

**MEETING OF THE WEST YORKSHIRE COMBINED AUTHORITY
GOVERNANCE AND AUDIT COMMITTEE
TO BE HELD ON 30 APRIL 2014 (2.00 pm)
AT WELLINGTON HOUSE, WELLINGTON STREET, LEEDS**

A G E N D A

- 1. APPOINTMENT OF CHAIR**
- 2. APOLOGIES FOR ABSENCE**
- 3. DECLARATIONS OF INTEREST**

Members are reminded of their responsibility, in accordance with the Members' Code of Conduct, to declare any disclosable pecuniary interests in any matter under consideration at this meeting. Should you have a disclosable pecuniary interest in an item on the agenda you should not participate in any discussion on the matter, vote on the matter or remain in the meeting during discussion and voting on the matter subject to Part 4 (paragraphs 19 and 20) of the Code of Conduct.

If a member is unsure of the correct course of action to take, they should seek advice from the Secretary and Solicitor **prior** to the meeting.

Members should complete the appropriate form, attached herewith, and hand it to the Secretary and Solicitor before leaving the meeting. A blank form can be obtained from the Secretary and Solicitor at the meeting.

- 4. EXCLUSION OF THE PRESS AND PUBLIC**

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

- 5. MINUTES OF PREVIOUS MEETING
(pages X - XX)**

Copy of minutes of ITA Audit and Governance Committee held on 24 January 2014 herewith.

**6. FORWARD PLAN OF WORK
(pages XX - XX)**

To consider the attached report.

**7. INTERNAL AUDIT CHARTER 2014
(pages XX - XX)**

To consider the attached report.

**8. INTERNAL AUDIT PROGRESS REPORT
(pages XX - XX)**

To consider the attached report.

**9. INTERNAL AUDIT – ANNUAL AUDIT PLAN 2014/15
(pages XX - XX)**

To consider the attached report.

**10. EXTERNAL AUDIT PLANS
(pages XX - XX)**

To consider the attached report.

**11. INTERNAL CONTROLS AND FINANCIAL MONITORING
(pages XX - XX)**

To consider the attached report.

**12. DUE DILIGENCE
(pages XX – XX)**

To consider the attached report.

Originator: Nick Winney
Monitoring Officer



ITEM 1

Report to: Governance and Audit Committee

Date: 30 April 2014

Subject: Appointment of Chair

1. Purpose

1.1. To appoint the Chair of the Governance and Audit Committee.

2. Information

2.1. The Procedure Standing Orders of the Authority provide that committees of the Authority may appoint their own chair if there is a vacancy in the post or if the Authority does not make an appointment.

2.2. The Authority did not appoint a Chair of the Governance and Audit Committee at its first meeting.

3. Financial Implications

3.1. The Members' Allowances Scheme adopted by the Authority will apply to the post of Chair of the Governance and Audit Committee.

4. Legal Implications

4.1. The Procedure Standing Orders will be annotated with a clarification that committees may appoint their own chairs in the absence of an appointment by the Authority or a casual vacancy. The Secretary and Solicitor has delegated authority to clarify the Procedure Standing Orders of the Authority

5. Staffing Implications

5.1. None as a result of this report.

6. Recommendations

6.1. That a Chair of the Governance and Audit Committee be appointed.

WEST YORKSHIRE INTEGRATED TRANSPORT AUTHORITY
AT A MEETING OF THE AUDIT AND GOVERNANCE COMMITTEE
HELD IN WELLINGTON HOUSE, LEEDS, ON
FRIDAY 24 JANUARY 2014

PRESENT: Councillor D Kirton (Chair)

Councillors Dr K Dredge, E Firth and L Smaje

17. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors K Groves, C Loughran and J Lewis.

18. DECLARATION OF DISCLOSABLE PECUNIARY INTERESTS

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

19. MINUTES

RESOLVED - That the minutes of the meeting held on 15 October 2013 be approved.

20. EXTERNAL AUDIT UPDATE

The Committee considered a report of the Clerk and Chief Financial Officer giving an update on External Audit matters.

Annual Audit Letter

It was reported that the Annual Audit Letter, which sets out the outcome of work undertaken by Deloitte, was issued on 29 October 2013. The letter confirmed that the Auditors had given an unmodified conclusion in that no matters had prevented them from being satisfied that the WYITA had put in place arrangements for securing economy, efficiency and effectiveness in their use of resources. A copy of the Annual Audit Letter 2012/13 was attached at Appendix A of the submitted report.

Tendering of Audit Contracts

It was reported that since the last meeting the procurement process was progressing in accordance with stipulated timescales. Members were advised that the Audit Commission would be undertaking a consultation exercise with

the Authority and other affected organisations during the Summer with a view to all appointments being confirmed by 31 December 2014 to take effect from 1 April 2015.

Local Audit and Accountability Bill

It was reported that the Bill had completed all its stages through Parliament and that there had been no change to the proposal to bring the transport levy into the calculation of the council tax referendum trigger. Comment was made that there were also further consequences for the Authority regarding the future composition of Audit Committees and the way in which external auditors were appointed and managed. Members were advised that those actions required by this Authority in response to the requirements of the new Act would be reported back to a future meeting as and when the information became available although it was stressed that the changes would not be immediate.

