	VEHICLES LEASED	PLANT & EQUIPMENT OWNED	PLANT & EQUIPMENT LEASED	PAYMENTS ON ACCOUNT AND ASSETS IN THE COURSE OF CONSTRUCTION
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
COST VALUATION									
Opening Balance	147,263	8,783	77,649	763	22,607	8	22,387	54	15,012
Additions	4,095	44	2,017	-	30	-	152	-	1,852
Transfer from payments on assets in course of construction	-	-	-	-	-	-	305	-	(305)
Disposals	-	-	-	-	-	-	-	-	-
Revaluation Adjustments	596	596	-	-	-	-	-	-	-
Reclassification Adjustments	-	-	-	-	-	-	-	-	-
Write off to Revenue	(858)	-	-	-	-	-	-	-	(858)
Transfer Assets held for sale	-	-	-	-	-	-	-	-	-
At 31 March 2017	151,096	9,423	79,666	763	22,637	8	22,844	54	15,701
ACCUMULATED DEPRECIATION									
Opening Balance	64,294	39	26,582	398	15,505	8	21,708	54	-
Charge for the year	4,917	288	2,455	10	1,685	-	479	-	-
Disposals	-	-	-	-	-	-	-	-	-
Reclassification adjustments	-	-	-	-	-	-	-	-	-
Revaluation Adjustments	-	-	-	-	-	-	-	-	-
Transfer Assets held for Sale	-	-	-	-	-	-	-	-	-
At 31 March 2017	69,211	327	29,037	408	17,190	8	22,187	54	-
NET BOOK VALUES									
31 March 2017	81,885	9,096	50,629	355	5,447	-	657	-	15,701
Opening Balance 31 March 2016	82,969	8,744	51,067	365	7,102	-	679	-	15,012

12 Related Party Transactions

The Combined Authority is required to disclose material transactions with related parties in accordance with IAS 24 "Related party transactions". Related parties are bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which it might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

MEMBERS

The Combined Authority requires Members to complete a declaration of Related Party Transactions and this information is used to prepare this note. All members have at least two roles under the Local Government Act 1985 in that they are members of one of the five constituent levying Metropolitan District Councils or City of York Council and are appointed to the Combined Authority or co-opted to one of its committees. Other than this no Member has declared any such transaction with the Authority.

The Authority has a number of financial transactions with related parties. The significant revenue transactions, not separately disclosed elsewhere or covering basic areas of expenditure such as rates and other service charges are:

The UK Government exerts significant influence through legislation and the grant funding it provides to the Authority. Government grant funding

- The Authority receives financing through its Levy and contributions to the economic activities of the City Region from the District Councils.
- The Authority provides agency services for Education transport for which they are paid fees.
- The Authority received Local Transport Block Funding of which an allocation was paid to the District Councils.

The figures for 2016/17 are set out below:

Amounts received by WYCA	Education transport		Transport Levy		LCR LEP Funding	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	£m	£m	£m	£m	£m	£m
Bradford MDC	1.7	1.9	24.0	23.9	0.1	0.2
Calderdale MDC	1.0	0.8	9.2	9.2	0.1	0.1
Kirklees MDC	0.4	0.5	18.8	18.7	0.1	0.1
Leeds City Council	1.8	1.3	34.3	34.2	0.2	0.1
Wakefield MDC	1.9	1.8	15.6	15.5	0.1	0.1
	6.8	6.2	101.9	101.5	0.5	0.5

Amounts paid by WYCA	LTP Block Funding		Transport Fund		Local Growth Fund Loans	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	£m	£m	£m	£m	£m	£m
Bradford MDC	7.1	7.7	1.1	0.2	-	-
Calderdale MDC	4.7	4.9	0.6	0.0	-	0.3
Kirklees MDC	7.9	8.7	0.5	0.1	0.1	0.2
Leeds City Council	12.2	12.3	1.1	0.2	3.1	2.6
Wakefield MDC	5.5	5.7	8.9	15.4	-	-
	37.4	39.2	12.1	16.0	3.2	3.1

Officers

Yorcard Ltd is a Joint Venture trading company operated in conjunction with SYPTE and is fully disclosed in note 24. Mr John Henkel is a Director of West Yorkshire Combined Authority and of Yorcard Ltd.

West Yorkshire Ticketing (TICCO) Ltd administers and develops a range of multi-operator, multi-modal tickets.

Mr John Henkel is a Director of the West Yorkshire Combined Authority and of TICCO Ltd. During the year ended 31 March 2017 charges totalling £54,951 (£40,000 to 31 March 2016) were invoiced by TICCO Ltd to the Authority.

ITSO Services Ltd is a trading company established to promote the development of interoperable smart card applications to public transport. Mr John Henkel is a Director of West Yorkshire Combined Authority and of ITSO Services Ltd. During the year ended 31 March 2017 fees totalling £0 (£0 to 31 March 2016) were invoiced by ITSO Services Ltd to the Authority.

Payments to Operators

The Combined Authority makes significant payments to operators funded from the transport levy. These payments to operators fall into the three main categories of concessionary fares, subsidised bus services and franchised local rail services.

Payments for concessionary fares are made in accordance with the Authority's concessionary fares scheme which is based on the reimbursement guidance issued by the Department for Transport. The Authority has entered into three year agreements with the major bus operators within the framework of this guidance which removes an element of financial risk for all parties.

Subsidised bus services are secured by the Authority, within the overall framework of the Authority's policies, where they are considered to be socially necessary and no commercial service or adequate commercial service exists. All licensed operators are eligible to submit tenders for services required.

Payments are no longer made to one franchised rail operator for the provision of local rail services.

In accordance with its overall policies the Combined Authority administers a prepaid ticket scheme. The Authority receives revenues from prepaid ticket sales which are then pooled and distributed to operators based on passenger journey and usage data collected by the Authority. This prepaid ticket income is included in the Authority's revenue account together with an equivalent amount shown as payment to operators.

All these payments to operators are summarised in the Comprehensive Income and Expenditure Statement on page 20.

13 Exceptional Item

There were no exceptional items in 2016/17 or in 2015/16.

14 Taxation

The West Yorkshire Combined Authority is deemed to be a body with the power to issue a levy by virtue of regulations under section 74 of the Local Government Finance Act 1988 and is therefore exempt from paying Corporation tax, income tax and capital gains tax.

15 Short Term Debtors

	31 March 17 £000's	31 March 16 £000's
Central government bodies	4,971	4,159
Other Local Authorities	9,302	6,006
Bodies external to general government	12,048	4,261
Bad debt provision	(11)	(20)
	<u>26,310</u>	<u>14,406</u>

Trade and other receivables are non-interest bearing financial instruments. There is no material difference between the carrying value and the fair value of trade and other receivables.

16 Cash & Cash Equivalents

	31 March 17 £000's	31 March 16 £000's
Bank Current Accounts	42,475	12,400
	<u>42,475</u>	<u>12,400</u>

Cash balances include £5.6m held on behalf of third parties. The liability to repay these amounts is included under creditors.

Cash at bank and short term deposits earn interest at floating rates based on bank deposit rates. There is no material difference between the carrying value and fair value of cash and cash equivalents.

17 Long Term Debtor - Loans

	31 March 17 £000's	31 March 16 £000's
Soft Loans		
Balance at 1 April 2016	3,911	-
Nominal Value of Loans advanced during year	4,830	4,832
Fair Value Adjustment on Initial recognition	(584)	(926)
Effective interest to write back to carrying value	71	5
Balance at 31 March 2017	<u>8,228</u>	<u>3,911</u>
Other Loans Advanced		
Balance at 1 April 2016	18,912	-
Loans transferred	1,481	23,837
Loans repaid	(2,145)	(125)
Impairment of Loan	(1,460)	(4,800)
Loans advanced during the year	2,000	-
Balance at 31 March 2017 < 1 year	<u>(3,363)</u>	<u>-</u>
Balance at 31 March 2017 > 1 year	<u>15,425</u>	<u>18,912</u>
Total Long Term Debtor - Loans	<u>23,654</u>	<u>22,823</u>

The loan of £1.46m plus £237k interest to LEP loan 102 was impaired in full at 31 March 2017 on the basis that the company entered into financial difficulties with little prospect of the loan being repaid.

