

GOVERNANCE AND AUDIT COMMITTEE

**MEETING TO BE HELD AT 2.00 PM ON 28 JULY 2015
WELLINGTON HOUSE, WELLINGTON STREET, LEEDS**

A G E N D A

1. APPOINTMENT OF DEPUTY 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 THE MEETING HELD ON 22 APRIL 2015
(pages 5-9)**

Copy attached.

6. FORWARD PLAN OF WORK
(pages 10-12)

To consider the attached report.

7. INTERNAL AUDIT PROGRESS REPORT
(pages 13-27)

To consider the attached report.

8. AUDIT CHARTER
(pages 28-35)

To consider the attached report.

9. QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME 2015
(pages 36-40)

To consider the attached report

10. ANNUAL INTERNAL AUDIT REPORT AND OPINION
(pages 41-58)

To consider the attached report.

**11. REVIEW OF INTERNAL CONTROL AND EFFECTIVENESS OF INTERNAL
AUDIT**
(pages 59-60)

To consider the attached report.

12. INTERNAL CONTROLS AND FINANCIAL MONITORING
(pages 61-64)

To consider the attached report.

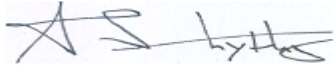
**13. MEDIUM TERM FINANCIAL STRATEGY: TREASURY MANAGEMENT AND
RESERVES POLICIES**
(pages 65-74)

To consider the attached report.

14. APPROVAL OF ANNUAL ACCOUNTS FOR 2014/15
(pages 75-154)

To consider the attached report.

Signed:

A handwritten signature in blue ink, appearing to read 'AS Lytle', is written over a light blue rectangular background.

Head of Paid Service WYCA

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

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

Compilation of Agenda by:	Ruth Chaplin
Telephone No:	Leeds (0113) 251 7217
Date:	20 July 2015

**MINUTES OF THE MEETING OF THE
GOVERNANCE & AUDIT COMMITTEE
HELD ON WEDNESDAY 22 APRIL 2015 IN WELLINGTON HOUSE, LEEDS**

Present: Councillor H Richards (Chair)

Councillors S Baines, G Burton, G Hussain, N McIlveen and A Waller

In attendance: N Rayner (Deloitte)

38. Apologies for Absence

Apologies for absence were received from Councillors R Light (Kirklees) and L Smith (Bradford).

39. Declarations of Disclosable Pecuniary Interests

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

40. Minutes

Resolved - That the minutes of the meeting held on 3 February 2015 be approved.

41. External Audit Update

The Committee considered a report which provided an update on the work of the External Auditors and future audit fees and arrangements.

Audit Plan

It was reported that Deloitte had now undertaken their interim audit in relation to the 2014/15 year end. Mr Rayner, Audit Manager, attended the meeting to present the plan for the 2014/15 audit which had been informed by this work and took questions from members. A copy of the Audit Plan which outlined the scope of work to be undertaken and details of Deloitte's approach to this work and the significant audit risks identified were attached at Appendix A of the submitted report.

Fees

It was reported that following consultation, the Audit Commission had published the work programme and scales of fees for the audit of the 2015/16 accounts of principal audited bodies. Members were advised that there would be no changes to the work programme for 2015/16 and the scale of audit fees had been confirmed at a 25% reduction to the current fees from £45,000 for the current year to £33,000 for 2015/16.

It was also reported that an introductory meeting had been held with Mazars who were replacing Deloitte as the Authority's Auditor in 2015/16. They had also commented they would welcome the opportunity to attend future meetings particularly nearer the handover period.

Members were advised that the Audit Commission had closed on 31 March 2015. The regulatory environment that it supported would be continued with different elements passed to a number of different agencies. The current external Audit Contracts managed by the Audit Commission were passed to the Public Sector Audit Appointments Ltd (PSAA).

Resolved - That the 2014/15 audit plan and the position regarding future audit arrangements be noted.

42. Internal Audit Progress Report

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

Review

Creditors Payments System
Treasury Management
Prepaid Tickets & Concessionary Travel
Main Accounting System

Opinion

Well Controlled
Controlled
Requires Improvement
Well Controlled

Prepaid Tickets and Concessionary Travel

It was reported that the arrangements relating to the calculation and administration of prepaid ticket payments and concessionary fares reimbursement were operating satisfactorily and third parties assurances had been obtained in relation to Metro ticket stock and cash handling systems operated. However members were advised that the review had identified a number of issues to further improve the control environment and realise efficiencies. These included:

- System user access rights to be further developed and enforced.
- Responsibility for ordering, receiving and reconciling ticket stocks to be segregated between staff.

- Delay in providing the automated link between ticket sales systems provided by Yorcard Ltd and WYCA's financial management system.
- The realisation of SCIP Programme business benefits through the automation of revenue collection and systems interface be clearly identified and progress monitored.

It was also reported that the Audit Plan 2015/16 was approved by the WYCA at its meeting held on 12 March 2015 and that work had now commenced on the plan through the review of the administration of the English National Concessions Travel Scheme.

Resolved: That the report be noted.

43. Internal Controls and Financial Monitoring

The Committee considered a report 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 there had been no significant changes to the arrangements for internal control within the Authority. The Committee was advised of the treasury management arrangements that were approved by the WYCA including proposals to enable more effective management of the £68m Local Growth Fund monies which the Authority had received from the Government in April 2015.

The Committee was advised that an assurance framework, similar to the Local Transport Body Framework which had been put in place by the former WYITA, had now been developed. The West Yorkshire & York Investment Committee had considered the framework and had made a recommendation which was approved by the WYCA requesting the framework be kept under regular review by the Governance and Audit Committee. It was therefore suggested that it be diarised to take place on an annual basis.

Code of Corporate Governance

The Committee was advised that in accordance with best practice a Code of Corporate Governance for the WYCA had been prepared on the basis that the governance arrangements were now well established and had been operational for some time. Members' views were requested prior to WYCA approval at its Annual General Meeting on 25 June 2015. A copy of the draft code was attached at Appendix A to the submitted report.

Key Indicators

As requested at the last meeting, members received information on key indicators which specifically related to accidents and near misses for the first three months of 2015.

Financial Monitoring

It was reported that the 2014/15 year-end figures were likely to show a saving on concessionary travel costs. Members were advised that the saving related to young persons' concessions and reflected changes that had arisen following changes both to the types of tickets available and the way in which schools transport had been provided. In this respect comment was made that work was being undertaken to extend the offer of concessionary transport for young people and that any savings achieved on current budgets could possibly assist in delivering those proposals.

It was also reported that the budget for 2015/16 was approved by the WYCA at its meeting held on 29 January 2015. The revenue budget for transport and the LEP budget were set out in Tables 1 and 2 of the submitted report.

Risk Management

It was reported that there had been no significant changes to risk since the last meeting. Members were advised that the internal audit review of risk was almost complete and the outcome would be reported to the next meeting of the Committee.

Resolved:

- (a) That the report and future work arising as outlined in the submitted report be noted.
- (b) That the Code of Corporate Governance be recommended for approval by the WYCA at its Annual General Meeting in June 2015.

44. Review of Governance

The Committee considered a report on proposals to review governance arrangements of the WYCA.

Members were advised that the brief provided an overview on the proposed changes to governance of the WYCA which predominantly related to:

- Members Allowances Scheme.
- Committee terms of reference.
- Officer delegation.
- Standing Orders.

Due to the timing of meetings, it was proposed that details of the proposed changes be circulated by email to Committee members for comment prior to them being presented to the WYCA on 25 June 2015.

Resolved: That members of the Governance and Audit Committee be requested to consider and comment on the proposed change.

45. Appointment of Independent Persons

The Committee considered a report seeking approval to establish a panel to oversee the recruitment of two Independent Persons to be available to act in relation to complaints concerning allegations of a breach of the Authority's Code of Conduct by members of the Authority.

Resolved:

- (a)** That a panel be established with no fewer than three members and to include the Chair, being members of the Governance and Audit Committee for the purpose of:
 - Reviewing applications for the post of Independent Persons.
 - Interviewing applicants if necessary.
 - Making appropriate recommendations, by majority decision if not unanimously, to the Authority to make appointments at the Annual General Meeting in June.
- (b)** That there be two appointments recommended to the WYCA to deal with instances of absence or conflict of interest.

ITEM 6

Report to: Governance and Audit Committee

Date: 28 July 2015

Subject: Forward plan of work 2015-16

1. Purpose

- 1.1. To set out the programme of work for the Governance and Audit Committee for 2015-16.

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 revenue 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, 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.

- 2.8. 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.

ITEM 7

Report to: Governance and Audit Committee

Date: 28 July 2015

Subject: Internal Audit Progress Report

1. Purpose

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

2. Information

2.1. This report provides details of activities undertaken by the Internal Audit Section in the period from 1 April 2015 to 30 June 2015 and summarises the objectives of reviews undertaken, audit opinion and the key issues resulting from this work.

2.2. The Internal Audit Section has undertaken work contained within the West Yorkshire Combined Authority's (WYCA's) Audit Plan through the performance and release of the following audit reports:

- Contract Monitoring.
- Provision of Information.
- ICT Governance & Security.
- Risk Management Arrangements.
- Data Sharing.
- Tendered Services – Gross Contracts.
- VAT Accounting.
- Local Transport Plan – Programme Management.
- CHASE CRM – Project Management.

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. Overall the performance of individual audit assignments is substantially in line with the Plan with only a slight overrun of 9 days forecast at this point. This is due to the intentional over programming in the Plan which was approved by the Combined Authority at their meeting in March 2015 (26 days in year). Details of progress made to date in completing the Audit Plan 2015/16 are provided in appendix 'A'.
- 4.2 The reviews undertaken in the latest period were assessed as well controlled or controlled with 3 reviews evaluated as requiring improvement.

A summary of the internal audit reviews performed along with details of any significant issues identified and respective audit opinions are provided in sections 4.3.1 to 4.3.9 of this report.

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

	Priority High	Priority Medium	Priority Low
Number of Audit Recommendations Issued 2014/15	35	50	4
Number of Audit Recommendations Fully Implemented.	26	31	4
In Progress Audit Recommendations	13	19	0
Overdue Audit Recommendations.	3	2	0

The overdue medium priority recommendations have an implementation date of 30th June 2015 and are partially implemented at the date of writing this report. WYCA's directorate management teams will continue to overview and report progress to internal audit on these matters.

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

4.3.1 **Contract Monitoring**

Opinion – "controlled "

Contract monitoring is controlled. However there is a need to ensure that all relevant documentation is overviewed by the Contract Co-ordinator.

Objectives

The objective of the Contract Monitoring review was to assess the arrangements in place to comply with organisational policies and the principles of the SOAPMAPS (segregation of duties, organisational, authorisation, personnel, management, accounting, physical and supervision) control environment. The review examined the arrangements in place for the bus station cleaning contract.

Observations

It was recommended that the Contract Co-ordinator provides a more effective agenda and minutes for the contractor meetings. This needs to consider all compliance issues stated within the contract and the interface with the WYCA control of contractors procedure.

That RAMS and training records be managed centrally by the Contract Co-ordinator.

That the 'Live' listing of operatives and the starters' process be managed by the Contract Co-ordinator in terms of induction and training records.

4.3.2 Provision of Information

Opinion – “requires improvement”

Controls work well for the processing of request for information as provided under the Freedom of Information Act. However, processes need to be developed to meet the requirements of the Environmental Information Regulations and the Local Government Transparency Code.