Proposed Fees

It was reported that the consultation on the proposed work programme and scale of fees for local government bodies for 2014/15 had concluded. The Audit Commission had proposed no changes to the overall work programmes and that the scale of fees would continue at the same level as 2013/14. Members were also advised that the impact of the Audit Fees of the merger of the ITA/PTE to the Combined Authority would be addressed during next year's consultation.

RESOLVED - That the report be noted.

21. INTERNAL AUDIT PROGRESS REPORT

The Committee considered a report of the Internal Audit Manager on work undertaken by the Internal Audit Section and the key issues which had been identified.

It was reported that the following areas of work had been reviewed since the last meeting and these were detailed in the submitted report along with the audit opinion:

Yorcard

Reference was made to the review of Yorcard Ltd Corporate Governance and that the work already ongoing to improve processes be further progressed to improve transparency. Reviews since the last meeting included:

- Tendered Subsidised Bus Services
- Estate Management VFM
- Travel Centre Ticket Stock – Unannounced check
- Pay and Grading Project Governance
- Castleford Bus Station Redevelopment Project Governance
- Yorcard Ltd Corporate Governance

- Debtors Systems

Strategic Internal Audit Plan

It was reported that the Internal Audit Manager was now formulating the Annual Strategic Internal Audit Plan which was due to commence in April 2014. As part of that process the Committee was asked to consider any specific engagement priorities for inclusion in the Plan.

RESOLVED –

- (a) That the report be noted.
- (b) That the Committee be asked to forward any specific engagement priorities/suggestions for inclusion in the Strategic Internal Audit Plan 2014/15 before 28 February 2014.

22. INTERNAL CONTROLS AND FINANCIAL MONITORING

The Committee considered a report of the Clerk and Chief Financial Officer on any changes to the Authority's internal control arrangements since the last meeting and to consider the current financial position.

Internal Controls

It was reported that since the last meeting there had been no significant changes to the arrangements for internal control within the Authority. It was however commented that there was a requirement to change the authorised signatories on the bank mandate as a result of the retirement of the Director General/Clerk to the Authority.

Financial Monitoring - Revenue Budgets

Members noted the current position with revenue budgets and the draft budget figures for 2014/15 which were attached at Appendix A.

It was commented that the figures were based on a levy freeze which, in conjunction with those increases in reserves forecast in 2013/14 as a result of a number of savings, enabled a balanced and affordable budget to be set. However it was stressed that it was dependent on securing agreements with the operators on the reimbursement on concessionary fares.

Financial Monitoring - Capital Budgets

The Committee noted the current position regarding the capital programme for 2013/14 which set out the schemes that were being carried out across the five districts and those that were being delivered directly by Metro.

Members were advised that the LTP Committee continued to review progress to date on scheme delivery across the five districts. Comment was made that whilst some changes or reprofiling of expenditure had been agreed, the Committee were given assurances that the majority of schemes planned in the first LTP Implementation Plan covering 2011-2014 had been implemented.

Appendix B showed the position with capital expenditure across West Yorkshire at 31 December 2013 and Appendix C showed the spend to date for those schemes that Metro was directly responsible for delivery.

Risk Management

A copy of the Risk Register was attached at Appendix D of the submitted report. It was reported that there were no new risks or changes since the last meeting.

RESOLVED - That the report be noted.

23. COMBINED AUTHORITY

The Committee considered a progress report on the current position with regard to establishing a Combined Authority for West Yorkshire.

It was reported that formal TUPE consultation with all PTE/ITA staff had commenced on 20 January 2014, including a number of briefings which had already been held and would continue over the six week consultation period.

Members were advised that a briefing for all ITA members would be held with Mr Adrian Lythgo at the conclusion of the Budget meeting on 7 February 2014 to consider proposed governance for the new Combined Authority, including new Committee arrangements.

RESOLVED - That the report be noted.

Originator: Angela Taylor
Director, Resources



ITEM 6

Report to: Governance and Audit Committee

Date: 30 April 2014

Subject: Forward plan of work 2014-2015

1. Purpose

1.1. To set out the programme of work for the Governance and Audit Committee for 2014-15.

2. Information

2.1. The terms of reference for this Committee are set out in Appendix A. In order to fulfil its role in advising the Authority the following paragraphs set out the cycle of reports the Committee can expect to see.

2.2. 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 budget position and any significant changes to risk.

2.3. At the April meeting the Committee will be asked to consider the strategic internal audit workplan for the year and the external auditor's workplan for the year.

2.4. At the July meeting the Committee will receive the annual accounts along with the external auditors' report to those charged with governance. In support of this the committee will receive the internal audit annual report and the annual governance statement.

2.5. At the October meeting the Committee will receive confirmation that the year end audit work is complete (including grant returns and submission of whole of government accounts) and receive the audit opinion and annual audit letter.