18

(a) Trade and Other Payables

	31 March 17 £000's	31 March 16 £000's
Central government bodies	3,002	319
Other Local Authorities	15,737	10,498
Bodies external to general government	32,826	20,871
	51,565	31,688

(b) Accrued and Deferred Income

	31 March 17 £000's	31 March 16 £000's
Central government	13,233	5,073
Other local authorities	774	-
Bodies external to general government	200	242
	14,207	5,315

Notes

(a) Central government deferred income relates to Grants received in advance where conditions have not been met at the year end.

(b) Other Local Authorities deferred income relates to capital contributions to small infrastructure projects that have not yet been complete and conditions remain outstanding.

Trade and other payables are non-interest bearing financial instruments. There is no material difference between the carrying value and the fair value of trade and other payables.

19 Loans Outstanding

	31 March 17 £000's	31 March 16 £000's
Lender:-		
Public Works Loans Board	51,233	52,249
Other Market Loans	25,320	25,323
Short Term Loans	-	3,000
	76,553	80,572
Maturity:-		
Loans repayable within 12 months	1,553	5,072
1-2 years	-	500
2-5 years	-	-
5-10 years	-	-
in more than 10 years	75,000	75,000
	76,553	80,572

20 Capital Expenditure and Financing

	2016/17 £000's	2015/16 £000's
Capital investment		
Operational assets acquired in year	147,004	119,003
Sources of finance		
Borrowing (credit approvals)	-	-
Capital receipts	-	-
Government grants and other contributions	147,004	119,003
Revenue contributions	-	-
	147,004	119,003

21 Financial Instruments

Financial liabilities, financial assets represented by loans, creditors and trade receivables and short-term debtors are carried in the balance sheet at amortised cost. Their fair value is assessed as the amount at which the instrument could be exchanged in a current transaction between willing parties.

Trade and other receivables are non-interest bearing financial instruments. The short term nature of these instruments means there is no material difference between the carrying value and fair value.

21 Financial Instruments Continued

	31 March 2017		31 March 2016	
	£000's Carrying Amount	£000's Fair value	£000's Carrying Amount	£000's Fair value
Financial Assets				
Short term debtors	26,310	26,425	14,406	14,406
Cash and cash equivalents	42,475	42,475	12,400	12,400
Short term investment	98,274	98,331	70,314	70,423
Long term Debtors- Soft Loans Advanced	8,229	8,656	3,912	3,745
Long term Debtors- Commercial Loans Advanced	13,944	16,892	18,912	20,183
	<u>189,232</u>	<u>192,779</u>	<u>119,944</u>	<u>121,157</u>
Financial Liabilities				
Short-term creditors	65,773	65,773	37,003	37,003
Floating rate borrowing - due within 1yr	-	-	-	-
Fixed Rate borrowing - due within 1 yr	505	507	4,010	4,017
Floating rate borrowing - due after 1yr	-	-	5,086	6,287
Fixed Rate borrowing - due after 1 yr	76,048	114,414	71,476	93,073
	<u>76,553</u>	<u>114,921</u>	<u>80,572</u>	<u>103,377</u>

The Authority has considered the balance sheet carrying values ie amortised costs of financial instruments of the Authority. It is required to disclose the fair value and carrying value for those financial instruments whose carrying value is not a reasonable approximation for fair value. In the Authority's books it is only the Authority's loan portfolio and short term investment which fall into this category.

Fair Value hierarchy for financial assets and financial liabilities that are not measured at fair value

	31 March 2017			
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£000	£000	£000	£000
Financial Liabilities				
<i>financial liabilities held at amortised cost:</i>				
Loans/borrowings (PWLB and LOBO loans)	-	114,921	-	114,921
Trade payables	-	-	65,773	65,773
Total	-	114,921	65,773	180,694
Financial assets				
<i>Loans and receivables</i>				
Soft loans to third parties	-	8,656	-	8,656
Other loans and receivables	-	16,892	26,425	43,317
Short term Investments	-	98,331	-	98,331
Total	-	123,879	26,425	150,304
	31 March 2016			
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£000	£000	£000	£000
Financial Liabilities				
<i>financial liabilities held at amortised cost:</i>				
Loans/borrowings (PWLB and LOBO loans)	-	103,377	-	103,377
Trade payables	-	-	37,003	37,003
Total	-	103,377	37,003	140,380
Financial assets				
<i>Loans and receivables</i>				
Soft loans to third parties	-	3,745	-	3,745
Other loans and receivables	-	20,183	14,406	34,589
Short term Investments	-	70,423	-	70,423
Total		94,351	14,406	108,757

Loans Advanced and Borrowings

Fair value is determined by calculating the Net Present Value of future cash flows, thus estimating the value of future payments in today's terms. This is a widely accepted and commonly used valuation technique. The discount rate used should be equal to the current rate for a similar loan from a comparable lender. This will be the market rate applicable on the date of valuation for a loan with the same outstanding period to maturity.

However, it may be unlikely that the future cash flows of a loan will fall in equal time periods from the date of valuation, so adjustments are made to each discount factor in order to account for the timing inequality.

The purpose of the fair value disclosure is primarily to provide a comparison with the carrying value, which includes accrued interest as at the balance sheet date, therefore we have included accrued interest in the fair value calculation.

The discount rates used for the evaluation were obtained by WYCA from Capita. Capita is a leading and independent provider of capital financing, treasury advisory and strategic advisory consulting services to the public sector.

Assumptions used, which do not have a material affect on the fair value evaluation are: interest is calculated using a 365 day basis; interest is paid on the maturity date; no adjustment is made to the interest value and date where a relevant date occurs on a non working day.

The fair value of financial liabilities and financial assets included in level 2 in the table above have been arrived at using discounted cashflow analysis as described above, the key input being the discount rate (the discount rate used by Capita for the GPF loans advanced has been modified using a risk adjusted EC reference rate as opposed to the PWLB new loan rate).

Financial instruments not measured at fair value

Financial assets

Type	Valuation Technique
Loans Advanced (Long term Debtor)	Discounted cashflows : The valuation model considers the present value of the cashflows expected over the remaining life of each loan discounted using a risk adjusted representative rate for new loans indicative of economic conditions and security at the measurement date 31 March 2017.
Soft Loans	Discounted cashflows : The valuation model considers the present value of the cashflows expected over the remaining life of each loan discounted using the PWLB new loan rates at the measurement date 31 March 2017.
Trade and other receivables	The fair value of trade and other receivables is taken to be the invoiced or billed amount.
Short term	The valuation of the fixed term deposits which have no secondary market would be based on an investment with a similar lender for the remaining period of deposit at rates available at the measurement date. The accrued interest added on this basis would provide a fair value for the short

Financial liabilities

Type	Valuation Technique
Loans/Borrowings	Discounted cashflows : The valuation model considers the present value of the cashflows expected over the remaining life of each loan discounted using lending rates for new loans based on PWLB rates at the measurement date 31 March 2017.
Trade Payables	The fair value of trade payables is deemed to be the invoiced or billed amount.

21 Financial Instruments Continued

	Effective		31 March 17	31 March 16
Current	interest rate	Maturity	£000's	£000's
Durham County Council	0.50%	Apr 2016	-	2,000
Rhondda Cynon Taff Borough Council	0.55%	Apr 2016	-	1,000
PWLB - EIP	2.81%	Jun 2016	-	500
PWLB - EIP	2.81%	Dec 2016	-	500
			0	4,000
Non- Current				
Public Works Loan Board	3.70%	Jan 2056	5,000	5,000
Public Works Loan Board	4.40%	Jan 2052	5,000	5,000
Public Works Loan Board	4.40%	Jul 2054	8,000	8,000
Public Works Loan Board	4.40%	Jun 2053	8,000	8,000
Public Works Loan Board	4.55%	Jun 2052	4,000	4,000
Public Works Loan Board	4.55%	Apr 2055	6,000	6,000
Public Works Loan Board	4.55%	Apr 2056	6,000	6,000
Public Works Loan Board	4.55%	Apr 2057	8,000	8,000
PWLB - EIP	2.81%	Jun 2017	500	500
Barclays - LOBO's	3.97%	May 2065	5,000	5,000
Barclays - LOBO's	3.80%	Aug 2065	5,000	5,000
Barclays - LOBO's	3.99%	Oct 2066	5,000	5,000
Barclays - LOBO's	4.30%	Dec 2076	5,000	5,000
Barclays - LOBO's	4.32%	May 2077	5,000	5,000
			75,500	75,500
Total			75,500	79,500

Management of risks arising from financial instruments

There are a number of risks associated with financial instruments to which the Authority is necessarily exposed. However the Authority monitors and seeks to manage these risks in order to minimise the potential for losses to occur.