Objectives

The objectives of the Provision of Information review were to assess the arrangements in place to comply with the organisational obligations in respect of the Freedom of Information Act, Environmental Information Regulations and Local Government Transparency Code.

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

- Details open to the public on the information that can be obtained.
- To review the volume of Freedom of Information requests received.
- To ensure that adequate procedures are in place for receiving and monitoring requests made in accordance with the Freedom of Information Act and Environmental Information Regulations.
- To evaluate the number of days required to process Information requests.
- To evaluate procedures and processes in place for monitoring queries in relation to Freedom of Information requests
- To review the adequacy of the Publication Scheme and ensure that it is communicated.
- To consider the degree of compliance with the Local Government Transparency Code.

Observations

The primary recommendations were:

That processes are identified and put in place to identify and administer requests for information which fall within the criteria required under the Environmental Information Regulations.

That WYCA progress arrangements to publish information relating to expenditure over £500 and details of contracts awarded. In addition, that WYCA progress arrangements to publish information relating to the contract register

4.3.3 ICT Governance & Security

Opinion – “requires improvement”

Written procedures to be further developed in relation to the ISO27001 principles and improvement to data retention, back-up, access control, asset management.

Objectives

The objective of the ICT Governance and Security review were to assess the arrangements in place to comply with organisational policies and evaluate against ISO27001 principles.

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

- ICT Strategy which has been approved at senior level and effectively communicated to key staff.
- Security policy has been approved by senior management and is review at planned intervals.
- Assets are identified and an inventory is maintained with assigned ownership and the rules on acceptable usage.
- Adequate arrangements for physical and environmental security.
- Protection against malicious code.
- Back up arrangements for information and software.
- Network security management in term of access rights for ICT staff.
- Access controls regarding user responsibility, network access and operating system access.

Observations

The primary observations concerned the development of written procedures for business critical systems to meet WYCA ICT Security Policy requirements and ISO27001001 guidelines.

4.3.4 Risk Management Arrangement

Opinion – “controlled”

There is an acceptable control framework in place. Key controls are in place and operating effectively. However there are opportunities to further develop the effectiveness of risk management arrangements.

Objectives

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

The review considered the presence of the following key elements:

- 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

Observations

The principal observations concerned the development and communication of guidance relating to WYCA’s risk appetite and the identification and assessment of risks relating to the attainment of corporate objectives.

4.3.5 Data Sharing

Opinion – “controlled”

There is an acceptable control framework in place. Key controls are in place and operating effectively.

Objectives

The objectives of the Data Sharing review were to assess the agreement and other supporting processes concerning the provision of information in relation to the provision of transport services within the Wakefield District.

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

- Identification and classification of information shared.
- Responsibilities for the exchange information.
- How information will be exchanged.
- Frequency and volumes of information to be exchanged.
- Arrangements to ensure confidentiality.
- Compliance with statutory requirements including Data Protection Act 1998 and Information Commissioner's Code of Practice.
- Information storage arrangements.

Observations

There were no high priority recommendations provided.

4.3.6 Tendered Services – Gross Contracts

Opinion – “controlled”

There is an acceptable control framework in place. Key controls are in place and operating effectively.

Objectives

The objectives of Tendered Services Gross Contracts was to assess the arrangements in place to mitigate significant risks associated with the operation of these contracts.

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

- Examine the arrangements in place for monitoring farebox revenue on school and Mybus gross contracts.
- Establish arrangement for the independent annual certification of operator farebox revenue.
- The operation of monitoring and compliance processes to ensure contract performance meets requirements.
- Arrangements for the appraisal of data and approval of decisions and contract amendments.

Observations

There were no high priority recommendations provided.

4.3.7 VAT Accounting

Opinion – “well controlled”

There is robust control framework in place.

Objectives

The objectives of the review of VAT were to assess the arrangements in place to mitigate significant risks associated with the operation of the systems for accounting for VAT.

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

- Separation of duties between officers responsible for preparation and review of VAT submissions
- Fulfilment of VAT records in line with legislative requirements for source documentation
- Reconciliation of VAT suspense, control and bank accounts performed on a monthly basis and reviewed by a senior officer
- Timeliness of monthly VAT return submissions and necessary payments
- Monitoring and evidence of document changes
- Retention of prime documentation
- Review of Journals
- Adequacy of documented procedures and guidance available to staff

Observations

There were no high priority recommendations provided.

4.3.8 LTP Programme Management

Opinion – “well controlled”

There is robust control framework in place.

Objectives

The objectives of LTP Capital Programme Management were to assess the arrangements in place to mitigate significant risks associated with the management of the Local Transport Plan.

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

- Arrangements established for the approval and authorisation of payments of the integrated transport block and highways block funding.
- Programme monitoring and reporting arrangements.
- WYLTP3 programme governance structure.
- Content of WYLTP3 and comparison with guidance provided by the DfT for the production of transport plans.
- Arrangements for the effective partnerships between West Yorkshire District Authorities and the Authority.
- Arrangements to oversee delivery and manage risks.

Observations

There were no high priority recommendations provided.

4.3.9 CHASE (customer hubs and service experience) Customer Relationship Management

Opinion – “requires improvement”

Documentation of support and maintenance arrangements, baseline security and access controls and a review of costs and benefits need to be considered.

Objectives

The objectives of this review were to assess:

- The provision of documentation for planned developments and appropriate security controls.
- Appropriate project management structure.
- Change management practices are in place.
- Testing of the solution is undertaken in line with agreed policies.
- A contract exists for the developments being undertaken which includes appropriate payment arrangements.
- Support and maintenance arrangements have been considered relating to live operations.
- Process has been established to ensure benefits can be monitored effectively.

Observations

The primary observations concerned:

- That the data mitigation approach should be considered and documented.
- Volume testing of transactions should be undertaken.
- Baseline security and access controls need to be established.
- Assurance should be obtained in relation to compliance with data protection issues including contracts for support by third party suppliers and issues relating to data storage and retention.
- A full review of costs and benefits should be undertaken.
- Steps should be taken to ensure an Escrow Agreement is put in place.
- A support maintenance agreement should be put in place.

One recommendation concerning the review of arrangements for the ownership of intellectual property rights, to ensure WYCA's input / contribution is adequately protected, was rejected by management. It is understood that it has been agreed that the IPR of the CHASE software lives with Yorcard. Should ownership / management of YorCard change, protection of WYCA's interests would form part of the transfer process.

5. Other Activity

- 5.1. In addition to the completion of scheduled audit reviews provided in section 4 of this report, audit testing work has been concluded in relation to Payzone Systems, Transport Fund Scheme Appraisal, and English National Concessions Travel Scheme. Final release of these audit reports is now subject to quality reviews of the audit files and the agreement of recommendation implementation actions. A summary of the results from these reviews will be provided to this Committee at the next meeting.

6. Financial Implications

- 6.1 None relating directly to the Internal Audit function.

7. Legal Implications

- 7.1. 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.

Appendix A

Directorate	Milestone Description	Summary	Estimated Days	Actual Days	Milestone Completed	Milestone Note
Passenger Services	Unannounced Visits	Unannounced visits to Travel Centres to check cash and ticket stocks.	5			
Cross-Cutting	Pro –Active Anti- Fraud Exercise	Statistical analysis for duplicate payments, data matching for creditor payments into inappropriate bank accounts. Sample review of changes to bank payment master records.	5	5	Completed	
Passenger Services	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 and a photo. NFI checks have been performed with other datasets. System is secure and backed up at frequent intervals with limited access rights, satisfactory contingency plan is in place, Assurance from the third-party that data will be obtained and held securely and in compliance with the Data Protection Act. Awareness and communication of requirements of Concessionary Bus Travel Act.	20	18		Finalising Report
Cross-Cutting	AGS	Completion of Annual Report and internal audit opinion	2	2	Completed	
Development	Local Transport Plan Capital Programme	Review of arrangements to identify, monitor, control and report on the Capital Programme.	15	15	Completed	

Directorate	Milestone Description	Summary	Estimated Days	Actual Days	Milestone Completed	Milestone Note
	Management					
Development	Interreg Carbon Responsible Transport Strategies (CARE NORTH)	Head of IA assurance. Periodic report and claim review and certification.	5	5	Completed	
Development	Interreg Improving Transport & Accessibility through new Community Technology (ITRACT)	Head of IA assurance. Periodic report and claim review and certification.	5	5	Completed	
Passenger Services	Better Bus Area Fund	Head of IA assurance. Periodic report and claim review and certification.	5	5	Completed	
Passenger Services	Bus Services Operators Grant	Head of IA assurance.	5	4		Finalising
Passenger Services	Cycle City Grant	Head of IA assurance. Periodic report and claim review and certification.	5			*Required September 2015.
Development	Transport Fund	Head of IA assurance.	10			
Resources	Procurement	Review of the operation of key controls including tendering, ordering, commitments, compliance with Standing Orders and Financial Regulations, e-procurement, purchasing cards.	12	12	Completed	

Directorate	Milestone Description	Summary	Estimated Days	Actual Days	Milestone Completed	Milestone Note
Resources	VAT	Arrangements for the accounting and submission of VAT returns to HM Revenues & Customs.	5	5	Completed	
Passenger Services	Smart Card & Information Programme (SCIP) Smart transactions Web Customer Hubs and Service Experience (CHASE)	Review to provide independent assurance. Business change – benefits realisation back office operations.		10	In progress	Originally allocated in Quarter 2 but work begun in quarter 1
Development	LTP	Head of IA assurance. Periodic report and claim review and certification. Systems and procedures to control the allocation of payments and provide evidence of eligible expenditure.		5	In progress	Originally allocated in Quarter 2 but work begun in quarter 1
	QTR 1		99	91		

Appendix B

Title	Recommendations	Action	Due Date	Progress	Priority
AR179 ENCTS – Hot List Strategy	That issues effecting the implementation of hot list functionality be addressed. If this functionality cannot be fully delivered then the SCIP's Programme Board should consider the impact this will have on the continued viability of the Smart Transaction project and the prevention of fraud. UPDATE: SYPTE to be asked to coordinate Hot Listing Project on behalf of WYCA	SCIP Business Change Manager	31/3/15	0%	High
AR217 PPT & Cons – Benefits Realisation	Opportunities to realise benefits through the automation of back-office processes, as identified for smart enabling programme, are yet to be fully realised. UPDATE: Benefits Plan updates are now being provided to Audit & Risk Group.	SCIP Business Change Manager	31/3/15	0%	High
AR215 PPT & Cons – Dream/Payzone UDI	The UDI link for Yorcard with ICT has not been provided Dream/Payzone UDI functionality to be developed as a priority. UPDATE: Testing of UDI link now being undertaken.	SCIP Business Change Manager	31/3/15	0%	High

ITEM 8

Report to: Governance and Audit Committee

Date: 28 July 2015

Subject: Internal Audit Charter 2015

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 2015/16

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 73 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 9

Report to: Governance and Audit Committee

Date: 28 July 2015

Subject: Quality Assurance and Improvement Program 2015

1. Purpose

1.1 To consider the Quality Assurance and Improvement Program for Internal Audit.

2. Information

2.1. Public Sector Internal Audit Standards (PSIAS) require the formal documenting of a Quality Assurance and Improvement Program (QAIP). This covers all aspects of the Internal Audit activity and enables compliance with all aspects of the PSIAS to be evaluated. It allows for the assessment of the efficiency and effectiveness of the Internal Audit activity and identifies opportunities for improvement. This is through both internal and external assessments. The requirement for an external assessment of the Internal Audit activity at least once in every 5 years is a new requirement.