2.6. At the February meeting the Committee will receive the audit fee letter and treasury management update.

2.7. Other items will be brought to the Committee as and when they occur. During the current year the Audit Commission will be consulting with the Authority over the

appointment of new auditors arising both from the creation of the West Yorkshire Combined Authority and from the Audit Commission's general re-procurement of auditors. There is also likely to be a review of some of the corporate governance arrangements in place during the first year and this Committee is charged with advising on such matters. Any issues arising in connection with the Members' Code of Conduct would also be referred to this Committee.

- 2.8. A report will be prepared after each meeting of this Committee to advise the Combined Authority on any matters that should be brought to their attention or that require approval.

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.

Governance and Audit Committee

1. To advise the Authority in relation to:
 - financial management¹;
 - internal audit arrangements and reports;
 - the statement of accounts; and
 - external audit arrangements and reports, including the external annual audit letter.
2. To promote and maintain high standards of conduct by members and co-opted members of the Authority.²
3. To advise the Authority in relation to:
 - adopting, revising or replacing its Members' Code of Conduct³;
 - appointing at least one independent person⁴;
 - arrangements for investigating and making decisions about allegations of failing to comply with the Members' Code of Conduct.
4. To consider and determine any allegation of failing to comply with the Members' Code of Conduct⁵.
5. To consider and determine any matter within the delegated authority of a Director⁶, which is referred to the Committee by that Director.
6. To advise the Authority in relation to any other matter relating to corporate governance.

¹ including the effectiveness of its system of internal control, risk management arrangements, and the annual governance statement

² This function does not extend to adopting, revising or replacing the Members' Code of Conduct

³ The Code applies to members and voting co-opted members of the Authority, and includes provision about registering and disclosing interests.

⁴ In accordance with Section 28(7) Localism Act 2011

⁵ In accordance with arrangements made by the Authority.

⁶ A Director in this context is any officer to whom functions are directly delegated by the Authority under the Authority's Officer Delegation Scheme.

Originator: Russell Gott
Internal Audit Manager



ITEM 7

Report to: Governance and Audit Committee

Date: 30 April 2014

Subject: Internal Audit Charter 2014

1. Purpose

1.1 To consider the Internal Audit Charter for the Combined Authority.

2. Information

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

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

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

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

2.4.2 Cover the arrangements for appropriate resourcing.

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

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

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

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

3. Financial Implications

3.1 None relating directly to the Internal Audit function.

4. Legal Implications

4.1. None relating directly to the Internal Audit function.

5. Staffing Implications

5.1. None relating directly to the Internal Audit function.

6. Recommendations

6.1. That the Internal Audit Charter for the Combined Authority be recommended for approval.



Internal Audit Charter 2014/15

Definition

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

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

Public Sector Internal Audit Standards, PSIAS, require the terms “board” and “senior management” to be defined. In the context for WYCA, “board” is taken to refer to the Governance and Audit Committee which will provide the Combined Authority with recommendations and advice concerning the internal audit activity. “Senior management” relates to the Head of Paid Service, Section 151 officer and Directors of the Combined Authority.

Role

There is a statutory requirement under the Accounts & Audit (England) Regulations 2011 for an internal audit function. Regulation 6 states that a “relevant body 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”. This role is complemented by initiatives aimed at promoting effective corporate governance with particular emphasis on risk management.

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

Professionalism

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

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

Authority

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

Organisation

The Head of Internal Audit must report to a level within the Authority that allows internal audit to fulfil its responsibilities. The Head of Internal Audit will report functionally to the board and administratively to the Director of Resources, (Section 151 Officer).

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

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

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

The Team's establishment is:

- Internal Audit Manager
- Internal Auditor (2 posts)

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

Independence and objectivity

The internal audit activity will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency,

timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

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

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

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

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

Responsibility

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

- Consistency of operations or programs with established objectives and goals and effective performance.
- Effectiveness and efficiency of operations and employment of resources.
- Compliance with significant policies, plans, procedures, laws, and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information.
- Safeguarding of assets.

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

Internal audit may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the board or senior management, as

appropriate. The scope of any consultancy work will be agreed with management and will only be undertaken where resources permit without impact on the annual assurance process. In line with PSIAS, approval will be sought in advance from the board for any significant consultancy work not included in the Audit Plan.

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

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

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

Internal audit plan

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

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

Reporting and monitoring

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

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

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations.

Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

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

Periodic assessment

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

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

ITEM 8

Report to: Governance and Audit Committee

Date: 30 April 2014

Subject: Internal Audit Progress Report

1. Purpose

1.1 To inform Members of the work undertaken by the Internal Audit section.

2. Information

2.1. This report provides details of activities undertaken by the Internal Audit section in the period from 1st January 2014 to 31st March 2014 and summarises the objectives of reviews undertaken, audit opinion and the key issues resulting from this work.

2.2. The Internal Audit section has now completed the ITA/PTE Audit Plan 2013/14 through the performance of the following audit reviews:

- Risk Management Framework
- Gifts, Hospitality & Interests
- Main Accounting System
- Prepaid Tickets & Concessionary Travel
- Creditors
- English National Concessions Travel Scheme
- Treasury
- Payroll

3. How Control is Reviewed

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 effectiveness of controls tested is provided within each audit report along with an indication of any residual risk. This is then used as the basis for forming an audit opinion of the entity. Details of audit opinion assurance categories are provided below;

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

4. Audit Summary

- 4.1. The majority of reviews undertaken were assessed as either well controlled or controlled. One audit, ENCTS, resulted in the issue of a “requires improvement” opinion. A summary of the internal audit reviews performed along with details of any significant issues identified and respective audit opinions are provided below.