Credit risk is the risk that amounts due to the Authority may not be received. Almost all of the Authority's loans and investments are made for treasury management purposes, to generate income from available balances. The parameters within which these investments are made are set out within the approved Treasury Management Policy. The effect of this policy is to restrict as far as is practicable the Authority's exposure to risk from the failure of a financial institution. It ensures that deposits are placed only with limited numbers of financial institutions whose credit rating is independently assessed as being sufficiently secure. The term and maximum deposit is also restricted to reduce risk exposure. The Authority has exposure to credit risk on the Debtor Loans advanced to third parties. The Growing Places Fund Loans are riskier commercial loans with the interest rate reflective of the borrowers credit status and security provided. The financial status and credit score of the companies are regularly reviewed and monitored in order to minimise the instances of loss. The Local Growth Fund loans are to District Authorities who are deemed to be low risk on the basis they are backed by government and required by law to make provision for loan repayments.

Liquidity risk is the risk that the Authority may not have sufficient cash available to meet its day to day obligations to meet payments. The Authority has access to borrowings from the Public Works Loans Board and commercial lenders to meet long term spending and shorter term cashflow requirements and these arrangements provide the appropriate level of finance to support the Authority's current and future requirements. Also measures are in place to actively manage the loan portfolio to ensure refinancing, if required, can be done in a way to minimise the risk of

Interest rate risk is the risk that future cashflows of a financial instrument will fluctuate because of changes in market interest rates. The majority of the Authority's long term lending is at fixed interest rates but it also borrows some of its money in the form of lender option borrower option loans (LOBOs). This mix of lending assists the Authority in taking advantage of changes to interest rates and it constantly reviews the potential for refinancing debt at more favourable rates.

The Authority is also affected by fluctuations in shorter term interest rates as this impacts on the interest that can be earned in the year on deposits. This is carefully monitored and opportunities to secure advantageous interest rates are considered.

The Authority is required to disclose the impact that a hypothetical change in market interest rates during the year would have had on its recognised gains and losses. It should be noted that had interest rates been different then in practice different decisions would have been taken in relation to rescheduling of debt and new borrowing and investment undertaken. It is not possible to quantify the likely impact of such different decisions. The Authority's interest payable and receivable would have varied by a net £1,556k if interest rates varied by 1% in the year.

The Authority is not exposed to any material currency risk.

22 Reserves

	31 March 17 £000's	31 March 16 £000's
Usable Reserves	105,689	65,221
Unusable Reserves	(47,390)	(40,570)
Total Reserves	<u>58,300</u>	<u>24,651</u>

Usable Reserves

The General Fund Balance is a non-earmarked usable reserve and can be applied to fund any form of general revenue expenditure that aligns with the policies and objectives of the WYCA. The General Fund Balance has a surplus of £7.1m at 31 March 2017 (£9.83m 31 March 2016).

The Total Reserves balance for the Authority includes a Rail Reserve under Usable Reserves which recognises the disposal of Rail Rolling stock and Yorkshire 6 funding surpluses with the reserve totalling £2.075m at 31 March 2017. The Rail Reserve is ear-marked for rail infrastructure investment and is to be held pending future investment into identified rail projects.

The Total Reserves balance for the Authority includes an NGT Reserve of £0.97m under Usable Reserves at 31 March 2017 (£0.99m 31 March 2016). earmarked for the purpose of delivering the Leeds NGT scheme. In May 2016 the Secretary of State announced that the NGT scheme would not be approved to progress although the £173.5m allocated to it would be made available for public transport in Leeds. Plans to spend this money will be progressed during 2017 along with the future utilisation of the NGT reserve.

In addition the Reserves include the West Yorkshire Transport Fund Reserve to reflect additional levy contributions from the Districts to develop strategic transport schemes in West Yorkshire. The reserve has a balance of £21.93m at 31 March 2017 (£16.23m 31 March 16).

The Capital Grants Unapplied Account recognises capital grants received where conditions have been met but the application of the capital grants to expenditure on the acquisition, construction and enhancement of non-current assets has yet to be incurred.

	2016/17 £000's	2015/16 £000's
Opening Balance	36,096	25,297
Capital receipts unapplied	37,512	10,799
Balance carried Forward	<u>73,608</u>	<u>36,096</u>

Unusable Reserves**Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of capital investment, the depreciation charge and impairment losses, and credited with capital grants and contributions receivable and amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

	2016/17 £000's	2015/16 £000's
Capital Adjustment Account		
Opening Balance	8,631	(15,283)
	<u>8,631</u>	<u>(15,283)</u>
Revenue Funded from Capital Under statute	(139,336)	(112,243)
Depreciation	(4,917)	(5,414)
Revaluation loss on Asset Held For Sale	(50)	-
Statutory provision for the financing of Capital Investment (MRP)	3,389	3,531
Capital receipts applied	147,004	142,840
Impairment of GPF Loans	(1,698)	(4,800)
Balance at the end of the Year	<u>13,022</u>	<u>8,631</u>

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Authority uses the Account to manage premiums paid and discounts received on the early redemption of loans. Premiums/discounts are debited/credited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. The Financial Instruments Adjustment Account also recognises the impact of writing down soft loans using the effective interest rate method based on PWLB rates to discount soft loans.

22 Reserves Continued

	2016/17 £000's	2015/16 £000's
Balance at 1 April	(1,034)	(38)
Premiums incurred in the year	(81)	(82)
Discounts received in year	6	6
Effective Interest rate adjustment- Soft Loans	(514)	(920)
Balance at 31 March	<u>(1,623)</u>	<u>(1,034)</u>

Pensions Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for employment benefits as per IAS19 and for funding such benefits in accordance with statutory requirements. The debit balance on the pension reserve recognises the shortfall in resources set aside to meet the benefits earned by past and current employees. The statutory arrangements will ensure that sufficient funding will be set aside to meet these benefits by the time they are due to be paid.

	2016/17 £000's	2015/16 £000's
Balance at 1 April	(61,162)	(68,850)
Actuarial gains and (losses) on pension assets and liabilities	(10,401)	8,874
Reversal of items relating to retirement benefits debited or credited to the Surplus or (Deficit) on the Provision of Services in the Comprehensive Income and Expenditure Statement	(4,718)	(4,933)
Net increase in liability on disposal/acquisition	0	(95)
Employers pension contributions	3,897	3,842
Balance at 31 March	<u>(72,384)</u>	<u>(61,162)</u>

Revaluation Reserve

The revaluation reserve contains gains made on the increases in the value of Property Plant and Equipment. The balance on the reserve is only available for use when assets with accumulated gains are, revalued downwards or impaired, disposed of and when gains are used in the provision of services and gains are consumed through depreciation.

	2016/17 £000's	2015/16 £000's
Balance at 1 April	12,329	11,861
Surplus on revaluation	596	468
Balance at 31 March	<u>12,927</u>	<u>12,329</u>

Donated Assets Account

Donated assets are those that were received at little or no cost to the Authority but are recognised on the balance sheet at fair value to reflect the true benefit of these assets. The Donated Asset account is a corresponding reserve that recognises the true value of the asset. See note 12c.