2.2 The results of the QAIP must be reported to senior management and the Governance and Audit Committee on an annual basis. This may be provided within internal audit's annual report and opinion.

2.3 The QAIP for the West Yorkshire Combined Authority is attached as an appendix to this report.

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 Quality Assurance and Improvement Program 2015 for the West Yorkshire Combined Authority be recommended for approval.



Internal Audit Quality Assurance & Improvement Program (QAIP) 2015/16

Russell Gott 16/06/2015

Introduction

Internal Audit's Quality Assurance and Improvement Program (QAIP) is designed to provide reasonable assurance to the various stakeholders of West Yorkshire Combined Authority 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 Chief Audit Executive is ultimately responsible for the QAIP, which covers all types of Internal Audit activities. The QAIP must include both internal and external assessments. Internal assessments are both ongoing and periodical and external assessments must be undertaken at least once every five years.

Internal Assessment

Internal Assessment is made up of both on-going reviews and periodic reviews.

On-going Reviews

On-going assessments are conducted through:

- Supervision of engagements.
- Regular, documented review of work papers during engagements.
- Audit policies and procedures used for each engagement including the Internal Audit Manual to ensure compliance with applicable planning, fieldwork and reporting standards.
- Feedback from audit client post audit questionnaires for individual audit assignments.
- Analyses of key KPI's established to improve Internal Audit's effectiveness and efficiency.
- All draft and final reports and recommendations are reviewed and approved by the Chief Audit Executive.

Periodic Reviews

Periodic assessments are designed to assess conformance with Internal Audit's Charter, the Standards, Definition of Internal Audit, the Code of Ethics, and the efficiency and effectiveness of internal audit in meeting the needs of its various stakeholders. Periodic assessments will be conducted through:

- Review of internal audit performance Key Performance Indicators by the Chief Audit Executive on a monthly basis.
- Quarterly activity and performance reporting to the Governance and Audit Committee and Section 73 responsible finance officer.
- Annual self-review of conformance with the Public Sector Internal Audit Standards.

Any resultant action plans will be monitored by the Chief Audit Executive on a quarterly basis.

External Assessment

External assessments will appraise and express an opinion about Internal Audit conformance with the Standards, Definition of Internal Audit and Code of Ethics and include recommendations for improvement as appropriate.

An external assessment will be conducted at least once every 5 years by a qualified, independent assessor from outside the Authority. The assessment will be in the form of a full external assessment, or a self-assessment with independent external validation. The format of the external assessment must be discussed with the Governance and Audit Committee.

Reporting

Internal Assessments – reports of internal assessments will be reported to the Governance and Audit Committee on an annual basis;

External Assessments – results of external assessments will be reported to the Governance and Audit Committee and Section 73 officer at the earliest opportunity following receipt of the external assessors report. The external assessment report will be accompanied by a written action plan in response to significant findings and recommendations contained in the report.

Follow Up – the Chief Audit Executive will implement appropriate follow-up actions to ensure that recommendations made in the report and action plans developed are implemented in a reasonable timeframe.

ITEM 10

Report to: Governance and Audit Committee

Date: 28 July 2015

Subject: Annual Internal Audit Report and Opinion

1. Purpose

- 1.1 To provide the Annual Internal Audit Report and Opinion of the control environment in operation during 2014/15.

2. Information

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

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

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

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

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

3. Financial Implications

- 3.1 None relating directly to the Internal Audit function.

4. Legal Implications

- 4.1. The Accounts and Audit Regulations 2011 establish requirements relating to systems of internal control and the review and reporting of those systems. Accordingly, WYCA must have in place a process for establishing, maintaining and reviewing the system of internal control, governance and risk management.

5. Staffing Implications

- 5.1 None relating directly to the Internal Audit function.

6 Recommendation

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

West Yorkshire Combined Authority

Internal Audit Annual Report and Opinion 2014/15

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 Program.

Scope and Purpose of Internal Audit

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. It is recognised that proper internal audit practices as those contained in the UK Public Sector Internal Audit Standards.

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 2014/15 the Internal Audit function has remained organisationally independent. This is supported through the Internal Audit Charter and risk-based audit plan being approved by WYCA in April 2014.

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 (2011) 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. Regulation 4 states that;

"The relevant body is responsible for ensuring that the financial management of the body 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".

"The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control" and "following the review, the body must approve an annual governance statement prepared in accordance with proper practices in relation to internal control".

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

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

Scope of Internal Audit Opinion 2014/15

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 2014/15 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 2015.
- 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 2014/15

From the work undertaken during the financial year 2014/15 and taking into account other sources of assurance, Internal Audit have reached the opinion that WYCA's framework of governance, risk management and control is operating adequately and that there are no outstanding significant issues arising from the work undertaken by Internal Audit at the time of writing this report.

In reaching our opinion the following factors were considered;

Risk Management

Risk Framework

During the period a review of WYCA's risk management framework was undertaken. Whilst recognising that progress had been made in the identification and development of strategic risks it was established that further work is required in aligning these risks to corporate objectives. In addition,

WYCA should consider and determine its risk appetite and produce guidance to support this approach.

Overall, it was concluded that risk management arrangements are adequate to demonstrate an acceptable level of control.

Health & Safety

A review of the existence and operation of a framework which enables WYCA to manage its risks and obligations in respect of Health and Safety was performed. The overall audit opinion was that these systems are operating adequately, however a number of observations were provided in respect of the development of processes to ensure that all information recorded at locations throughout the organisation can be accessed and reviewed by stakeholders and the implementation of procedures to meet the Provision and Use of Work Equipment Regulations (PUWER) requirements.

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

Governance

Programme Assurance

WYCA has developed a single assurance framework for the delivery of schemes identified within the West Yorkshire Plus Transport Fund and which support the principles of the Strategic Economic Plan.

Reviews of the Transport Fund Scheme Prioritisation arrangements and Local Transport Plan Programme Management were undertaken by internal audit during 2014/15. Further audit coverage of programme management arrangements has been included in the 2015/16 Internal Audit Plan.

ICT Governance

The objective of ICT Governance and Security review was to assess the arrangements in place in respect of ICT Strategy, physical and environmental security, protection against malicious code and network security management. The review also compared these arrangements against ISO27001 principles. It was established that further work is required in developing formal procedures for business critical systems to demonstrate consistency with WYCA's Information Security Management Systems Policy.

Rail Project Governance

The audit of New Pudsey Rail Station Car Park Extension project identified

generic issues relating to WYCA's role in the management of Rail infrastructure schemes. It was recognised that WYCA has only limited influence over the day to day management of these projects due to the specific technical requirements of the Rail industry. It was accepted that WYCA would reposition the application of its project management activities to provide a strategic controlling role for these projects. This is progressing through a review of grant conditions agreed when a funding contribution is made to each Rail scheme.

Contract Management

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

In response WYCA have initiated measures to address these issues.

Internal Control

Of the 12 reports provided relating to internal control, internal audit assurance levels were, 5 well controlled, 5 controlled and 2 require improvement. A description of internal audit assurance categories is provided in the appendix to this report.

Recommendations identified as a result of the audit assignments in respect of internal control included;

- The enforcement of system user access rights when processing Metro ticket sales data and the segregation of duties for the ordering, receiving and reconciling ticket stocks.
- That issues relating to the delay in providing the automated link between ticket sales systems provided by Yorcard Ltd and WYCA's financial management system, Dream be resolved.
- That issues affecting the future delivery of smart card system "hot list" functionality be resolved and that controls be determined to prevent the fraudulent use of smart cards.
- That a documented process should be drawn up for handling any data loss / other significant issues including the recovery of prime files from the Payzone environment. And a formal process should be agreed and documented relating to price / product changes.

Third-Party Assurance

Metro Ticket Sales

Arrangements were in place to enable Metro tickets to be sold through post offices. WYCA withdrew from sales through Post Office outlets in West Yorkshire in December 2014 as smartcard systems were phased in and sales were provided through a network of retail outlets offering Payzone transaction facilities.

WYCA also offers Metro ticket sales through Rail ticket offices. Under these agreements, 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 stocks and that provide accurate information concerning sales income received and the levels of stockholding.

For 2014/15, WYCA have received an assurance statement from Northern Rail in relation to the operation of key controls operating within these processes.

The Post Office has provided a statement that Metro tickets collected and transported to their central stock centre had been destroyed.

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 & corruption arrangements and how to report concerns about suspected fraud and/or corruption were provided to employees.

During the period no referrals were made to Internal Audit.

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

Audit Performance

Conformance with PSIAS

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

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

Areas of Accepted Non Compliance

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

The two areas of non-compliance are:

- The Chief Executive does not undertake, countersign, contribute feedback to or review the performance appraisal of the Chief Audit Executive.
- Feedback is not sought from the Chair of the Governance & 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 the assurance mapping needs to be developed as organisational objectives are established and as part of the process of identifying and determining the approach to using other 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 2015 he has applied for full CMIIA status.

Quality Assurance & 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 & Audit Committee. The Group'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 2014/15 and other identified timescales.

	<u>Actual</u>	<u>Benchmark¹</u> <u>Average</u>
Cost Per Audit Day	£199	£273
Mainline Audit Days Per £m Turnover	2.81	2.68
Cost Per Auditor	£41750	£51190
Days Per Auditor	184	183
Sickness Days	2.8	5.6
<hr/>		
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		92%
Issuing Reports		
Internal Audit reports to be circulated within 5 working days of audit closure – Target		90%
Actual performance		86%
Fraud Response		
Formally respond to notifications of suspected fraud, bribery or corruption within 2 working days – Target		100%
Actual performance		100%

This data confirms that the Internal Audit function compares well against public sector benchmarks and is attaining the targets set.