4.1.1 Risk Management Framework

“Controlled”

The objectives of this review were to assess the arrangements set in place and operating for the management of risk and to provide an evaluation of the risk

maturity of the organisation.

The principal audit observations concerned the development of risk management arrangements to further increase their effectiveness and the introduction of measures in readiness to align risk management with the corporate objectives of the Combined Authority.

4.1.2 Gifts, Hospitality and Interests

“Controlled”

This audit considered Metro’s arrangements in respect of recording and reviewing offers of gifts, hospitality and interests for both members and officers. An evaluation of the extent to which these processes meet statutory requirements and good governance practice was also undertaken.

There were no significant issues resulting from the review of gifts, hospitality and interests.

4.1.3 Main Accounting System

“Well Controlled”

This review considered the operation of procedures and controls including the reconciliation of transactions to movements on Metro’s bank accounts, consistency with published financial accounts, interfaces with supporting systems, budgetary control and examination of the approval of journals transactions.

There were no significant issues to report as a result of the audit tests performed.

4.1.4 Prepaid Tickets & Concessionary Travel

“Controlled”

The objectives of this review were to assess the arrangements in place for the calculation of the prepaid ticket pool, concessionary fares reimbursements and the management of agents’ ticket stocks. In addition, third-party assurances were obtained in relation to Metro ticket stock and cash handling systems operated by the Post Office and Northern Rail.

There were no significant issues to report as a result of the audit tests performed.

4.1.5 Creditors

“Controlled”

The review focused on systems and procedures operating to enable Metro to record, authorise and make payments to suppliers of goods and services

It was established that there is a robust control framework in place and key controls were found to be operating effectively.

4.1.6 Treasury

“Well Controlled”

This review assessed the systems which enable the Authority to manage funds, borrowing and investments. Particular attention was given to the suitability and reliability of financial information and controls operating which substantiate these transactions.

This review included testing of aspects of the process operated by Leeds City Council under a service level agreement. In addition, assurances provided by LCC including the certification of financial information provided to the Authority and the opinion issued by the council’s internal audit section were examined. Other controls established independently by the Authority to validate these transactions were found to be operating effectively.

There were no significant issues resulting from this review.

4.1.7 Payroll

“Controlled”

This audit included a review of the arrangements in place for validating data entered into the payroll system, system security and data integrity and separation of duties including independent review of payroll output.

It was noted that, due to the size of the payroll section, segregation of duties when processing the payroll is difficult to achieve. However, audit testing did not identify any significant errors within the Payroll and the operation of compensating management controls were reviewed and found to be consistently applied.

4.1.8 English National Concessions Travel Scheme (ENCTS)

“Requires Improvement”

The objectives of this review were to assess the arrangements in place for the maintenance of ENCTS data, validation requirements, the robustness of systems for establishing eligibility and issuing passes and agreements with third parties concerning data accuracy and handling.

Audit testing identified a requirement to improve control in relation to the identification and monitoring of levels of smart ticket stocks held with third-parties prior to them being uploaded with customer details and activated.

In addition, it was recommended that system user access rights for the “innovator” customer database system be improved to provide appropriate access and alignment with each individual’s processing responsibilities.

5. Other Activity

- 5.1. In addition to the completion of scheduled audit reviews provided in section 4 of this report, other consultative engagements have been undertaken. These include the development of payzone terminal sales systems, the evaluation of proposed new e-tendering systems, consideration and monitoring of the smart card implementation programme (SCIP) assurance framework and real time information systems source data escrow arrangements.
- 5.2 Internal Audit have also reviewed and provided guidance in relation to claims to be submitted in respect of European regional development fund INTERREG projects, CARE NORTH Plus and ITRACT.

6. Financial Implications

- 6.1 None relating directly to the Internal Audit function.

7. Legal Implications

- 7.1. The Accounts and Audit Regulations 2011 establish requirements relating to systems of internal control and the review and reporting of those systems. Accordingly, the Authority must have in place a process for establishing, maintaining and reviewing the system of internal control and risk management. The regular reporting by the Internal Audit Manager forms part of that review.

8. Staffing Implications

- 8.1 None relating directly to the Internal Audit function.

9 Recommendations

- 9.1. That the Internal Audit progress report be noted.

ITEM 9

Report to: Governance and Audit Committee

Date: 30 April 2014

Subject: Internal Audit – Annual Audit Plan 2014-2015

1. Purpose

1.1 To consider the proposed schedule of internal audit reviews for 2014-2015.

2. Information

2.1. 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.

2.2. In developing the Internal Audit Plan the following elements have been considered:

- The core objectives of the Authority and specific risks associated with those objectives.
- The content of the Authority's risk registers and the controls that the organisation places reliance on to manage those risks.
- Areas of concern or requests for coverage from management and members of the Authority.
- Areas where external audit will wish to place reliance on testing and assurance provided by internal audit.
- Regulatory requirements for internal audit coverage.
- Results of cumulative internal audit knowledge and experience.
- Significant recent changes within procedures and operations.