23 Provisions

Provisions are established to meet liabilities or losses which are likely or certain to be incurred, but the amounts or timings are uncertain. Provisions during the year are analysed as follows:-

	2016/17 £000's	2015/16 £000's
At 1 April	174	154
Arising during year	15	20
Utilised in year	-	-
At 31 March	<u>189</u>	<u>174</u>

The Combined Authority as at 31 March 2016 has provided for liabilities relating to the now insolvent company Mutual Municipal Insurance (MMI) Ltd representing the potential clawback of claims made by the former West Yorkshire Passenger Transport Executive in previous years. There were no further provisions for organisational restructure at 31 March 2017 as specified in IAS37. There were no environmental provisions at 31 March 2017.

24 Joint Venture

At 31 March 2017 the Combined Authority had the following Joint Venture :

Yorcard Ltd

The joint venture is a trading company which was incorporated in England on the 2 March 2007. It is limited by guarantee with two subscribers, West Yorkshire Combined Authority and South Yorkshire PTE with control shared equally under a contractual arrangement.

Yorcard Ltd performs transaction processing services for smartcard ticketing in West and South Yorkshire.

After considering the materiality of the Joint Venture management have agreed not to consolidate Yorcard Ltd into the Authority's accounts . The performance and financial position of the Authority's share of Yorcard Ltd is disclosed below in accordance with IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities :-

	2016/17 £000's	2015/16 £000's
Turnover and other income	1,474	1,576
Expenses	(1,474)	(1,576)
Profit before Tax	0	0
Taxation	-	-
Profit after Tax	-	-
Fixed Assets	-	8
Current Assets	649	499
Liabilities due within 1yr	(639)	(489)
Liabilities due after 1yr or more	0	(8)
Net Assets	10	10

25 Auditors Remuneration

	2016/17 £000's	2015/16 £000's
Audit Services	33	33
Other Services	2	4
	35	37

26 Financial Commitments

	31 March 17 £000's	31 March 16 £000's
(a) <u>Capital Commitments</u>		
Contracted For but not Provided in the Accounts	192,814	121,973
Authorised but not Contracted For	20,641	16,441
	213,455	138,414

Capital Commitments Contracted For but not Provided in the Accounts reflect approvals for the Growth Deal projects. Capital Commitments Authorised but not contracted for reflects the approval of large scale capital schemes last year such as the Leeds District Heat Network project £7m, Housing & Regeneration projects £9.7m and West Yorkshire Transport Fund schemes of £2.2m which have not yet been approved for the forthcoming year.

(b) Revenue Commitments - Operating Leases

The Authority has a number of bus contracts that incorporate a lease under IFRIC4 . The Authority has a number of contracts with operators that convey the right to use specific assets in return for a series of payments to deliver services under the Authority's tendered service obligations. The minimum lease payments are substantially for service provision with a small proportion for the rental of the assets. The fact that the life of the contracts are substantially shorter than the asset's economic useful life means these contracts are deemed to be operating leases.

Bus Operator Payments - IFRIC 4

	2016/17 £000's	2015/16 £000's
Minimum lease payments under operating leases recognised in the year :	1,826	2,338
Within 1 year	1,359	1,340
Within 2-5 years	2,166	3,244
Beyond 5 years	-	-
	3,525	4,584

26 Financial Commitments continued

The Combined Authority has a number of contracts for the operation of Mybus school services that are operated as service concession arrangements under IFRIC12. The Authority awards the contract to operators to provide a service for the public regulating the level of service, price and infrastructure provided. The school buses that form the infrastructure to deliver the service are initially recognised on the balance sheet at fair value. The service element of the arrangement is expensed through the Comprehensive Income and Expenditure Statement and the minimum lease payments are scheduled below:

<u>Bus Operator Payments - IFRIC 12</u>	<u>2016/17</u> <u>£000's</u>	<u>2015/16</u> <u>£000's</u>
Minimum lease payments under IFRIC 12 recognised in the year :	<u>5,487</u>	<u>5,273</u>
Within 1 year	5,575	5,261
Within 2-5 years	23,133	12,429
Beyond 5 years	-	-
	<u>28,708</u>	<u>17,690</u>

27 Contingent Liabilities

The Combined Authority had a contingent liability at 1 April 2016 arising from possible claims relating to NGT acquisitions. The liability continues at 31 March 2017 but it is not practical to disclose an estimate of the financial effect, amount and timing due to the uncertainty.

28 Going Concern

The accounts of the Combined Authority have been prepared on a going concern basis. The West Yorkshire Combined Authority Order 2014 created the Combined Authority at 1st April 2014 and provided that all the assets, liabilities and functions of the Integrated Transport Authority and Passenger Transport Executive were transferred across. This was deemed to be a transfer of services under combinations of public sector bodies and therefore the presumption of going concern continues in accordance with the code. The pension liability does not undermine the presumption of going concern as the Combined Authority is making additional pension contributions to address the deficit.

29 Events After the Balance Sheet Date

Asset held for sale was disposed on 28th April 2017 at its book value as at 31st March 2017. There have been no other adjustments to the financial statements for events after the balance sheet date.

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TREASURY MANAGEMENT STATEMENT 2017/18
AND REVIEW 2016/17

1. The following sets out the results of the West Yorkshire Combined Authority's borrowing and lending transactions in 2015/16 in accordance with the CIPFA Code of Practice "Treasury Management in Local Authorities" adopted by the Authority.

2. **BORROWING AND INVESTMENT**

Total Loans outstanding at 1/4/2016		
Interest:	Fixed (incl LOBOs)	76.5
Activity during 2016/17:		
	Loan repayments	-1.0
	Net movement in temporary loans	0.0
	New borrowing	0.0
Loans outstanding at 31/3/2017		75.5
Activity expected during 2017/18		
	New borrowing	0.0
	Debt repayments	-0.5
Anticipated loans outstanding at 31/3/2018:		75.0
Total Investments		
	Investments at 1/4/2016	70.0
	New Investment	28.0
Investments placed at 31/3/2017		98.0

- 2.1 The schedule of the loans outstanding at 31 March 2017 is set out in the notes to the accounts and is shown in the annex at the end of this appendix.
- 2.2 The CA's cash balances have been increasing in recent years due primarily to large grant payments for capital schemes being received in advance. These are therefore of a cashflow benefit but cannot be used to repay borrowing as they are not long term positions. Placing sums on deposit across a number of institutions both reduces exposure risk by ensuring there is not an over reliance on one bank and allows a higher return than leaving the money on overnight deposit. The CA's regulations on placing money on deposit were reviewed during the previous year and some changes approved regarding the duration of deposits. The quality of the counterparties with whom such deposits can be made has not been changed and remains restricted to those of a high calibre. This follows similar arrangements to those in place at Leeds City Council whose Treasury team assist in managing the CA funds.

- 2.3 At the year end the CA had placed a number of sums totalling £98m on fixed deposit with different counterparties. The approach agreed during the year was to place tranches of funding out ensuring that each quarter there was sufficient flexibility to enable a consideration of future cashflow requirements in order to determine an optimal investment policy. Full details of the fixed deposits in place at 31 March 2017 are set out at the end of this appendix. In line with the strategy approved during the year there has been a shift to placing funds with appropriate local authorities rather than international banking institutions, in response to the unrest within the financial world.
- 2.4 The CA has continued with its accountable body responsibilities for the Leeds City Region Enterprise Partnership, previously undertaken by Leeds City Council. This has increased the funding being paid to the CA for example in relation to Growth Deal funding and has prompted the changes that have been agreed during the year to enable these larger sums to be better managed.