¹ CIPFA auditing benchmark comparator

Client Feedback

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

The cumulative results from questionnaires completed throughout 2014/15 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.	9	2	1	
2	Throughout the audit process I was kept informed of the work being done and issues arising.	7	4	1	
3	Internal audit staff demonstrated a good understanding of the business and associated risks (or took the time to develop such understanding during the audit process).	9	3		
4	Internal audit staff demonstrated a pragmatic approach to developing solutions to issues identified during the audit.	6	4	2	
5	The audit report was issued in a timely fashion and was a fair summary of audit findings and management responses.	5	5	2	
6	Internal audit staff acted in a professional manner throughout the assignment.	10	2		
Scale ; 1 = Strongly agree, 2 = Agree, 3 = Disagree, 4 Strongly disagree					

Audit Plan 2014/15

Details of the work performed by Internal Audit in 2014/15 are provided below;

Audit Area	Assurance	Directorate
Interreg ITRACT- Review & Grant Certification	Periodic report and claim certification including physical verifications.	Resources Passenger Services Development
AGS - Support & Input	Examination, input and provision of information in support of the annual governance statement.	Resources
Payzone System	Technical system testing/assurance	Passenger Services
Health & Safety	Health & Safety Policy meets legal requirements as provided in the Health & Safety at Work Act.	Resources Passenger Services Development
Travel Centre Procedures	Adequacy of ticket sales, cash handling, security, reconciliation and review processes.	Passenger Services
LTP Capital Programme Management	Systems and procedures operated to control the allocation of payments and provide evidence of eligible expenditure.	Resources Passenger Services Development
Anti-Fraud & Corruption	Completion of annual fraud return	Resources Passenger Services Development
Tendered Services	Tendering arrangements, batches, de minimis contracts, insurance, operator's licences, lost mileage, payment calculations and processes. Contract compliance measures for public and education services.	Passenger Services
LTP Block Settlement – Audit & Certification	Head of IA assurance. Examination of certifications provided by local authorities.	Resources Passenger Services Development
Procurement	Review of the existence and operation of key controls including tendering, ordering, commitments, compliance with sofr's, e- procurement processes.	Passenger Services
NEW Pudsey Station Car Park Extension –	Assessment of benefits realisation	Development

Audit Area	Assurance	Directorate
Project Benefits Realisation.		
Prepaid Tickets & Concessionary Travel	Arrangements for accounting for stocks, cash, Haven system controls and reporting, calculations of prepaid ticket pool and distribution, concessionary fares reimbursements, on account payments and quarterly adjustments.	Passenger Services
Source Code Escrow	Review of Escrow arrangements relating to intellectual property, source code of software for the realtime information system	Cross Cutting
Petty Cash	Review of petty cash records and cash held	Cross Cutting
Payroll	Review of the operation of key controls including arrangements for Starters, leavers, pay points, members' allowances, expenses & deductions.	Resources
Counter Fraud	Raising fraud awareness through internal communications.	Resources Passenger Services Development
ITA Cashbook/Treasury Management	Review of the operation of key controls including Treasury management, segregation, review, authorisation, third part services and assurances.	Resources
SCIPS Program Assurance	Review of CHASE CRM assurance arrangements.	Passenger Services Development
Debtors	Test arrangements for Write offs, requisitioning, reporting, review of accounts, debt age monitoring and reporting.	Resources
Pro-active Anti-Fraud Exercise	Analytical review for duplicate payments, data matching for creditor payments, changes to bank account master records	Cross Cutting
Unannounced Stock & Cash Checks	Cash ups, stock counts throughout Metro	Passenger Services Resources
Risk Management	Assess the reliability of systems for ensuring that risk management arrangements are	Resources

Audit Area	Assurance	Directorate
	adequately administrated, authorised and recorded.	Passenger Services Development
Creditors Systems	Review of the operation of key controls including Segregation, authorisation, reconciliation of statements and bacs controls.	Resources
Main Accounting Systems	Review of the operation of key controls including System user rights, review, control, adequacy and timeliness, budgetary control, systems interface – education, haven, and payroll.	Resources
INTERREG CARE NORTH PLUS	Periodic report and claim review and certification	Development
– Legislative Compliance – Provision of Information	Compliance with the Freedom of Information Act, Environmental Information Regulations and Local Government Transparency Code.	Resources
Sage Pay Processing System	Processing of income by debit/credit card transactions	Resources
Data Sharing	Review of arrangements for data sharing with other organisations and stakeholders including contracts/agreements methods of physical data transfer and information sharing protocols	Passenger Services
Contract Management	Testing of contract monitoring arrangements	Passenger Services
ICT Governance/Data Security	Arrangements for the protection of data from corruption or loss. Compliance with ITIL standards	Cross Cutting
Tendered Services – Gross Contracts	Review of new procedures introduced to administer gross contracts for the provision of education services	Passenger Services
Transport Fund	Review of scheme prioritisation framework. Gateway review assurance	Development

Adding Value

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

This included;

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

ITEM 11

Report to: Governance and Audit Committee

Date: 28 July 2015

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 2011 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 WYCA via a recommendation from the Governance and Audit Committee.
- 2.2 The elements of the system of internal control are set out in the Code of Corporate Governance which was approved by the last meeting of this Committee. 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 2014/15 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 10. The AGS for the year to 31 March 2015 is included in the 2014/15 annual accounts under item 12 on this agenda.

- 2.3 The Director Resources has undertaken a review of internal audit, using the Public Sector Internal Audit Standards (PSIAS) checklist and the information in the Internal Audit Annual Report which sets out the work undertaken in the year. The overall conclusion is that the internal audit function complies with the necessary standards and has worked to an adequate standard during the year. There are a few instances of non-compliance with the PSIAS but these are deemed immaterial (they include for instance the non-involvement of the Chair of the Governance and Audit 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 2015/16.

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.

ITEM 12

Report to: Governance and Audit Committee

Date: 28 July 2015

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. 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.
- 2.3. Decision making and delegations to officers and committees form part of the governance and control arrangements of any organisation. Some minor changes to these were approved at the WYCA annual meeting in June and it is the intention to keep such arrangements under review in order to seek any further enhancements to the operational effectiveness of the organisation.

Key indicators

- 2.4. The Committee has requested regular information via key indicators, specifically with regard to accidents. Set out below are the figures for the first six months of 2015.

2015 Statistics chart:

2015 Month ending	Accidents	YTD	Near Misses	YTD	Collisions	YTD	First Aid	YTD	RIDDORS	YTD
January	4	4	4	4	0	0	8	8	0	0
February	4	8	3	7	3	3	16	24	0	0
March	5	13	5	12	3	6	10	34	2	2
April	16	29	11	23	5	11	24	58	2	4
May	9	38	5	28	2	13	15	72	1	5
June	12	50	6	34	3	16	19	91	0	5

- 2.5. Of the reported accidents the RIDDOR column at the end shows how many of these were reportable to the Health and Safety Executive (HSE). The Committee has previously considered the incidents to the end of March. In the last three months there has been an increase in the reported number of accidents but upon further and full investigation there is no apparent underlying common cause with most of them being simply due to individuals not taking proper care when alighting buses/moving through the bus station. There is no increase in the accidents reportable to the HSE.
- 2.6. Other key indicators monitored include the suite of financial controls undertaken monthly in both the finance and 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. Final accounts have now been produced for 2014/15 and are reported in full under agenda item 14. A number of savings were realised in the year resulting in a transfer to reserves of £1.4m. The latest forecast position for 2015/16 is set out below.

All £000's	Actuals	Budget	Latest Estimate
	2014/15	2015/16	2015/16
Combined Authority			
Concessionary travel	53,736	55,474	55,144
Subsidised Services	19,544	19,632	19,417
Passenger Services	7,617	7,791	7,723
Prepaid Tickets	29,678	31,000	31,000
Rail - Franchise Costs	43,154	43,155	43,155
Pensions	1,370	1,406	1,406
Financing charges	6,613	6,703	6,353
Corporate Development	5,944	5,892	5,860
		315	315
Economic development			3,616
	167,656	171,368	173,989
Prepaid Tickets	-29,678	-31,000	-31,000
Special Rail Grant	-43,154	-43,155	-43,155
LEP funding			-2,866
Lewy	-96,198	-96,198	-96,198
Use of reserves	-1,374	1,015	770
Remaining reserves at year end	7,944	5,500	7,174

- 2.8. The most significant change to note since the forecast outturn was agreed is a saving of £300k on concessionary travel. This relates to young persons' concessions and reflects changes that have arisen following changes both to the types of tickets available and the way in which schools transport has been provided. Discussions are underway with bus operators to extend the offer of concessionary transport for young people within the current budget provisions and a report will be provided on this to a future meeting of the Transport Committee.
- 2.9. The budget presentation above for 2015/16 includes both the transport levy and budget as approved by the WYCA at its meeting on 29 January and the budget and funding for the Leeds City Enterprise Partnership activities which had previously been agreed through the Leaders' Board and which passed to WYCA on 1 April 2015. In addition the WYCA agreed a position with respect to the inward investment function of Leeds and Partners transferring to the LEP/WYCA on 1 April. These budgets have been consolidated and are being considered by the Finance Working Group during this year to ensure all the available funding for the WYCA is being used to best effect. There is a timing issue with regard to the funding for the former Leeds and Partners work which will require the use of WYCA reserves to part fund these activities in 2015/16 but which will be reimbursed in 2016/17.
- 2.10. At this point in the year there are no further significant changes to note in the budget for 2015/16. Work has commenced on identifying the opportunities and options for reducing expenditure from 2016 onwards and this work will be managed through the Finance Working Group.

Financial monitoring – capital budgets

- 2.11. Capital expenditure for 2014/15 has been finalised as part of the year end closedown work and all grant funding that was required to be spent by the deadline of 31 March has been fully disbursed.
- 2.12. Delivery of the Transport Fund and Local Growth Fund projects is being monitored by the Investment Committee and dashboards showing progress on these are available on the WYCA website.
- 2.13. Appropriate organisational arrangements for the delivery of a much enhanced capital programme of both transport (through the West Yorkshire + Transport Fund) and economic regeneration projects are being progressed.

Risk management

- 2.14. There have been no significant changes to risk since the last meeting of this Committee. The detailed risk registers and corporate risk register continue to be monitored by officers. The annual internal audit review of risk has been undertaken and the outcome of the report is 'controlled.' Further details are available under agenda item 7.
- 2.15. Further work on certain elements of risk – treasury management and the reserves policy – has been identified by the Finance Working Group and WYCA and forms a separate agenda item to this meeting of the Committee.

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.

ITEM 13

Report to: Governance & Audit Committee

Date: 28 July 2015

Subject: Medium term financial strategy

1. Purpose

- 1.1. To seek the views of the Committee with regard to elements of the work regarding the medium term financial strategy, being the reserves policy and the treasury management arrangements.

2. Information

- 2.1. A medium term financial strategy (MTFS) is being developed to support the budget process for 2016/17. The detailed work is being overseen by the Finance Working Group which has identified a number of workstreams to be delivered via a number of the Committees.

Reserves policy

- 2.2. A key element of the MTFS is the reserves strategy. The current strategy, approved by the WYCA in January 2015 calculated the required level of general reserves to be in the region of £4-£5m. This was calculated based on a risk based approach whereby the relative risks of overspend on the different budget heads was considered. The Finance Working Group asked that this calculation be reviewed by the Governance and Overview Committee as part of the MTFS work underway and to support the 2016/17 budget.
- 2.3. The reserves policy and resultant calculation have been developed to ensure that key risk areas to the business can be managed in a controlled and methodical way stabilising the business in the event of income reduction or cost increases. The calculation focuses on the primary areas of expenditure in the business and sets appropriate levels of reserve contingency dependent on risk. The policy (attached as Appendix A) sets out the other reserves that the WYCA has but which are unavailable to support normal revenue expenditure. Appendix B sets out the proposed calculation of the reserves required, as set out in the following paragraphs.