2.3 The plan was developed from an "audit universe" of auditable entities identified for the Authority. A risk-based assessment of the audit universe has led to the identification of reviews to be included in the plan. The risk assessment methodology applied evaluates audit entities under the following criteria:

Materiality/value of assets.

Regulatory compliance requirements.

Known control weaknesses.
Changes to processes and new systems.

Each of these criteria has an associated weighted score. The total score from each auditable entity is calculated and then ranked, according to the band the score falls within, as high, medium or low priority.

- 2.4 Other elements of the plan have been identified as mandatory and include core financial system assurance, grant certification, fraud returns and evaluations of risk and governance arrangements.
- 2.5 Details of the plan are provided in the appendix to this report and are presented with percentage allocations under the following categories:

Core Business Processes	17%
Financial Systems	16%
Management	12%
Corporate Governance	12%
Counter Fraud & Corruption	5%
Projects	17%
Safeguarding Assets	2%
Grant Certification	13%
Value for Money	3%
Follow-up	3%

- 2.6 The available audit resource has been calculated after deducting time for non-chargeable activities. This is in line with professional guidance and is identified within the following categories: professional development, general consultancy/advice and administration.
- 2.7 The content and progress of work undertaken on the plan will be regularly reviewed and reported to the Governance and Audit Committee of the Combined Authority. The Internal Audit Plan must continue to be sufficiently flexible to enable assurance to be obtained over current as well as emerging risks, as well as those risks yet to be identified. The Committee will be notified if any changes to the plan are required to address changing risks or audit priorities.

3. Financial Implications

- 3.1. A requirement to buy-in I.T. audit specialism for the review of computer programmes designed to provide income collected through payzone terminals and for general systems penetration testing and compliance with ITIL standards has been identified.
- 3.2 The salary and other costs relating to the posts of Internal Audit Manager and Internal Auditors are provided for in the approved annual revenue budget.

4. Legal Implications

- 4.1. The Accounts and Audit Regulations 2011, Regulation 6, requires relevant bodies to maintain 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. The regulations recognise proper internal audit practices as those contained in Public Sector Internal Audit Standards.

5. Staffing Implications

- 5.1. The provision of internal audit services as detailed in the Audit Plan requires the employment of three audit staff on a full-time basis. The posts of Internal Audit Manager and two Internal Auditors are provided in the organisation plan.

6. Recommendations

- 6.1. That the Annual Audit Plan commencing from April 2014 provided in the appendix to this report be recommended for approval by the Authority.

Appendix

INTERNAL AUDIT PLAN - 2014/15

Audit Area	Priority	Planned Days	Directorate
Core Business Processes		70	17%
Tendered Subsidised Bus Services	High	15	Passenger Services
Prepaid Tickets & Concessionary Travel	High	20	Passenger Services
Travel Centre Procedures	High	15	Passenger Services
Yorcard Ltd	High	*20	Passenger Services
Financial Systems		68	16%
Main Accounting System & Financial Reporting	Mandatory	10	Resources
Creditors	Mandatory	8	Resources
Debtors	Mandatory	8	Resources
Payroll & Personnel Records	Mandatory	10	Resources
Treasury	Mandatory	10	Resources
Procurement	Mandatory	12	Resources
Sage Pay Processing	Mandatory	10	Resources
Management		50	12%
Data Security/ Protection	High	*20	Cross-Cutting
Monitoring of Contracts	High	20	Passenger Services
Source Code Escrow	Medium	10	Cross-Cutting
Corporate Governance		50	12%
Risk Management Arrangements	Mandatory	15	Cross-Cutting
Health & Safety	High	15	Cross-Cutting
Preparation of AGS	Mandatory	5	Cross-Cutting
Business Continuity	High	10	Cross-Cutting
Legislative Compliance	High	5	Resources
Counter Fraud & Corruption		19	5%
Counter Fraud – Investigation	High	10	Cross Cutting
Anti- Fraud, Bribery & Corruption	Mandatory	2	Cross-Cutting
Fraud Awareness	High	2	Cross-Cutting
Pro-active Anti-Fraud Exercises	High	5	Cross-Cutting
Projects		70	17%
Transport Fund Business Case Appraisal	Mandatory	20	Development
LTP Capital Programme Management	Mandatory	20	Development
SCIPS Programme – Smart Transactions	High	15	Passenger Services
Low Moor	Medium	5	Development
New Pudsey Station Car Park	Medium	5	Development
Elland Road Park & Ride	Medium	5	Development
Safeguarding Assets		10	2%
Unannounced Visits	Medium	5	Passenger Services
Petty Cash	Low	5	Cross-Cutting
Grant Certification		55	13%
LSTF	Mandatory	10	Cross-Cutting
Transport Fund (LTB)	Mandatory	10	Development
Interreg – CARE NORTH Plus	Mandatory	5	Passenger Services
Interreg – ITRACT	Mandatory	10	Passenger Services
LTP Block Settlement	Mandatory	10	Cross-Cutting
BBAF	Mandatory	5	Cross-Cutting
Cycle City Grant/Best Foot Forward	Mandatory	5	Cross-Cutting
Value for Money		10	3%
Provision of Passenger Information	-	10	Passenger Services
Follow-up		10	3%
Follow up Reviews	-	10	Cross-Cutting
TOTAL ALLOCATION		412	100%