3. COMMENT

- 3.1 2016/17 has seen a continuation of the overall situation from previous years, with interest rates remaining low. Bank base rate has continued at its record low of 0.5% and this has restricted opportunities to refinance loans and to place money on the market at competitive rates. The subsequent 0.25% cut to base rate in August further reinforces this position.
- 3.2 Regular advice was received about the financial market which was closely monitored on behalf of the CA by Leeds City Council (LCC) and its advisors. Further development and application of the stringent treasury management policy assisted in ensuring that the CA's funds were held securely. The agreed policy is to seek to minimise the rate at which the CA borrows and refinance existing debt when it is advantageous to do so. There have been no such opportunities to do so in the last year and the biggest challenge has been to seek to make best use of increasing cash reserves. As set out above a strategy has been followed to manage these balances within the current investment criteria which are aimed at protecting balances.
- 3.3 The money market is being constantly monitored to ensure that the CA's bank account is maintained with a minimum cash balance (nearly always below £1,000) with temporary borrowing and investments being used as appropriate. Two business reserve type accounts are being used to ensure interest from overnight funds is maximised but in the current climate the available rate is negligible and the focus has been on seeking to better forecast cashflow to be able to invest funds for longer periods.
- 3.4 The mechanism to utilise surplus CA funds by lending them to Leeds City Council was formalised during 2015/16 and has continued during 2016/17. The Chief Financial Officers of each organisation have agreed on the calculation of a rate that is deemed beneficial to both whilst not favouring one over the other. This is modelled on similar arrangements that are in place in other organisations.

- 3.5 As can be seen from the appendix the loan portfolio has only reduced during the year by £1m due to the instalment repayment of the EIP loan. This follows a reduction in the previous year also, due to all CA funding having been received as direct grant in recent years. Previously capital expenditure had been financed through borrowing. The CA therefore has no need to make further long term borrowing and is instead in a position where borrowings will need to reduce to meet the requirements of the prudential code.
- 3.6 This situation is now likely to change as the CA considers the implication of the funding received through the local growth deal for the West Yorkshire plus Transport Fund. It is highly likely that as an integral part of such a Fund borrowing will be required to assist in maximising the funding available and also to assist with cashflow of the infrastructure investment. The implications of this on the Treasury Management Policy will be considered and progress will be reported back to this Committee.
- 3.7 It has previously been reported to this Committee that the instability in the banking sector had led to increased difficulties in managing the CA's exposure risk. Previously the CA was able to choose to invest surplus funds in a wide range of British and overseas banks with very high credit ratings and which delivered a useful interest income stream. Since the start of 2009/10 the number of institutions meeting the necessary credit ratings had fallen significantly and within the UK the takeover of high street banks by other high street banks further reduced the scope available.
- 3.8 As well as it being difficult to place funds on the market the interest rates available have been extremely poor, reflecting the very low bank base rate. The policy that continued to be followed during the year was therefore to seek to repay loans if an appropriate opportunity was identified and fund any short term funding shortfall with a short term loan. This was not possible during the year, largely due to the low interest rates attached to the current loans and also due to the prevailing PWLB rates.
- 3.9 The average borrowing rate for the CA continues to be at below 4.5%, well ahead of many local authorities. The CA has £25m of LOBOs (Lenders option/borrowers option) which have now effectively been converted by the bank to fixed rate loans.
- 3.10 As has been stated all rates continue to be constantly monitored to see if any further refinancing can be undertaken, either to take advantage of opportunities to reduce the CA's exposure risk or to reprofile the debt to assist in making repayments in the coming years.
- 3.11 The prudential limits set in February are reviewed below.

4 TREASURY MANAGEMENT

- 4.1 All placement of funds during 2016/17 was undertaken by Leeds City Council in accordance with rules approved by the CA adopting the advice from the Chartered Institute of Public Finance and Accountancy (CIPFA). This ensured all investment decisions sought to ensure the safety of those funds and to limit the WYCA's exposure to any one organisation, with the return on the investment being a secondary consideration.
- 4.2 As stated above the WYCA's investments and cash position are monitored on a daily basis to ensure any available balances are promptly invested.

5 PRUDENTIAL BORROWING CODE

- 5.1 The 2003 Local Government Act requires local authorities to have regard to the prudential code. Under this code Members approve a treasury management policy and review the prudential indicators for the year.
- 5.2 Members at the WYCA budget meeting in February 2017 took the appropriate decisions for 2017/18. Any further changes to the capital programme or changes as a result of the WY+TF will be considered to ensure there is no resultant requirement to amend the prudential indicators. Members can, having regard to changing circumstances, approve amendments during the year. This may become necessary as the implementation of the West Yorkshire Transport Fund progresses or as the financial and economic landscape changes.
- 5.3 It is therefore recommended that the following decisions, as taken in February 2017, are endorsed:
 - 5.3.1 That the treasury management policy shall be:
 - 5.3.1.1 That the CA adopts the CIPFA code of practice for Treasury Management in the Public Sector.
 - 5.3.1.2 To operate the financing on a short term basis to minimise both investments and income to avoid taking out expensive loans and re-lending them at a lower rate of interest.
 - 5.3.1.3 That there shall be no long term investments for a term of greater than one year, other than to other local authorities and then only for a period not exceeding 36 months. The limits for each of the next three years are that for investments for a period greater than 364 days, that no more than £20m will mature in each of 2017/18, 2018/19 and **2019/20**;
 - 5.3.1.4 To utilise the expertise of the treasury management team in Leeds City Council for future years.

- 5.3.1.5 To use the following rules for short term investments:-
 - 5.3.1.5.1 the investments shall be determined by the Chief Financial Officer.
 - 5.3.1.5.2 the Chief Financial Officer shall determine the amounts and periods.
 - 5.3.1.5.3 the procedural document as approved for their Treasury Management Division by Leeds City Council shall be adopted in relation to the authority's short-term investments encompassing the council's list of approved financial organisations and the maximum lending limits per organisation, as specified in that document from time to time.
 - 5.3.1.5.4 no investment will be for a period exceeding one year, other than as set out in 5.3.1.3.
- 5.4.1.6 To restrict all additional borrowing to meet capital expenditure to the level of specific approvals issued by the government.
- 5.4.2 That as there have been insufficient changes to alter the predictions the prudential limits for the current year be reiterated as set out below:-
 - 5.4.2.1 operational boundary for 2017/18 – £84.736m
 - 5.4.2.2 authorised limit for 2017/18 - £104.736m
 - 5.4.2.3 maturity loan structure as shown
 - 5.4.2.4 a variable rate loan limit of 40%
 - 5.4.2.5 a fixed loan limit of 200%

Outstanding Transactions as at 31 March 2017							
<u>UID</u>	<u>Counterparty</u>	<u>Their Reference</u>	<u>Rate</u>	<u>Start</u>	<u>Maturity</u>	<u>Principal</u>	
LCR-Growing Places Fund							
Non-Treasury Loans							
	BDW Trading Ltd	GPF04 Garnetts Mill	2.74000	06/06/13	06/06/17	(250,000.00)	
	St Pauls Development PLC	GPF13 Knottingley East	6.50000	15/02/13	29/12/17	(2,450,000.00)	
	LEP loan 102		6.50000	28/10/13	28/10/28	(1,697,914.06)	
	Oxford GB Two Limited	GPF217-Hilton	6.50000	04/11/13	04/11/18	(4,800,000.00)	
	Waystone 32 Limited	GPF201 Glasshoughton	6.50000	18/11/13	18/11/19	(2,393,682.00)	
	Harworth Esates (Waverley F	GPF07 Prince of Wales	2.49000	10/12/13	10/12/18	(809,063.64)	
	Witt and Son	GPF210 Wiit Group	3.02000	26/02/14	26/02/24	(1,096,194.32)	
	Aire Valley Land LLP	GPF09 - Aire Valley Land	3.75000	11/08/14	07/08/24	(3,000,000.00)	
	Canal Road Urban Village Lt	GPF209 - New Bolton W	2.94000	15/08/14	15/08/19	(307,830.50)	
	GMV 12	GPF204 - Kirkstall Forge	3.94000	09/10/14	09/10/24	(5,000,000.00)	
	Leeds City Council	GPF301 RIF GP - CITU L	8.50000	04/11/16	03/04/20	(1,000,000.00)	
	OE Electrics Ltd	GPF302 OE Electrics Ltd	4.05000	10/03/17	07/03/22	(1,000,000.00)	
							Non-Treasury Loans
							(23,804,684.52)
							LCR-Growing Places Fund
							(23,804,684.52)
LCR-Local Growth Fund							
Non-Treasury Loans							
	Calderdale Metropolitan Borou	LGF001 - Northgate Hou	0.00000	01/02/16	01/02/26	(300,000.00)	
	Kirklees Metropolitan Boroug	LGF002A - Kirklees Hou	2.02000	16/02/16	26/02/27	(200,000.00)	
	Barnsley Metropolitan Boroug	LGF003 - Barnsley TC D	0.00000	25/02/16	29/02/28	(1,757,000.00)	
	Leeds City Council	LGF004 - Redhall/Whinn	0.00000	08/03/16	28/02/27	(4,000,000.00)	
	Leeds City Council	LGF005 - Leeds Bath R	0.00000	14/03/16	28/02/27	(575,000.00)	
	City of Bradford	LGF006 - One City Park	0.00000	05/04/16	28/02/27	(400,000.00)	
	Kirklees Metropolitan Boroug	LGF002B - Kirklees Hou	0.00000	23/03/17	28/02/27	(109,000.00)	
	York City Council	LGF007 - York Central	0.00000	23/03/17	31/03/27	(1,221,500.00)	
	Leeds City Council	LGF008 - Leeds Brownfi	0.00000	31/03/17	28/02/27	(1,100,000.00)	
							Non-Treasury Loans
							(9,662,500.00)
							LCR-Local Growth Fund
							(9,662,500.00)