- 2.4. The English National Concessionary Travel Scheme (ENCTS) budget is currently subject to operator agreements and the reserves position is calculated on 2% contingency recognising that the agreements, while reducing volatility, still have cap and collar clauses that mean ENCTS payments have the potential to rise if the number of trips increase significantly. The ENCTS payments that are not subject to agreements and therefore exposed to patronage volatility have a 5% contingency recognised in the calculation. When the current set of agreements comes to a close in 2017 then there will be a need for a higher level of reserves for the ENCTS element. The young persons concession has been separately identified to reflect the volatility arising from changes to school travel entitlements and the intention to enhance the young persons' offer with a 2% contingency for this budget line.
- 2.5. Tendered Services are exposed to risk in that tenders are subject to market forces with inflation and potential lack of competition having an impact on future tender prices. Previously the budget for tendered services provided a renewal rate to insulate against potential rises but this has now been stripped out of budgets. It is therefore deemed prudent to hold a reserve contingency of 7.5% to mitigate the risks of tenders rising (the renewal rate was previously 10%). As WYCA moves to Quality Contracts a re-evaluation of the reserves required in bus service provision will be paramount if WYCA takes revenue risk.
- 2.6. The other areas of expenditure that are exposed to risk are Passenger Services, Corporate and Development and Economic (LEP) activities. As the role of the Combined Authority expands with greater demands on all departments to deliver large scale strategic projects such as Quality Contracts, WY+TF, the Growth Deal and Rail North there will be growing pressure on capacity and resource with little headroom in current budgets to absorb these commitments. While WYCA is tasked with making savings to help fund the expansion of the organisation a prudent level of contingency across these directorates has been identified at 5% of current budgets.
- 2.7. The retention of a general revenue reserve to mitigate the risks referred to above demonstrates both prudence and good management of the business. The importance of a general fund reserve is further supported by the fact that WYCA's other reserves are technical accounting reserves, not available for revenue purposes or specifically ear-marked capital reserves that reflect timing differences in the application of capital grants or exist to fund approved capital schemes.
- 2.8. The views of the Committee are sought with regard to the reserves policy and calculation.

Treasury management arrangements

- 2.9. The treasury management policy is set out as appendix B within agenda item 14 regarding the approval of the annual accounts. WYCA is required to work within the prudential system for local authorities. The principal purpose of the prudential system is to allow authorities as much financial freedom as possible whilst requiring

them to act prudently. There will be no government borrowing approvals issued but restrictions are imposed through the CIPFA Prudential Code which requires every authority to set prudential indicators and limits and thus be satisfied that it can afford the results of its borrowing. These limits, which must not be exceeded, have to be formally agreed by the authority before the start of each financial year. The government has retained the power to, if it so wishes, limit the level of borrowing incurred by authorities.

- 2.10. The Code requires full capital and revenue plans to be prepared for at least 3 years forward in order to assess the financial effects of the planned capital investment. In this Authority the three year financial strategy is considered by Members on a regular basis and to ensure a level of affordability it is currently the policy that borrowing to meet capital expenditure will be limited to existing levels plus any additional approvals issued by the government through the Local Transport Plan settlement and the Local Growth Fund. Restricting borrowing in this way ensures that all debt charges are covered by the Combined Authority through its levy on the Districts
- 2.11. WYCA works closely with, and is advised by, Leeds City Council which undertakes the monitoring of the financial markets on behalf of the Authority. The agreed policy is to seek to minimise the rates at which the Authority borrows and to continue to refinance any longer term loans if rates appear advantageous.
- 2.12. In general it is intended there should be no long term investments by the Authority with any surplus cash being invested short term up to a maximum term of one year. The level of future investments will fluctuate on a short-term basis due to cash flow requirements but will be maintained as low as possible. Any investments undertaken by the Combined Authority follow the guidance of Department of Communities and Local Government having regard to the concept of Security, Liquidity and then Yield with emphasis being placed on the “return of funds” rather than the “return on funds”.
- 2.13. The views of the Governance and Audit Committee are sought with regard to the principles of the treasury management approach. If Members wish to understand further detail of the mechanics of how these treasury management principles are applied in practice the team at Leeds City Council have indicated their willingness to prepare a presentation and attend a future meeting of this Committee.

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. The Governance and Audit Committee is requested to consider and comment on the reserves policy and treasury management arrangements.

WYCA RESERVES POLICY

Introduction

The reserves policy of the West Yorkshire Combined Authority (WYCA) has been developed as a means of ensuring that the business is able to function effectively in the event of a significant change in circumstances or the manifestation of risks to which the organisation is exposed. The risk identification approach to developing an agreed reserves policy is based on a number of key principles and requires an understanding of these fundamental areas :-

- The risk environment/profile in which the organisation operates;
- The income streams that fund the organisation;
- The risk profile of the income streams and level of reliance on specific streams;
- The degree to which the organisation is committed to expenditure both revenue and capital;
- The structure of the organisation's funding base.

The WYCA holds reserves for a variety of reasons which can be summarised below:-

- To fund working capital;
- To fund unexpected expenditure, such as cost overruns on projects or unexpected increases in mandatory expenditure;
- To fund reductions or shortfalls in income;
- To fund development or expansion of the business.

The reserves act as a facility to ensure that the organisation can function for a period of time when faced with a significant change in circumstances or a loss/reduction of income streams potentially buying time to re-focus the business and re-structure the finances.

Understanding the WYCA Reserves

As stated above reserves act as a safeguard for the organisation with WYCA having a number of reserve funds held in the balance sheet for differing purposes. However within this portfolio of reserves there are restrictions and only certain reserves can be accessed to provide a safeguard for revenue purposes.

The first category of funds are Usable Reserves of which the WYCA have the General Fund Balance and the Capital Grants Unapplied Account. The second category are Unusable Reserves consisting of the Revaluation Reserve, Pension Reserve, Capital Adjustment Account and Financial Instruments Account.

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 fits with the policies and objectives of the WYCA. This reserve has the accessibility to use as a revenue contingency fund and mitigates volatility in the levy from districts allowing WYCA to utilise reserves where required.

The Capital Grants Unapplied Account although usable is earmarked for funding future capital expenditure that has yet to be incurred. This reserve holds capital grant that cannot be used to fund revenue commitments.

Capital Reserves are earmarked specifically for capital purposes and are intended for use on current capital schemes where expenditure has not yet been incurred – this covers the Rail Reserve, NGT Reserve and West Yorkshire Transport Fund.

Unusable Reserves

The Revaluation Reserve holds unrealised gains and losses arising from the periodic revaluation of assets. This reserve is restricted and would only become available for use when the assets are sold and the gains are realised.

The Capital Adjustment Account Reserve represents capital grants that have been applied to funding/financing capital expenditure. The Capital Adjustment Account facilitates the release of capital grants received to finance the depreciation costs of the capital expenditure incurred.

The Pension Reserve is a specific accounting reserve used to reconcile the required payments made for the year to the statutory pension scheme and the net change in WYCA's liability under IAS19 - Employee Benefits, for the same period. An appropriation to or from the reserve is made to the general fund balance reflecting the revenue requirement.

The Financial Instrument Account holds the timing differences relating to the discounts and premiums receivable/payable on the settlement of long term loans released over the loan duration.

Revenue Income Sources

The WYCA's revenue income is derived primarily from the levy from the five Districts. The levy income is supplemented by other income from property rentals, departure charges and other cost contributions.

The Levy income accounts for approximately 90% of funding with the remaining 10% coming from the other income generating activities identified above. This excludes Special Rail Grant as this income is transferred straight to the rail operator and does not impact on the reserves position of the WYCA.

This presents a significant risk to the WYCA with such a significant proportion of funding effectively coming from one source. The risk being that any reduction in the funding of the Districts is passed directly on to the WYCA. The WYCA is limited in terms of its ability to reduce its reliance on the levy as the income generated from other income (rents, departure charges etc) has been fully maximised and is also exposed to economic factors and market conditions.

The Authority has been successful in obtaining some Central Government grant funding through the Local Sustainable Transport Fund/Better Bus Areas Fund/Cycle City Ambition Grant but this is not core income and funds a specific project for a finite duration.

The WYCA is exposed to the following key risks affecting revenue funding, income generation and variability of income sources:-

Economic Environment –Factors such as economic growth, unemployment and poor economic conditions restrict other income generating activities;

Government policy – Deficit reduction and public spending cuts put pressure on districts and limit availability of central government grant funding;

District Funding – Central Government Finance settlement, constraints on Council tax, Business rates and Tax increment finance income sources;

Market Risk – The market for income generation is limited to bus operators and primarily small independent retailers (with the exception of a small number of high street retailers). This market is volatile and relatively unattractive to premium businesses offering little scope to enhance the quality or profitability of the WYCA asset base. WYCA is seeking develop further income streams through toilet charging and through enhancing the bus shelter advertising contract in order to improve the performance in other income generation.

Committed Expenditure

Revenue income and the related risks are principal determinants of the reserves policy along with the shape of the organisation's expenditure and the extent to which it is able to reduce or alter the timing of expenditure. Where expenditure is discretionary and has flexibility with regards timing this allows changes in income to be managed.

However where expenditure is committed and the timing of the expenditure is inflexible the ability to match expenditure with income can prove difficult, particularly where income has an element of volatility to it. Also a significant consideration is how important is that expenditure and how much does it contribute to the objectives and public obligations of the business.

Mandatory Expenditure

The WYCA's committed revenue expenditure consists of concessionary fares expenditure for English National Concessionary Travel Scheme (ENCTS). There is a statutory requirement for WYCA to pay operators for passenger use of ENCTS and the timing of the payments are subject to contracts. This expenditure constitutes some 45% of the WYCA's annual levy income and is a core part of the business making it a key factor in determining reserves. There is a risk that these costs have the potential to rise continually due to the increased take up of this concession by passengers and also the operators requirement to increase fares due to inflationary pressure on fuel and other operating costs. As this is a statutory provision the WYCA is unable to reduce or contain this expenditure through policy decisions, however 3 year agreements with large operators to cap exposure to large increases have been used to mitigate some risk of volatility.

Discretionary Expenditure

The WYCA's expenditure on tendered services, other activities and passenger facilities is discretionary but is committed in the sense that there are contracts in place, staff are employed and the WYCA has an on-going commitment to the public to deliver services. The organisation is also in the process of expanding with the responsibility to provide a wider range of services for West Yorkshire with Economic Development and investment being a key area. So although there is some flexibility to potentially reduce this expenditure or re-align expenditure to reflect changes in funding this would have political ramifications in terms of providing services to the public and delivering the ever expanding agenda of the WYCA.

These categories of expenditure may offer the opportunity to review the levels and timing of expenditure potentially allowing priorities and decisions to be made to reduce or re-evaluate these areas of revenue expenditure but need to be undertaken in a measured and coordinated way.

WYCA's role in delivering Economic development and regeneration, the WY+Transport Fund and other large scale strategic projects such as Bus Partnerships/Quality Contracts and the new rail franchise are commitments that will ultimately require revenue support as capacity is stretched. Also further services that are deemed appropriate for WYCA to undertake on behalf of District Councils will potentially expose WYCA to new funding risks and put pressure on the levy where matching funding is not provided. These responsibilities need to be taken into account in the development of a robust reserves policy.

The Reserves Policy

The key areas for consideration in forming a policy on reserves have been identified as:-

- The nature and availability of the organisations reserves;
- Funding and income streams and risks of reduced or volatile funding;
- The type and extent of expenditure commitments;
- Exposure to risk factors;
- The enhanced delivery role of WYCA.

The information demonstrates that the organisation has a number of reserves but effectively only has the general fund balance that is unrestricted and is not ear-marked for a purpose. It is this reserve fund that forms the basis for the policy and will provide the funding for the business should there be a change to income sources.

The income sources are limited with the majority of income coming from the district levy. The opportunity to generate additional income or find other funding sources are limited. The income although not significantly volatile and coming from a reliable source is subject to political factors and government policy which brings elements of uncertainty. The general fund balance acts as a safeguard helping smooth reductions in funding sources and preventing the WYCA from imposing erratic levy changes on Districts.