Available Resources 2014/15

Days per annum	492*
Less	
Audit plan contingency (10%)	(40)
Professional development	(14)
Consultancy/advice	(12)
Office administration	(12)
Corporate administration and functional support	<u>(42)</u>
Available 2014/15	372
Planned days	412
Bought – in I.T. technical audit specialism	<u>(40)</u>
	372

* excludes annual and statutory holidays and includes days planned for work assigned for Head of Internal Audit.

Originator: Angela Taylor
Director, Resources



ITEM 10

Report to: Governance and Audit Committee

Date: 30 April 2014

Subject: External audit plans

1. Purpose

1.1. To consider the audit plans from the external auditors for the year ended 2013/14.

2. Information

2.1. The external auditor, Deloitte, is required to produce a plan each year for their audit work. During 2014/15 this work is primarily focussed on the audit of the annual accounts for the year ended 31 March 2014. As the Combined Authority was only created on 1 April 2014 the relevant accounts for the year ended 31 March 2014 are those of the West Yorkshire Integrated Transport Authority and the West Yorkshire Passenger Transport Executive.

2.2. The plans for the 2013/14 year end are attached as Appendix A. They set out the framework within which Deloitte will operate, the scope of their work, audit risks and some of the practicalities in relation to the audit team and the timing of their work.

2.3. The 2012/13 year end was the first one completed by Deloitte; their planning reports recognise their understanding of the organisations and their risks and note that there are no significant changes relating to the preparation of the accounts and their audit. The intention is to seek to complete the audit and sign off of the accounts by the end of July in accordance with the timescales achieved last year.

2.4. The Audit Manager, Alistair Lince, will be present at the meeting to discuss the planning reports and answer any questions arising.

3. Financial implications

3.1. The audit fee is set nationally by the Audit Commission and is included in the Authority's 2014/15 budget.

4. Legal Implications

4.1. None arising directly from this report.

5. Staffing Implications

5.1. None arising directly from this report.

6. Recommendations

6.1. That the Committee note the external audit plans for 2013/14.

Originator: Angela Taylor
Director, Resources



ITEM 11

Report to: Governance and Audit Committee

Date: 30 April 2014

Subject: Internal controls and financial monitoring

1. Purpose

- 1.1. To consider any changes to the arrangements for internal control in the 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. Whilst there have inevitably been changes to the ways of working as a result of creating the Combined Authority from the former Integrated Transport Authority and the Passenger Transport Executive it has been possible to keep the integrity of the internal control structure largely intact, particularly with regard to the key high risk areas such as financial systems. The governance of decision making has been developed through the mechanism of the Shadow Combined Authority over recent months and will evolve as the Combined Authority develops; it will be the subject of review by the WYCA and internal audit in due course.
- 2.3. Key financial controls are carried out monthly and recorded on the performance management system; these are monitored at monthly management meetings and are all up to date. In addition regular governance meetings continue to be held with Leeds City Council to consider and review the transactions relating to investments, treasury management being carried out jointly with LCC.

Financial monitoring – revenue budgets

- 2.4. The budget for 2014/15 and a revised outturn for 2013/14 were approved by the Integrated Transport Authority in February and have been re-approved by the first meeting of the WYCA. The WYCA is to undertake a review of the revenue and capital budgets at its meeting in May.
- 2.5. The final figures for 2013/14 will be available in mid May ahead of the audit of accounts in early June. The latest forecast is for some small increase in the costs of concessionary travel and bus tendered services which will result in a decrease in the closing reserves to £5.8m - this is set out in Appendix A. The 2013/14 figures are presented for the PTE and ITA and give a combined position as at the end of the year. The figures for 2014/15 have been prepared for the combined organisations and strip out a number of intercompany transactions which have previously been required to reflect the separate nature of the two companies.
- 2.6. The 2014/15 figures shows a projected break even position. It should be noted that agreements on concessionary reimbursement are in the process of being finalised with the major bus operators and this provides a degree of certainty on the statutory element of the concessions payments. There is still however a risk that those operators outside of the agreements and the arrangements for young persons' concessions result in an increase to costs.
- 2.7. A separate reserve is maintained for the money contributed for the West Yorkshire plus Transport Fund. The release of this funding has previously been a decision of the ITA and will now be the responsibility of the WYCA.