WYCA						
Deposit - Fixed						
	London Borough of Enfield		0.55000	15/04/16	13/04/17	(10,000,000.00)
	Salford Metropolitan Borough Council		0.55000	12/04/16	11/04/17	(1,000,000.00)
	Salford Metropolitan Borough Council		0.55000	03/05/16	02/05/17	(3,000,000.00)
	Clackmannanshire Council		0.55000	13/04/16	12/04/17	(3,000,000.00)
	Stockport Metropolitan Borough Council		0.90000	21/07/16	23/07/18	(5,000,000.00)
	City of Newcastle Upon Tyne		0.90000	31/08/16	31/08/18	(10,000,000.00)
	London Borough of Enfield		0.47000	15/07/16	18/04/17	(5,000,000.00)
	Corby BC		0.45000	26/08/16	10/07/17	(2,000,000.00)
	Blackburn and Darwen BC		0.39000	30/08/16	12/04/17	(5,000,000.00)
	Blackburn and Darwen BC		0.40000	13/09/16	18/07/17	(5,000,000.00)
	Guildford Borough Council		0.42000	01/08/16	24/07/17	(2,000,000.00)
	Dundee City Council		0.40000	30/09/16	31/08/17	(5,000,000.00)
	Glasgow City Council		0.40000	10/10/16	09/10/17	(7,000,000.00)
	Southampton City Council		0.40000	07/10/16	06/10/17	(5,000,000.00)
	Salford Metropolitan Borough Council		0.35000	03/01/17	03/07/17	(5,000,000.00)
	Cornwall County Council		0.35000	03/01/17	03/07/17	(5,000,000.00)
	Walsall Council		0.45000	01/02/17	01/09/17	(10,000,000.00)
	Doncaster Metropolitan District Council		0.50000	03/02/17	01/02/18	(2,000,000.00)
	London Borough of Croydon		0.52000	31/03/17	29/03/18	(8,000,000.00)
					Deposit - Fixed	(98,000,000.00)
Deposit - Notice						
##	Leeds City Council		0.43000	11/04/16	11/04/15	(15,000,000.00)
##	National Westminster Bank f WYCA		0.25000	30/09/16	03/10/15	(898.70)
##	Svenska HandelsBanken AB WYCA		0.20000	30/09/16	03/10/15	(8,384,995.20)
					Deposit - Notice	(23,385,893.90)
Lenders option/Borrowers option						
##	Barclays Bank PLC	W4 ITA U4956	3.97000	31/05/05	31/05/65	5,000,000.00
##	Barclays Bank PLC	W5 ITA U5006	3.80000	24/08/05	24/08/65	5,000,000.00
##	Barclays Bank PLC	W7 ITA U5231	3.99000	27/10/06	27/10/66	5,000,000.00
##	Barclays Bank PLC	W8 ITA U5374	4.30000	18/12/06	18/12/76	5,000,000.00
##	Barclays Bank PLC	W9 ITA U5627	4.32000	02/05/07	02/05/77	5,000,000.00
					Lenders option/Borrowers option	25,000,000.00
PWLB - EIP						
##	Public Works Loans Board	495590W ITA U6407	2.81000	18/06/09	03/06/17	500,000.00
					PWLB - EIP	500,000.00
PWLB - Maturity						
##	Public Works Loans Board	491184W ITA U5135	3.70000	23/01/06	15/01/56	5,000,000.00
##	Public Works Loans Board	491481W ITA U5223	4.40000	28/04/06	15/01/52	5,000,000.00
##	Public Works Loans Board	492865W ITA U5505	4.40000	31/01/07	15/07/54	8,000,000.00
##	Public Works Loans Board	492866W ITA U5507	4.40000	31/01/07	02/06/53	8,000,000.00
##	Public Works Loans Board	493266W ITA U5645	4.55000	03/05/07	10/06/52	4,000,000.00
##	Public Works Loans Board	493268W ITA U5646	4.55000	04/05/07	27/04/55	6,000,000.00
##	Public Works Loans Board	493269W ITA U5647	4.55000	04/05/07	25/04/56	6,000,000.00
##	Public Works Loans Board	493270W ITA U5648	4.55000	04/05/07	18/04/57	8,000,000.00
					PWLB - Maturity	50,000,000.00
					WYCA	(45,885,893.90)
##						

Audit Completion Report

West Yorkshire Combined Authority



For the year ended 31 March 2017

25 July 2017



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1. Executive summary

Purpose of this report

The Audit Completion Report sets out the findings of our audit of West Yorkshire Combined Authority (the Combined Authority) for the year ended 31 March 2017, and forms the basis for discussion at the Governance and Audit Committee meeting on 3 August 2017.

The scope of our work and overall summary

The detailed scope of our work as your appointed auditor for 2016/17 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and include the matters outlined in the following table.

Financial statements	<p>In our Audit Strategy Memorandum we reported that materiality for the financial statements as a whole was set at £4,897,000. We have updated our assessment as part of our continuous planning processes and have set materiality at £5,354,000. Our clearly trivial threshold for reporting matters to you has been set at £161,000.</p> <p>We communicated identified significant risks to you as part of our Audit Strategy Memorandum in April 2017. Section 2 of this report outlines the work we have undertaken, and the conclusions we have reached, for each significant risk.</p> <p>At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate issuing an unqualified opinion, without modification, on the financial statements. Our draft auditor's report is provided in Appendix C..</p>
Identified misstatements	<p>Our work identified a number of misstatements that have been discussed with management. A summary of the identified misstatements is provided in Appendix A.</p>
Value for Money	<p>At the time of issuing this report, and subject to the satisfactory conclusion of the remaining audit work, we anticipate having no matters to report in respect of the Combined Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report is provided in Appendix C.</p>
Whole of Government Accounts (WGA)	<p>We anticipate completing our work on your WGA submission, in line with the group instructions issued by the National Audit Office, by the deadline of 30 September 2017. We anticipate reporting that the WGA submission is consistent with the audited financial statements.</p>

The status of our work

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2017. At the time of preparing this report, the following significant matters remain outstanding:

Long term debtors	We are awaiting external confirmation of loans of £5,450,000 made by the Combined Authority which are classified as long term debtors. We have followed-up our initial request	Closure procedures and review	We will complete our standard closure procedures, including review of the amended financial statements and consideration of post balance sheet events.
Long term borrowing	We are awaiting external confirmation of long term borrowing of £25,000,000 having followed-up our initial request.	Whole Government Accounts (WGA)	Amendments to gross-up income and expenditure mean the Combined Authority's WGA submission exceeds the threshold which triggers specific procedures as required by NAO. We will complete the required procedures for the WGA return.

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We will provide an update to you in relation to these outstanding matters in a follow up letter prior to giving our opinion.