The WYCA has a statutory duty to pay operators for ENCTS and it is therefore important that the available reserves reflect this commitment and also consider the fact that changes/reductions in discretionary spend may have impacts that are unpalatable. Furthermore WYCA with its enhanced role in transport delivery and economic regeneration is exposed to further risk in terms of future costs and having the required funding to fulfil this role.

The level of reserves required to support the WYCA ensuring a smooth continuation of the business will focus on the key areas providing a safeguard as follows:-

- To act as a contingency against cost increases in mandatory expenditure on Concessionary Fares. This accounts for around 45% of WYCA's levy income, and while cost increases in ENCTS have been managed by three year agreements with the large bus operators, there is a risk that not all large operators will sign up to a three year agreements and as we move towards making payments based on real smartcard data this could introduce an element of volatility.

- To protect against a levy reduction. The reserves should be set at a level that allows exposure to a levy reduction to be managed responsibly. The cuts to District funding by Central government over the 3 year strategy period mean that WYCA, as well as rationalising costs, will need to be able to manage levy freezes/cuts from general reserves.
- To protect against the Authority's exposure to risk on large scale schemes such as Quality contracts. The scale of costs based on current tendered service budgets will be in the order of £20m or approximately 21% of budgeted levy income, given the revenue risk attached to this particularly in the early years of the scheme it would be prudent to have a reserve contingency. Other high level strategic schemes such as WYTF and WYCA's role in the new rail franchise will again carry potential funding risks and reserves should be established to reflect this.

In previous years a prudent level of reserves was deemed to be around £4m. However the role the WYCA now plays in the delivery of a modern transport system for West Yorkshire and its role in economic development and regeneration means a higher level of reserves may be appropriate. Over the financial strategy period this is to be delivered through managing costs and pursuing savings on discretionary spend areas such as Tendered services, Passenger Services and Development and Corporate. Also securing an appropriate levy agreement across the three years 2016-17-2018-19 is crucial in order to ensure an appropriate level of reserves.

Conclusion

The WYCA are required to ensure proper financial management of the organisation and in undertaking these duties should consider the level of reserves held. It is fundamental to the sustainability of the WYCA that there are sufficient reserves to cover obligations, liabilities and contingencies and to be able to absorb any reductions in funding. However there is a balance that must be achieved as excessive reserves exceeding what is deemed reasonable to stakeholders will be subject to scrutiny and may be regarded as an inappropriate use of public funds.

The reserves policy is an important tool to inform the budgeting and decision-making process and to act as a benchmark for setting affordable and sustainable budgets and ensuring funds are used to good effect. The reserves policy should prevent reserves being too high which can lead to poor planning and ineffective utilisation of resources but conversely should prevent reserves falling too low making the organisation more reactive and unable to plan constructively.

The reserves policy demonstrates to stakeholders the WYCA's funds are being managed responsibly and used effectively and provide a crucial link to the organisation's strategic and financial planning.

Reserves Policy Calculation

The reserves calculation is used to set a level of reserves required to support the core functions of WYCA. The % contingency on key budget lines was designed to represent the risk of factors such as inflation, implementation of new capital projects and the risk of not realising savings.

Effect of a levy reduction. See calculation below :-

	Expenditure 2015-16 £m	Reserves 2015-16 £m	2016-17 £m	2017-18 £m
Risk on Concessions				
Total English National Concessions (ENCTS) Budget	47.0			
2% contingency for volatility of ENCS payments - Agreements	43.8	0.88	0.876	
5% contingency for volatility of ENCTS payments after agreement				2.19
5% contingency for volatility of ENCS payments - Non Agreements	3.0	0.15	0.15	0.15
Young Persons Concession - Risk of patronage volatility and enhancement of NEET concession - 2%	9.9	0.20	0.20	0.20
Risk on Tenders				
Tendered service budget	20.00			
7.5% contingency TS payment inflation/renewal rate (budget has renewal rate removed)		1.50	1.5	1.5
Risk on other areas of spend				
Passenger Services	8.0			
Other Activities	6.1			
LEP - Economic	3.9			
5% contingency for other spend areas - increase capacity demands/ income volatility/pension volatility		0.90	0.9	0.9
		3.62	3.62	4.94

ITEM 14

Report to: Governance and Audit Committee

Date: 28 July 2015

Subject: Approval of Annual Accounts for 2014/15

1. Purpose

- 1.1. To present to the Committee the annual accounts for 2014/15 for the West Yorkshire Combined Authority (WYCA).
- 1.2. For the Committee to recommend approval of these accounts to the West Yorkshire Combined Authority (WYCA).

2. Information

- 2.1. At its last meeting this Committee considered the plan produced by the external auditor Deloitte for their audit of the WYCA annual accounts.
- 2.2. The annual accounts have now been produced and Deloitte has completed its audit work. This report provides the information required to consider the accounts and recommend them to the WYCA for approval. The following appendices are attached:

- Appendix A** Final accounts of WYCA
- Appendix B** Treasury management statement
- Appendix C** Schedule of capital expenditure in the year
- Appendix D** Auditors' final report on WYCA

- 2.3. The statutory deadline for the approval of the annual accounts is 30 September. In line with the approach taken in previous years the accounts closedown, production and audit takes place in early summer. Following this Committee's consideration of the accounts a report will be taken to the next meeting of the WYCA, on 17 September, to formally approve the accounts. The draft accounts were approved for audit by the s151 officer, in accordance with legislation.

- 2.4. 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. These are the inaugural accounts of the Combined Authority so there are no comparative figures in the prime financial statements, but the notes to the accounts provide comparatives for 2013/14 drawn from the closing accounts of the West Yorkshire Integrated Transport Authority (WYITA). Also to assist comparability with 2013/14 the WYITA group balance sheet and Comprehensive Income and Expenditure Statement are provided in the foreword.
- 2.5. There are a number of accounting matters in the accounts which are drawn to the Committee's attention. The Committee is also asked to note that there are still one or two minor disclosure amendments to the accounts being discussed but these will not have any impact on the figures presented or the results for the year.
- 2.6. **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 the WYCA cease to exist without a successor organisation to take on the liability. The deficit has increased during the financial year 2014/15 from £63.3m to £68.9m as a result of the financial actuarial assumptions changing over the course of the year.
- 2.7. **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 results in a negative balance sheet which would ordinarily give rise to a question regarding going concern. However, as explained it is not thought likely that the 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. The WYCA's accounts have therefore been prepared on a going concern basis.
- 2.8. **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 the WYCA. The conclusion is that there are none and this was also supported by the property valuation undertaken by independent surveyors Lambert Smith Hampton.
- 2.9. **Accounting policies** – these have not changed from those approved in previous years.

Final accounts of the WYCA (Appendix A)

- 2.10. WYCA's accounts comply fully with the required accounting standards but the statutory format of the income and expenditure account both summarises the majority of expenditure into one line and also does not require a comparison against budget. The foreword to the accounts shows perhaps a more useful presentation comparing the actual results against the budget detail as agreed at the WYCA 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 overall result for the year for the WYCA is a transfer to reserves of £1.4m compared to the budgeted position of a use of reserves of £0.055m. Concessionary travel costs were under budget (by £605k), bus tendered service costs increased by (£201k) but savings have been recorded on all the other budget lines. Financing costs were £370k lower than budget due to the increased income generated by higher than expected cash balances and from a change to the application of capital financing regulations which results in depreciation not being expensed through the income and expenditure account. Staffing savings were made across all areas as a result of vacancy savings and savings have been made across a range of contracts in place, including printing, ICT, bus real time systems and bus station security and repair costs.
- 2.12. The WYCA balance sheet has shown significant movement compared with the WYITA's group accounts 2013/14 in relation to short term debtors, trade and other payables, deferred income and short term investments. Short term debtors increased (by £10.6m) primarily due to major scheme grant due from Department for Transport (DfT) at the year end. Trade and other payables increased (by £9.9k) relating to monies held on behalf of the developer CEG for Kirkstall Forge and Apperley Bridge and Network Rail invoices outstanding at year end for major schemes. Deferred income reduced (by £9.8m) recognising the utilisation of funding from the Local Sustainable Transport Fund, Better Bus Areas Fund and Cycle City Ambition Grant. Short term investments increased (by £7.5m) which is reflective of the increase in grants being paid in advance by Government with a significant amount of Local Transport Grant (LTP) grant ear-marked for future schemes such as Low Moor and Cycle City Ambition Grant 2. As set out in the Treasury Management Statement below the WYCA has received a large number of grants in advance which has increased short term cash balances. These have then been invested in accordance with the policy.

Treasury Management statement (Appendix B)

- 2.13. The Treasury management statement and report for the year is set out in appendix 3. The same prudential borrowing rules will apply to the WYCA and the arrangements in place are being continued through to 2015/16. The announcement of the Local Growth Fund and the significant funding for the West Yorkshire plus Transport Fund necessitated a review of the treasury management arrangements during the year and these were agreed at the Combined Authority meeting of 12

March 2015. The changes to the Treasury Management policy allow the investment of larger sums up to £15m with individual counterparties giving the authority the flexibility to place the increasing in-flow of funds in a way that enhances returns on investment whilst still ensuring security of funds. The Treasury management Statement is set out at appendix 3.

Capital expenditure (Appendix C)

- 2.14. Capital expenditure in 2014/15 totalled £81.063m, for which a grant of £50.93m was made from Department for Transport (DfT) in the form of LTP Integrated Transport Block grant (£27.165m) and Highways Maintenance grant (£23.766m). Funding was also received from DfT for major schemes with £11.8m for Leeds Station Southern Entrance and £9.4m for Kirkstall Forge and Apperley Bridge. Elements of funding will be carried forward to 2015/16.
- 2.15. Capital schemes in the year include a number of highways works, investment in shelter replacements, contributions to rail schemes as well as preparatory work on the NGT trolleybus scheme, rail stations and Leeds Station Southern Entrance and Castleford Bus Station.
- 2.16. A full schedule of capital expenditure undertaken in 2014/15 is shown in Appendix 3 with the funding included in the treasury statement at appendix 2.

Auditors Final Report (Appendix D)

- 2.17. Deloitte have completed their audit work on the annual accounts and their conclusions are set out in their Final Report. The Committee is required to consider this report before considering approving the annual accounts. The Audit Manager will be in attendance at the meeting to present their report and answer any questions.
- 2.18. The key messages are set out in the 'Big Picture' on page 1 of the reports which confirm that an unmodified audit opinion is to be given on the financial statements and an unqualified value for money conclusion.
- 2.19. The rest of the report goes on to consider how the audit risks identified at the planning stage 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 the WYCA is required to address.
- 2.20. Prior to approval of the accounts in September 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 the WYCA has provided all necessary information and disclosures to the auditors.
- 2.21. Prior to presenting the annual accounts to the WYCA in September for approval Deloitte will consider with management whether anything has occurred in the period from this meeting to the date of the signing of the accounts which would require any

changes to the accounts. If this is the case then this will be set out in full in the report to the WYCA.

- 2.22. The Committee should also note that in order for Deloitte to issue an audit completion notice as well as the audit opinion they need to audit the Whole of Government Accounts submission. This is, as usual, being done over the summer and is expected to be complete by the time the WYCA is asked to approve the accounts.

3. Financial implications

- 3.1. The audit fee is set nationally by the Audit Commission and is included in the WYCA's 2015/16 budget. Future audit fees will be the subject of a consultation process with the Audit Commission.