Financial monitoring – capital budgets

- 2.8. Capital spending on transport in West Yorkshire has been guided by the statutory West Yorkshire Local Transport Plan. The LTP covering 2011-2026 was produced jointly by the ITA with the District Councils and three year delivery programmes have subsequently been jointly developed.
- 2.9. At its meeting in February the ITA approved the outline capital programme which identified the funding available for the Implementation Plan 2 period from 2014-2017. The allocation of this funding between all the partners was also approved along with the outline delivery programmes for the Districts and the Authority.
- 2.10. Final figures for the 2013/14 capital programme are now being compiled. It is expected that there will be an element of underspend in the year which will be carried forward to be added to the funding available in 2014/15.
- 2.11. The capital programme is to be reviewed by the WYCA in May and will also be subject to a further review when the outcome of the LEP's Strategic Economic Plan is known as this will determine the funding available from the Single Local Growth Fund.
- 2.12. At present all transport capital expenditure is funded by grant in the form of the Integrated Transport Block or through specific funding awards such as Local Sustainable Growth Fund and Department for Transport major scheme funding. The IT Block funding is transferable from one year to the next; most of the other project specific funding is subject to certain deadlines. Of the schemes being delivered in

2013/14 adequate funding is available for them all and no funding has been lost through failing to meet deadlines.

- 2.13. Funding is in place for the schemes due for delivery by the WYCA and District Councils in 2014/15. Funding is paid quarterly to the Districts to enable this to progress and regular reporting and monitoring of the programme implementation is carried out.

Risk management

- 2.14. The risk management arrangements that were in place for the ITA and PTE have been adapted for the WYCA. The overarching risk policy statement has been revised and is attached as Appendix B for noting.
- 2.15. The risk policy and manual set out the detailed arrangements for risk management in the organisation. This is being updated to reflect the changes arising as a result of the creation of the Combined Authority but the principles of risk management, responsibilities and mechanisms remain largely the same. The updated policy and the strategic risk register will be brought to a future meeting for approval.
- 2.16. The Annual Governance Statement which accompanies the annual accounts will be brought to the next meeting of this Committee and will include a review of governance arrangements in place, including risk management.

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.

Appendix A

WEST YORKSHIRE ITA/CA BUDGET					
All £000's	Approved budget	Latest Estimate			Approved budget
			2013/14		
			£000	£000	2014/15
					£000
West Yorkshire PTE					West Yorkshire Combined Authority
Concessionary travel	52,289	52,398			53,242
Subsidised Services	19,083	19,175			19,490
Passenger Services	8,149	8,096			8,172
Prepaid Tickets	30,900	30,900			31,000
Rail- Franchise Costs	64,209	64,209			64,209
Rail - additional services	182	182			182
Pensions	1,550	1,550			1,431
Financing charges	531	531			7,356
Combined Authority	261	261			67
					Strategic Priorities - rail/QC's
Development & Corporate	5,829	5,753			250
	182,983	183,055			Development & Corporate
					6,045
Prepaid Tickets	-30,900	-30,900			191,444
Special Rail Grant					
Grant from Authority	-152,083	-152,155			Prepaid Tickets
Use(addition) of PTE reserves	0	0			-31,000
					Special Rail Grant
West Yorkshire ITA					-64,209
Special Rail Grant	-64,209	-64,209			Levy
Interest Received	-337	-337			-96,198
Other income	-1,262	-1,262			Use(addition) of reserves
Less					37
Interest Paid	3,372	3,372			
Minimum Rev Provision	3,831	3,831			Remaining reserves
Other costs	1,368	1,368			5,894
	-57,237	-57,237			
Grant to PTE	152,083	152,155			
Transport Levy	-96,198	-96,198			
Addition to/(use) of reserves	1,352	1,280			
NET EXPENDITURE					
Executive	182,983	183,055			
Authority	-57,237	-57,237			
Total	125,746	125,818			
Remaining reserves at year end	5,929	5,857			
WYTF reserves at year end	6,052	6,052			

Risk management policy statement

Approach and objectives

Risk management is a planned and systematic approach to the identification, evaluation, prioritisation and control of risks and opportunities facing an organisation.

The WYCA recognises that effective risk management is an integral part of good corporate governance and as such should be a part of everyday management processes across the organisation. WYCA is committed to ensuring robust risk management arrangements are in place and operating effectively at all times. The Director, Resources will champion risk management, providing a management lead and ensuring that appropriate arrangements are maintained but the day to day management of risk sits with Directors, Assistant Directors and risk owners.

Specific arrangements

The WYCA will establish clear roles, responsibilities and reporting lines for risk management and ensure a systematic way of:

- Identifying risk and risk owners
- Assessing risks in terms of likelihood and severity
- Assessing the need for mitigating actions
- Recording risks
- Regularly monitoring and reporting upon risk

These systems are detailed in the risk manual and will be kept under regular review.

Originator: Angela Taylor
Director, Resources



ITEM 12

Report to: Governance and Audit Committee

Date: 30 April 2014

Subject: Due diligence regarding the transfer to the Combined Authority

1. Purpose

- 1.1. To report to the Committee the outcome of the due diligence work undertaken to support the transfer of the West Yorkshire Integrated Transport Authority and Passenger Transport Executive to the Combined Authority.