2. Significant findings

This section sets out the significant findings from our audit and provides information on a number of matters that we are required to report to you by ISA 260 'Communication with those charged with governance'.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Combined Authority's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we will mitigate these risks. No new risks have been identified since we issued our Audit Strategy Memorandum. The significant risks identified, and our conclusions against each are outlined below.

Significant risk	How we addressed the risk	Audit conclusion
<p>Management override of control</p> <p>In all entities, management at various levels within an organization are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such overrides could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> • using a computer audit analytical technique to identify journals with specific risk characteristics and testing the basis for such adjustments; • evaluating and testing the basis for material accounting estimates, which may be subject to management bias, included in the financial statements; and • reviewing unusual or significant transactions outside the normal course of business. 	<p>Our work has provided the assurance we sought and has not highlighted any material issues to bring to your attention. There is no indication of management override of controls.</p>
<p>Revenue Recognition</p> <p>In accordance with international standards on auditing (ISA 240) we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. We identified the following as key areas of focus for the significant risk:</p> <ul style="list-style-type: none"> • grant income is recognised when all conditions attached to the grant have been met so there is 	<p>We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:</p> <ul style="list-style-type: none"> • testing receipts in March and April to June 2017 to ensure they have been recognised in the right year; • reviewing the reasonableness of the judgements made by management in determining whether grant conditions have been met; and 	<p>Our audit work has provided the assurance we sought and has not identified any material issues to bring to your attention. We found no indication of revenue being recognised in the wrong year.</p>

<p>significant management judgement in determining when the conditions have been met; and</p> <ul style="list-style-type: none"> • prepaid ticket income is recognised based on sale information from a variety of sources including travel centres, railway stations and payzone. 	<ul style="list-style-type: none"> • testing the recognition of prepaid ticket income to information and returns from sales outlets to ensure income has been recognised in the right year. 	
<p>Pension estimation (IAS19) The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We discussed with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we:</p> <ul style="list-style-type: none"> • evaluated the management controls you have in place to assess the reasonableness of the figures provided by the actuary; and • considered the reasonableness of the actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. 	<p>Our audit work has provided the assurance we sought and has not identified any material issues to bring to your attention. We found no indication of material estimation error in respect of pensions.</p>

Identified key areas of management judgement

Area of management judgement	How we considered this judgement	Audit conclusion
<p>Valuation of land and buildings</p> <p>Land and buildings are carried on the Balance Sheet at current value and are material. Management engage Lambert Smith and Hampton, as an expert, to determine the value of property to be included in the financial statements.</p>	<p>We reviewed:</p> <ul style="list-style-type: none"> • the scope and terms of the engagement with the valuer; and • how management use the valuer's report to value land and buildings in the financial statements. <p>We wrote to the valuer to obtain information on the methodology and their procedures to ensure objectivity and quality.</p> <p>We considered evidence of valuation trends.</p>	<p>We have completed our planned work reviewing the Combined Authority's use of experts to inform management judgements about valuation of land and buildings and the application of the new financial reporting standard.</p> <p>We have also considered the evidence of regional valuation trends provided by our external expert.</p> <p>We have found no matters to bring to your attention.</p>

Qualitative aspects of the Combined Authority's accounting practices

We are required to communicate to you our views on the significant qualitative aspects of the Combined Authority's accounting practices, including the accounting policies used and the quality of disclosures.

Qualitative aspect	Our views
Accounting policies and disclosures	<p>We have reviewed the Combined Authority's accounting policies and disclosures and found these to be in line with the requirements of the Code of Practice on Local Authority Accounting (the Code).</p> <p>In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2017.</p>
Quality of the draft financial statements	<p>We received draft financial statements from management on 6 June 2017 which is nearly four weeks in advance of the current deadline. We identified a number of misstatements which are detailed in Appendix A although none effected the reported financial performance for the year. Subject to these the accounts were of good quality.</p>
Quality of supporting working papers	<p>Producing high-quality working papers is as crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit.</p> <p>The working papers supporting the financial statements were of a good standard. We are grateful to officers for their assistance in responding to requests for information and in dealing with our queries in a timely and efficient manner.</p>

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Significant matters discussed with management

There were no significant matters arising from the audit that required discussion with management.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management.

3. Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place that are relevant to the preparation of the financial statements. We do this to design audit procedures that allow us to express an opinion on the financial statements; this does not extend to expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

- **Priority 1 (high)**
There is potential for financial loss, damage to reputation or loss of information. Weaknesses may have implications for the achievement of strategic objectives and our recommendations should be considered immediately by management.
- **Priority 2 (medium)**
There is a need to strengthen internal controls or enhance efficiency. Our recommendations should be actioned in the near future.
- **Priority 3 (low)**
Internal controls should be strengthened where practicable and where there is a cost benefit from doing so.

Other internal control recommendations – Priority 3 (low)

Description of deficiency	We write to third parties to obtain confirmation of loans made by the Combined Authority. We received a response from another local authority that they do not recognise a loan of £300,000 made from Local Growth Fund in February 2016 and consider that it is a grant. Management have provided us with evidence of a loan agreement signed by the counterparty.
Potential effects	There is a risk that the counterparty might dispute the repayment of the loan.
Recommendation	The Combined Authority should ensure that the status of this loan is resolved with the counterparty.
Management response	Agreed. The status of the loan will be resolved with the counterparty as soon as possible.

4. Value for Money Conclusion

Our approach to Value for Money

We are required to form a conclusion as to whether the Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Combined Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

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Sub-criteria	Commentary	Arrangements in place?
Informed decision making	<p>The Combined Authority has a clear governance structure which is described on its website and includes the expected features of an effective governance framework within local government.</p> <p>During the year the Combined Authority embarked on its 'One Organisation' Programme designed to put in place the right structures, processes and people to deliver the Authority's objectives and priorities.</p> <p>The Corporate Plan sets out the Combined Authority's priorities and is closely aligned to the overarching aims of the Strategic Economic Plan. The Corporate Plan is supported by revenue and capital budgets.</p> <p>The Medium Term Financial Strategy which is reviewed and refreshed annually reflects strategic objectives and allocates resources to priority areas. In addition, regular financial reporting takes place through the Organisational Management Team and Leadership Team, with regular reporting to the Combined Authority.</p>	Yes

	<p>LEP panels are being incorporated within the Authority's decision-making structure improving transparency and accountability.</p> <p>There is a Risk Manual which sets out the risk management strategy and the way risks are identified, recorded and monitored. Management have agreed to implement Internal Audit recommendations to strengthen risk management arrangements.</p> <p>During the year the project management framework has been refined establishing a Portfolio Management Office with a well-defined three-stage project approval process. Partner bodies delivering projects funded by the Combined Authority are required to follow this framework.</p> <p>The system of internal control is subject to Internal Audit and for 2016/17, the Combined Authority's internal auditors, provided an opinion of reasonable assurance.</p> <p>A Governance and Audit Committee is in place to oversee the governance framework including the work of internal audit and approval of the Combined Authority's financial statements. Arrangements are being strengthened by recruitment of an independent member of the Governance and Audit Committee.</p>	
Sustainable resource deployment	<p>The Combined Authority has made good progress in addressing the financial challenges from public sector austerity and has a proven track record of strong budget management and delivering planned budget reductions.</p> <p>The Combined Authority delivered financial outturn for 2016/17 £1.4 million better than originally planned which was consistent with recent financial reporting. This reflects additional operational savings including £1 million on concessionary travel expenditure.</p> <p>A balanced budget has been set for 2017/18 with use of £2.3 million of reserves consistent with the three year Medium Term Financial Strategy covering the years 2017/18 to 2019/20.</p> <p>The Combined Authority has also recognised the significant financial challenge facing the districts and has agreed to reductions in the transport levy.</p> <p>The capital programme reflects priorities set out in the Corporate Plan flowing from the Strategic Economic Plan.</p>	Yes
Working with partners and other third parties	<p>The Combined Authority has refreshed the Strategic Economic Plan for Leeds City Region as a framework for engagement with others within the City Region and beyond across private, public and third sectors to deliver good growth.</p>	Yes

	<p>The Combined Authority is an active participant in sub-regional networks and leads on 'Transport for the North' work-streams on 'Local Strategic Connectivity' and 'Integrated and Smart Travel'.</p> <p>It responds to consultations, for example on the Government's green paper on industrial strategy and consultation on the Northern Powerhouse Strategy.</p> <p>Procurement arrangements are in place to secure cost effective purchasing.</p>
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Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Combined Authority being inadequate. In our Audit Strategy Memorandum, we reported that for 2016/17, we had not identified any significant risks for our VFM conclusion. We did, however, identify areas of additional work. The additional work we carried out is outlined below.