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 policy and report and that the methods of capital funding in appendix 2 be recommended for approval.
- 6.2. That Deloitte's final report be noted.
- 6.3. That the Committee recommend for approval to the WYCA the attached annual accounts for the year ended 31 March 2015.

WYCA

West Yorkshire Combined Authority

Statement of Accounts

For the year ending 31 March 2015

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Explanatory Foreword to the Annual Accounts 2014/15

Introduction

The Explanatory Foreword has been prepared to provide an outline of the activities for the year 2014/15, providing both a guide to the Combined Authority's accounts and to the West Yorkshire Combined Authority's achievement in delivering growth through transport and economic development and regeneration.

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. The 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 inaugural accounts of the Combined Authority so there are no comparative figures in the prime financial statements, but the notes to the accounts provide comparatives for 2013/14. Also to assist comparability with 2013/14 the WYITA group balance sheet and CIES are provided in the foreword.

Responsibilities

The West Yorkshire Combined Authority is responsible for determining public transport policies in West Yorkshire and for providing funds to carry them out. In 2014/15 the Authority received a transport levy of £96.2m to cover the costs of meeting those policies. The WYCA will be the accountable body for the Leeds City Region Local Enterprise Partnership which delivers the economic growth and regeneration agenda from 1 April 2015 with all LEP funding and expenditure being recognised in the 2015/16 accounts.

The West Yorkshire Combined Authority has the statutory duty of producing the Local Transport Plan and, in partnership with the District Councils, has produced LTP3, branded 'MyJourney' for the period 2011-2026. Governance arrangements as set out below will ensure continuing effective delivery of the objectives of LTP3.

The WYCA has an important role to play in providing the vehicle for closer partnership working between the West Yorkshire and York District Councils and the LEP in order to ensure improved economic outcomes for local people.

Review of the year

2014/15 has been the first year of business for the West Yorkshire Combined Authority. At its inaugural meeting on 1 April 2014 it set out its 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 the LEP.

The WYCA has adopted the Strategic Economic Plan (SEP) produced by the LEP that sets out the plan for economic growth in the region. This will be supported by the Single Transport Plan (STP) which will provide an update to the Local Transport Plan (LTP3) which covers the period 2011 to 2026.

In its first year the WYCA has secured some notable successes. In partnership with the Leeds City Region Enterprise Partnership it secured a £1bn Growth Deal settlement, the country's largest, which uniquely included £420m to establish a £1.4bn West Yorkshire plus Transport Fund. This was supplemented by an additional £54.6m of Growth Deal funding announced in January. Work is underway to move a range of projects including transport, housing and regeneration from the planning stage to construction, ensuring the organisation has the right structures, skills and resources to deliver this agenda. A number of projects within the West Yorkshire plus Transport Fund are now progressing through the gateway approval process which reflects the governance arrangements agreed in the assurance frameworks in place. Funding is also included in this deal for skills which will see further development of the successful programmes to get young people into apprenticeships and encourage businesses to invest in skills training.

The budget statement in March included a first-stage devolution deal with government, giving council leaders and businesses greater influence over investment decisions on skills, transport, housing and support for small businesses. Work is underway to develop the next stage of devolution for the region to enable further economic growth.

Working closely with the LEP the WYCA has also seen good progress on the Better Homes Yorkshire project, which will enable around 12,000 residents across the City Region to save money on their fuel bills by taking advantage of heavily discounted improvement work such as insulation and boiler replacements, as well development of a superfast broadband proposal.

The financial climate continues to provide challenges. The former WYITA undertook to make over £5m savings per annum from the bus tendered network through a series of reviews commencing in 2011/12. These reviews, covering all West Yorkshire Districts, are now complete and have achieved the required savings whilst still maintaining a viable network for users. All areas of activity have been re-examined as part of the budget process to seek to achieve cost reductions whilst improving income opportunities. This work will continue with the funding available for LEP economic activities being combined with the transport funding to ensure the best use of the available funding for the wider activities of the WYCA.

Foreword to the Annual Accounts 2014/15 (continued)

Despite budgetary pressures and continuing reductions in staffing numbers the WYCA has continued to deliver further service innovations and improve key customer satisfaction scores as demonstrated by the Passenger Focus survey. Usage of the new mobile website for transport has continued to increase since its launch in 2013 and further improvements to assist in self service are planned, including a new customer database for users to manage their Mcard transactions.

The funding from the Better Bus Areas Fund has been fully utilised by the deadline of 31 March 2015. During 2014/15 this has been used to expand the products available on smartcards and to set up the retail offer through payzone outlets. This move has increased the opportunity for users to purchase and top up Mcards, with payzone retailers outnumbering the traditional outlet of post offices and offering longer opening hours. Sales through post offices ceased in December 2014.

Work continues to develop the case for a statutory bus quality contract scheme. Discussions with operators on a partnership approach have been continuing in parallel, with a focus on seeking agreement on integrated ticketing, value for money and increased competition.

Funding was secured in 2013 for the Cycle City Connect project, a £28m scheme that includes the construction of a cycle superhighway between Leeds and Bradford. Good progress has been made in 2014/15 with the resurfacing of the towpath well underway along with sections of the superhighway. A bid for further funding was successful and this will be used to increase cycle facilities and opportunities in the other West Yorkshire Districts.

Further funding has also been secured in the year to continue the successful activities funded by the Local Sustainable Transport Fund (LSTF) which include enhancing improvements in active transport modes, including cycling and travel planning.

There have been a number of positive developments with regard to rail. Rail North, a partnership involving over 30 local authorities in the north of England, has been established to jointly manage the local rail franchises with the Department for Transport (DfT). Specifications for both the Northern and Transpennine franchises have been developed with DfT and tenders are due back later in 2015, with the new franchises commencing in February 2016. The headquarters for Rail North will be at WYCA and recruitment will commence early in 2015/16.

The government focus on a Northern Powerhouse has brought to the fore discussions for east-west connectivity on rail, to complement the north-south proposals for High Speed 2. The Transport for the North proposals will see these brought together with a range of work underway to provide a coherent transport offer across the north.

Projects to improve the rail offer in West Yorkshire have continued. The improvements to Wakefield Kirkgate Station are almost complete and include a full modernisation of the station facilities. Construction on new rail stations at Kirkstall Forge, Apperley Bridge and Low Moor have commenced, with all three due to open during 2015/16.

Construction of the new Leeds Station Southern Entrance is underway and scheduled for completion in autumn 2015. The public inquiry into the NGT trolleybus system in Leeds took place in 2014 and a decision from the Secretary of State is expected in 2015 with regard to the Transport and Works Act Order application.

Projects on bus infrastructure included the £6m new facility at Castleford which opened in February 2015, providing passengers with a much improved modern enclosed bus station. A bus hub providing enhanced passenger shelters and information was completed at Heckmondwike with similar work underway in locations across West Yorkshire.

The accounts

The accounts have been prepared in accordance with The Code of Practice on Local Authority Accounting UK 2014/15 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 Statement 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 the group.

Foreword to the Annual Accounts 2014/15 (continued)

Following the IFRS Based Code requirements means that the Authority has a negative balance sheet arising from the requirements of IAS19 Accounting for Pension Costs which requires the Authority to show in their accounts any deficit which would arise on their proportion of the West Yorkshire Pension Fund if that Fund were to be wound up. Whilst this is in accordance with the requirements of the Accounts and Audit Regulations 2011 it is offset by a negative Pensions Reserve. The result is a further negative impact on the attached accounts. However, the impact of the deficit is long term and action is being taken to address it in accordance with the Actuary's projections.

The Group CIES and Group Balance Sheet of the former WYITA are included to assist comparability with the 2013/14 financial year given that the assets, liabilities and powers of WYITA have been passed to the Combined Authority.

WYITA Comprehensive Income and Expenditure

		2013/14	
	Gross Expenditure	Gross Income	Net Expenditure
	£000's	£000's	£000's
Highways and Transport Services	259,392	(182,225)	77,167
Corporate and Democratic Core	8,492	-	8,492
Cost of Services - continuing operations	267,884	(182,225)	85,659
Interest Payable	3,330	-	3,330
Interest and Investment income	-	(230)	(230)
Pensions interest cost and expected return on assets	2,596		2,596
	273,810	(182,455)	91,355
Non-Specific Grant Income			
-District Council Levies	-	(99,550)	(99,550)
- Integrated Transport/Maintenance (Capital)	-	(44,829)	(44,829)
- Government and Other Grants (Capital)	-	(7,898)	(7,898)
Capital grants released	59,690	-	59,690
(Surplus) on Provision of Services	333,500	(334,732)	(1,232)
Actuarial gains and losses recognised on pension assets	-	(1,346)	(1,346)
Other Comprehensive Income and Expenditure	-	(1,346)	(1,346)
Total Comprehensive Income and Expenditure			(2,578)
			=====

Foreword to the Annual Accounts 2014/15 (continued)

WYITA Balance Sheet

	2013/14 £000's
Assets	
Non-current assets	
Property, Plant, Equipment	83,407
Donated Assets	386
Assets held for sale	726
	84,519
Current Assets	
Short term investment	27,500
Short term debtors	10,772
Cash and cash equivalents	9,467
	47,739
Total assets	132,258
Liabilities	
Current liabilities	
Short term borrowing	(2,080)
Trade and Other payables	(15,145)
Accruals and deferred income	(20,724)
Provisions	(151)
	(38,100)
Long term borrowing	(77,500)
Other long term liabilities	
Net Pension liability	(63,893)
Long term liabilities	(141,393)
Total Liabilities	(179,493)
NET LIABILITIES	(47,235)
General Fund Balance	6,571
Capital Grants Unapplied Reserve	12,523
Rail Reserve	2,075
NGT Reserve	1,043
WY Transport Fund Reserve	4,085
Usable Reserves	26,297
Deferred Capital Grants Account	20,636
Capital Adjustment Account	(41,404)
Financial instrument adjustment account	36
Donated Asset Account	668
Pension Reserves	(63,893)
Revaluation Reserve	10,425
Unusable Reserves	(73,532)
Total reserves	(47,235)

Foreword to the Annual Accounts 2014/15 (continued)

Review of Revenue Expenditure for the West Yorkshire Combined Authority

	2014/15 Approved Budget £m	2014/15 Actual £m
Funding		
Government grants	43.2	43.2
District Council Levies - net	96.2	96.2
Ticket Sales	31.0	29.7
Transfer from reserves	0.0	(1.4)
	<u>170.4</u>	<u>167.7</u>
Revenue Expenditure		
Concessionary Travel	54.3	53.7
Subsidised Bus Services	17.4	17.8
Special Needs Transport	1.9	1.8
Passenger Services support	8.0	7.6
Prepaid tickets	31.0	29.7
Local Rail Services	43.2	43.2
Financing costs (net)	8.4	8.0
Support costs	6.2	5.9
	<u>170.4</u>	<u>167.7</u>

The presentation above reflects the agreed format in which the budget is approved by the Authority and provides a more meaningful analysis of expenditure for the users of the accounts as the accounts present the majority of the expenditure in one line 'Highways and Transport Services.' The segmental reporting note provides further analysis which is compatible with the presentation here. The transfer to reserves figure is the same irrespective of the presentation adopted.

Revenue funding

In 2014/15 grant income was received from Central Government to cover franchised rail costs. 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).

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 levy shown in the accounts for both 2014/15 is the net amount.