2. Information

- 2.1. A task to undertake due diligence was identified as part of the transfer work to the Combined Authority. It was recognised that the circumstances of this transfer were quite unusual in that the commitment to the transfer had been made and the new 'owners' of the WYCA are effectively the same as the previous owners of the WYITA and WYPTE. Nevertheless the work that has been undertaken should provide some comfort to the WYCA that appropriate disclosures and information have been sought.
- 2.2. A robust approach was taken to the work required to create the Combined Authority, seeking to ensure that all appropriate steps were taken to make a smooth transition. A Programme Transition Board was established to oversee detailed workstreams that considered governance matters, corporation tax and VAT issues, banking arrangements and the novation of a significant number of contracts already in place including supplier arrangements and contracts for bus tenders and schools transport.
- 2.3. A review of all property has been undertaken and now that the Combined Authority is established work is able to be finalised to transfer all the PTE and ITA's land to the Combined Authority.
- 2.4. A thorough process of consultation took place for the transfer under TUPE (Transfer of Undertakings (Protection of Employment)) regulations of all the employees of the WYITA and WYPTE into the Combined Authority in order to reduce the risks of any claims arising.

- 2.5. Risk registers have been considered by the Programme Transition Board overseeing the work to create the Combined Authority and risks have then been highlighted by exception to the Shadow Combined Authority in the months leading up to April. These risks have now been largely addressed, subject to completion of a number of final tasks which are all underway. These include the property transfer (see above) and final confirmation of tax status.
- 2.6. Further detailed work has been undertaken with the intention of providing evidence of satisfactory arrangements in place and to demonstrate a low level of inherited risk for the new Combined Authority. This is set out below.
- 2.7. **Annual accounts** - Clean audit opinions have been issued for both WYITA and WYPTE for the last three years. Both organisations have also been recognised by the Audit Commission for early approval of the accounts (by end July rather than the statutory date of end September). A similar timescale and process is planned for the 2013/14 accounts - the auditor's opinion will be available by mid July and will provide further evidence/comfort regarding the financial situation and control environment as at 31 March 2014.
- 2.8. **Annual audit letter from external auditors** – no issues of any concern and only very minor recommendations for any improvements.
- 2.9. **Internal audit annual report** – summarises the work of internal audit in the year and the conclusion for 2012/13 was that 'From the work undertaken during the year and taking into account other sources of assurance, Internal Audit have reached the opinion that key systems are operating adequately and that there were no fundamental breakdowns of controls resulting in material discrepancy'.
- 2.10. **Review of insurance policies** – this has established the policies in place and sums insured, including public liability insurance, commercial and assets, employer's liability and professional indemnity.
- 2.11. **Insurance claim history** – this sets out both the claims made by WYPTE/ITA and those paid out. In terms of public liability £125k has been paid out in claims since 2009.
- 2.12. **Bad debt history** – over the last three years a total of £37k of bad debts have been written off.
- 2.13. **Outstanding fraud and litigation** – there have been no recorded instances of fraud in the last three years. A number of claims against WYPTE are still outstanding and are being managed through the insurance in place. None of these are significant.
- 2.14. A full fixed asset register, lease register and contracts register are maintained.
- 2.15. Up to 31 March 2014 the WYITA and WYPTE continued to make operational decisions to ensure projects and business as usual were able to progress; the Order creating the Combined Authority recognised that this was appropriate and that such decisions could and would continue to be made. In effect this means the Authority

inherits a number of commitments and potential liabilities and these are set out below. The most significant of these have been shared with the relevant District Councils through a variety of means and all decisions have been made by a meeting of the Authority where appropriate risk mitigations and funding issues have been explored.

- 2.16. **Leeds Station Southern Entrance** – Department for Transport major scheme funding has been secured for the construction of a new entrance to Leeds Station. A risk-share agreement has been put in place with Network Rail and construction is underway and due to be completed in spring 2015.
- 2.17. **NGT** – this scheme is co-promoted with Leeds City Council and a public enquiry is due to commence on 29 April 2014. The scheme has achieved programme entry level with the Department for Transport and upon a successful conclusion to the enquiry the Authority should be granted Transport and Works Act powers to build the scheme. Current spending on this scheme is therefore at risk but is unavoidable in order to make the scheme happen. There are further properties to be purchased via compulsory purchase orders as the scheme progresses.
- 2.18. **West Yorkshire plus Transport Fund** – the ambition to create a £1.6bn transport fund for West Yorkshire and York remains. Leaders, Chief Executives and finance officers are fully aware of the proposals which have been put to Government and which would see a reliance on economic growth to support borrowing.
- 2.19. **Low Moor Rail Station** - the construction of a new rail station at Low Moor may involve purchasing land through a CPO and underwriting an element of revenue shortfall once the trains are operational.
- 2.20. **Rail North** – the ITA has been working with many of the local authorities in the north of England to capitalise on the opportunity to manage future local rail franchises under a devolution or partnership model. Whatever model emerges from the ongoing discussions there is likely to be an element of risk sharing with the Department for Transport.
- 2.21. **Bus quality contracts** – the ITA has been seeking to improve the way in which bus services operate in the region and to achieve this have been pursuing partnership proposals and progressing towards bus quality contracts. Should the latter approach ultimately be approved then there would be a need for investment and for some underwriting of operating risk.

3. Financial

- 3.1. As set out in the report.

4. Legal Implications

- 4.1. As set out in the report.

5. Staffing Implications

5.1. None arising directly from this report.

6. Recommendations

6.1. That the Committee note the work undertaken in respect of due diligence.