Area of additional work	Work undertaken	Conclusion
<p>Sustainable resource deployment</p> <p>Last year we assessed the Combined Authority's arrangements for medium term financial planning as robust. We are not aware of any matters to suggest a significant change in arrangements.</p> <p>The Combined Authority continues to face financial pressure in the coming years including a reduction in the transport levy by £1m for 2017/18 and by £2m for 2018/19 to 2019/20. A reduction of £1m equates to a 2% saving requirement in discretionary expenditure.</p> <p>We need to ensure our knowledge of financial planning arrangements and monitoring of the planned delivery of savings, remains up to date in order to ensure we give the correct VFM conclusion.</p>	<p>Building on our existing understanding, our work included reviewing:</p> <ul style="list-style-type: none"> • how the Combined Authority has developed its medium term financial strategy; • the delivery of 2016/17 savings against plans; • the arrangements for 2017/18 savings, including review of robustness of identified plans; and • the arrangements for identifying savings in 2018/19 to 2019/20. 	<p>We identified no matters to suggest a significant value for money audit risk.</p>

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Our overall Value for Money conclusion

Our draft auditor's report included in Appendix C states that we intend to issue an unqualified Value for Money conclusion for the 2016/17 financial year.

Appendix A – Summary of misstatements

The misstatements identified for adjustment during the course of the audit that are above the trivial level of £161,000, are set out below.

The first table outlines the identified misstatements which management has assessed as not being material, either individually or in aggregate to the financial statements, and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements 2016/17					
	Comprehensive Income and Expenditure Statement		Balance Sheet		
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)	
1	Debit: Property, plant and equipment	-	-	327	-
	Credit: Other comprehensive income and expenditure – surplus on revaluation of non-current assets	-	327	-	-
Explanation: The valuation of land and buildings was based on an external desktop valuation exercise by a qualified valuer. The misstatement arises as asset values were not consistently adjusted in the fixed asset register giving rise to non-material differences with the valuer's report.					

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Adjusted misstatements 2016/17				
	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)

	Debit: Transport services gross expenditure	14,486	-	-	-
1	Credit: Transport services gross income	-	14,486	-	-
	Explanation: Being correction of netting down of transport service expenditure by income within the ledger as identified by management				
	Debit: Cash and cash equivalents	-	-	15,000	-
2	Credit: Short term investments	-	-	-	15,000
	Explanation: Correction of misclassification of on-call deposit from short term investment to cash & cash equivalents				
	Debit: Long term borrowing	-	-	500	-
3	Credit: Short term borrowing	-	-	-	500
	Explanation: Correction of misclassification of borrowing between long and short term				

Disclosure amendments

Cash flow Statement

The analysis of cash flows has been amended to correct non-material misclassification.

Note 3, Capital expenditure and financing

The analysis was amended to ensure consistency with other parts of the financial statements.

Note 10, Members allowances and expenses

The figure was amended to include £4,449 of employer's national insurance contributions.

Note 10, Senior employees' remuneration

The presentation of the information in the note was amended to improve readability.

Note 18, Trade and other payables

The analysis of liabilities was corrected to re-classify amounts owed to colleges and universities (£11,125,000) as 'bodies external to general government' rather than 'other local authorities'. The adjustment has no impact on Balance Sheet figures.

Note 19, Loans outstanding

The analysis of the maturity of loans was amended to correct misclassification between long and short term loans.

Note 21, Financial instruments

The disclosure was amended to ensure consistency with related information shown elsewhere in the financial statements.

Note 26, Financial commitments

The disclosure was amended to correct omission of capital and other commitments.

Other amendments: There was a small number of non-material disclosure misstatements which have been corrected by management. These were mainly spelling, grammatical, referencing, rounding, terminology and typographical amendments.

Appendix B – Draft management representation letter

To be on West Yorkshire Combined Authority letter headed paper and addressed to the external auditor:

West Yorkshire Combined Authority - audit for year ended 31 March 2017

This representation letter is provided in connection with your audit of the statement of accounts for West Yorkshire Combined Authority ('the Combined Authority') for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the statement of accounts give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the statement of accounts and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the statement of accounts in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the statement of accounts such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and

- unrestricted access to individuals within the Combined Authority you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Resources (s73 officer) that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Combined Authority and Committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Combined Authority's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Combined Authority in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Combined Authority have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Combined Authority has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Director of Resources (s73 Officer) for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the statement of accounts may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Combined Authority involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Combined Authority's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Combined Authority's related parties and all related party relationships and transactions of which I am aware.

Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Going concern

To the best of my knowledge there is nothing to indicate that the Combined Authority will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements as included in the auditor's draft Audit Completion Report are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Yours sincerely

Director of Resources (s73 Officer)

Date.....

Appendix C – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST YORKSHIRE COMBINED AUTHORITY

Opinion on the Combined Authority financial statements

We have audited the financial statements of West Yorkshire Combined Authority for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of West Yorkshire Combined Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Members of the West Yorkshire Combined Authority, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Combined Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of West Yorkshire Combined Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Narrative Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the Annual Governance Statement does not comply with Delivering Good Governance in Local Government: Framework (2016);
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on the Combined Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**Respective responsibilities of the Combined Authority and the auditor**

The Combined Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under section 20 of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required to conclude whether the Authority has put in place arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have planned and undertaken our work in accordance with the Code of Audit Practice as issued by the Comptroller and Auditor General, and had regard to relevant guidance. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General, we are satisfied that in all significant respects, West Yorkshire Combined Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

To be signed

Mark Kirkham

For and on behalf of Mazars LLP

Mazars House

Gelderd Road

Leeds

LS27 7JN

Date

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Appendix D – Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

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Director and author: Angela Taylor, Director, Resources



Report to: Governance and Audit Committee

Date: 3 August 2017

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. The WYCA meeting of 2 February approved the 2017/18 revenue budget and associated financial limits for treasury management.
- 2.3. Regular governance meetings continue to be held with Leeds City Council (LCC) to consider and review the transactions relating to investments and 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 have been no reportable (RIDDOR) accidents in the period 1 January to 30 June 2017.

- 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 final position for 2016/17 has been considered in full in the preceding agenda item. Now that the accounts and audit are complete the focus will shift to updating forecasts for the current year and commencing an update of the medium term financial strategy. This will take into account the temporary increase in reserves arising from 2016/17, latest forecasts on concessionary reimbursement and Enterprise Zone income, the pension revaluation and the outcome of the organisational redesign that is due to be largely completed by the end of September. Expectations with regard to the transport levy and anticipated budget cuts will also be addressed as part of this work. The two largest budget heads are concessionary reimbursement and bus tendered services. At this stage there are no significant changes to the expected level of concessionary reimbursement. Achievement of the budgeted figure on tendered services requires, in line with the budget cuts, savings of £650k to be made in year. Actions to achieve this have been considered by the Transport Committee and these will be closely monitored. A full update will be brought to the next meeting.

Financial monitoring – capital budgets

- 2.8. 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, with a dashboard approach showing progress now being introduced.
- 2.9. The required certification of spend for many of the funding streams continues to be completed in accordance with requirements and internal and external audit work on these has been satisfactory.

Risk management

- 2.10. Risk management arrangements have previously been discussed by this Committee and it is proposed that these form a substantive item at the next meeting. The recent completion and approval of the corporate plan setting out clear objectives and priorities facilitates a review of the strategic risk register and the mitigations in place.
- 2.11. In the light of recent events business continuity arrangements have been reviewed and updated and further work, in conjunction with local authorities, is being undertaken to understand the role of the CA in responding to incidents within West Yorkshire.

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.

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