Overall the net Levy available for normal transport purposes has stayed the same as that paid to the WYITA in 2013/14. The levy was actually increased by 1.5% 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.

Revenue expenditure

The continuing levy freeze for normal transport purposes has only been possible as a result of the approach taken by the Authority 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.

The Authority expects to face challenging financial constraints over the coming years as local government funding is severely reduced at a time when the activities of the Combined Authority are increasing. Significant amounts have been 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. Efficiency savings continue to be pursued but as concessionary reimbursement becomes an ever increasing proportion of the budget it is difficult to make the required savings. Another set of three year agreements with bus operators on concessionary reimbursement has been put in place from 1 April 2014 and whilst this will help to manage costs in the short term there will continue to be pressure on this budget. Plans to introduce bus quality contracts or partnerships and rail devolution continue to be progressed and these are likely to introduce further budgetary pressures.

Capital expenditure

Total capital expenditure in the year was £81.063m, funded through a combination of grants primarily from the Department for Transport. These included the LTP Integrated Transport block funding and highways maintenance grant totalling £50.9m which is then utilised by the Combined Authority and the constituent District Councils. The Authority also received capital grants for the City Cycle Ambition Grant of £7.2m and major scheme funding for Leeds Station Southern Entrance of £11.8m and for Kirkstall Forge and Apperley Bridge stations £9.4m. Some funding was carried forward from 2013/14, 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 2015/16 under similar circumstances.

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

Foreword to the Annual Accounts 2014/15 (continued)

Treasury management

The Authority has continued to follow its approved treasury management policy and full details are set out in the accounts. The Authority's long term borrowing at the end of the year is £76.5m, a £1m reduction on the previous year due to the repayment of a £1m loan falling due within one year. 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.

Further Information

The Authority's Accounts can also be supplied in large print, Braille or audiotape. Anyone wanting these options should contact the 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

ACCOUNTING POLICIES FOR THE WEST YORKSHIRE COMBINED AUTHORITY

1

BASIS OF PREPARATION

The Statement of Accounts summarises the Combined Authority's transactions for the 2014/15 financial year and its position for the year end of 31 March 2015. The Combined Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice 2014/15, supported by International Financial Reporting Standards (IFRS). This will be the inaugural set of annual accounts of the West Yorkshire Combined Authority.

Statement of Compliance with IFRS

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

IFRS 13 Fair Value Measurement (May 2011)

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 10): the Authority carries its non- infrastructure land and buildings at fair value. Periodically, external surveyors are used, and the last full independent survey was carried out as at 31 March 2015. Between independent surveys, reviews are carried out by internal but qualified staff. Such valuations and any attached estimates are subject to some judgement.
- Leases (note 24b) : 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 6) : 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.

2. 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 (ie 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.

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 fair value less accumulated depreciation on buildings and impairment losses recognised after the date of the revaluation. Valuations are performed at intervals of no more than five years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. The property assets of the former WYITA Group transferred to the Combined Authority on 1 April 2014. A 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) in accordance with IAS 16. A revaluation of the Authority's on-street furniture was carried out as at 31 March 2008. 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.

- Infrastructure Assets and Plant and Equipment is 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
Rail Units Leased 10 years
Vehicles Between 4 and 16 years
Plant and Equipment Between 5 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 Work In Progress. 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.

4. 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.

5. CHARGES TO REVENUE

For the Authority depreciation has been shown as part of the service expenditure. No charge has been made for impairment which is not considered to have occurred in the two years concerned. 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.

6. 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 note 5 above).

Details of capital grants receivable and released are set out in Note 2 to the Authority Accounts.

7. INVESTMENTS

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

8. 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.

9. 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 6 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 1997.

The transfer of the Executive's assets and liabilities to the Combined Authority means the Authority has a continuing responsibility for any payments to the Fund in respect of service up to 25 October 1986 for all staff employed by the former Executive up to that date. This responsibility includes all staff who were transferred to Yorkshire Rider Limited as a consequence of the Transport Act 1985. For service from 26 October 1986 onwards the Authority is only responsible for payments to the Fund in respect of its own directly employed staff. The annual cost of this responsibility is charged to the revenue account under Highways and Transport and Corporate and Democratic Core.

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 Non-Distributed 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 Non-Distributed 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 to 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.

10. 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.

11. 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.

12. **TAXATION**

Corporation, Income and Capital Gains Tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. The presumption is that the 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.

13. **DEBTORS**

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

14. **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.

15. **FINANCIAL INSTRUMENTS**

Financial assets are classified at initial recognition as loans, cash and cash equivalents (short term deposits) or receivables in accordance with IAS 39, and recognised at cost. The Authority has not designated any financial assets as at fair value through profit or loss. The Authority's financial assets include cash, short-term deposits, trade and other receivables. 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. Subsequent measurement depends on their classification as follows:-

Cash and cash equivalents: cash and short term deposits in the Balance Sheet comprise of cash at bank and in hand and short-term deposits with an initial maturity of less than 90 days. For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above, net of outstanding bank overdrafts.

Loans and deposits: 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. 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 liabilities are classified at initial recognition as loans and borrowings in accordance with IAS 39, and recognised at cost. The Authority has not designated any financial liabilities as at fair value through profit or loss. The Authority's financial liabilities include short term creditors, loans and other payables. Financial liabilities are derecognised when the appropriate cash flow obligations have been discharged, expired or otherwise cancelled.

Subsequent measurement 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.

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.

16. 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.

17. **CONTINGENT LIABILITY**

Contingent Liabilities (note 25): The Authority has a contingent liability at the balance sheet date. The Authority's legal advisors have assessed the liability but due to the uncertainty it is not practical to disclose the timing, financial effect or amount.

18. **EVENTS AFTER THE BALANCE SHEET DATE**

The Statement of Accounts are authorised for issue by the Chief Financial Officer. 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 2015, 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).

19. **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.

20. **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 the notes the financial performance and position in accordance with IAS31 "Interests in Joint ventures".

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 2015.

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 2015 and its income and expenditure for the year ended 31 March 2015.

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 meeting on xx September 2015 in accordance with the Accounts and Audit Regulations 2011. There are no material events after the balance sheet date that require reflecting in the Statement of Accounts.

Councillor Box

Chair of the Authority

xx September 2015

Annual Governance Statement

1. Scope of Responsibility

The Authority 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 Authority 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 Authority is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of the Authority's functions including arrangements for the management of risk. This is in accordance with the Accounts and Audit Regulations 2011 'ensuring 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 Authority is directed and controlled and its activities through which it accounts to and engages with the community. It enables the Authority to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority'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 Authority throughout the year ended 31 March 2015 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 Authority's governance arrangements. They are also encapsulated in the Local Code of Corporate Governance which has been approved by the Combined Authority and which is available on its website.

a) Corporate policies and objectives are set and communicated by the Authority. At its initial meeting on 1 April 2014 the Authority clearly set out its ambitions to effect economic growth in West Yorkshire. It subsequently adopted the Strategic Economic Plan (SEP) produced by the Leeds City Region Enterprise Partnership which sets out investment priorities across the four pillars of supporting business, developing a skilled workforce, building a resource smart City Region and delivering the infrastructure for growth. The statutory Local Transport Plan (LTP) is undergoing a refresh and will be relaunched next year as the Single Transport Plan. This will provide close links to the SEP and include new projects and initiatives that have emerged since the LTP was published in 2011.

A manifesto and strategy are being developed to complement the SEP and provide the basis for the annual business plan. These plans are reviewed by officer and Member Groups.

b) The Authority has sole responsibility for LTP3. A system of governance has been agreed to manage the delivery and financial management of LTP3 with the District partners. This includes officer and Member groups which can report as required to the Transport Committee and to the Combined Authority. These groups include representation from the District councils.

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

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

- **Development Approval (Gateway 1)** - scheme sponsors undertake modelling, appropriate feasibility work and the preparation of a high level business case;
- **Procurement Approval (Gateway 2)** - scheme sponsors continue to develop more robust cost estimates, undertake high level WebTAG appraisal appropriate to the nature and complexity of the scheme, progress detailed design work, refine risk levels, prepare to seek a price from the market to implement the scheme and update the business case;
- **Implementation Approval (Gateway 3)** – before implementation is approved, the WYCA needs to be satisfied that the final cost estimates are robust, risk exposure is acceptable, and that forecast outcomes remain comparable with those agreed in earlier gateways.

The WYCA is responsible for the approval for schemes passing through the above gateways.

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

d) The Combined Authority established new scrutiny arrangements by setting up an Overview and Scrutiny Committee. This meets regularly and consists of 18 members co-opted from the five West Yorkshire Councils and City of York Council and reflecting political balance. In addition Scrutiny committees within the Districts will also often challenge the work being undertaken by the Authority 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.

Working groups have been established to enable a more detailed consideration of budget and financial matters (Finance Working Group) and of bus tender awards (Bus Working Group).

e) Roles are defined and documented through job descriptions and competency based employee specifications. Appointments have been made to all the posts required by statute, including Head of Paid Service, s151 Officer, and the Monitoring Officer. Staff behaviours are guided by WYCA's values and its Code of Conduct and a similar Code exists for Members; both employees and Members are required to maintain a register of interests. New arrangements are being put in place to reflect the changes to the standards regime brought about by the Localism Act. The Authority conforms to the requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government (2010)*. The Chief Financial Officer is the Director Resources who is a key member of the management team and is responsible for the proper administration of the Authority's financial arrangements through a suitably qualified and resourced Finance function.

f) An internal team provide the internal audit service to the Authority. 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.

3. The governance framework (continued)

g) 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 Authority. 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.

h) Risk management is embedded in the activities of the Authority with regular reviews of the risk registers and exception reporting through the officer Audit and Risk Group and through the Member Governance and Audit Committee. A Risk Manual, endorsed by the Governance and Audit Committee sets out the risk management strategy in place and the way in which risks are identified, recorded and monitored. Covalent, the Authority's performance management system, is available for the recording of operational risk registers and can provide reports based on a traffic light system, highlighting 'red' risks that may require action.

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

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

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

l) Mcards were sold through Post Offices in West Yorkshire until December 2014 and continue to be sold through rail ticket offices. **The Authority withdrew from selling tickets through the post office in December and closing balances and destruction of stock were certified at this point.** The Authority has in place arrangements whereby an enhanced assurance statement is sought from Northern Rail stating that their systems have operated adequately with no material errors or weaknesses. Payzone sales have replaced the Post Office network and are reconciled to the Hops back office system ensuring that card sales through payzone are fully reimbursed to the Authority. An independent I.T. systems specialist was engaged to undertake a review of the payzone systems control environment.

4. Review of Effectiveness

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

The Authority 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 administrative controls and financial instructions are reviewed on a regular basis by the Authority's management and Internal Audit. Standing orders and financial regulations are also re-approved annually by the Authority. In terms of financial accounting the Authority utilises a core financial system which is reviewed annually by Internal and External Audit. During the last year the Chief Financial Officer has provided to the Governance and Audit Committee a regular confirmation that key controls have been operating in the period. The Assistant Director Finance reports regularly to the Audit and Risk Management Group that key controls have been operating in the period.

4. Review of Effectiveness (continued)

Within the Authority 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.

An internal team provides the internal audit resource for the Authority. 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 Authority's Governance and Audit Committee for consideration and the annual plan is approved by the full Authority. Regular update reports are provided to the Governance and Audit Committee by the Internal Audit Manager, including progress made on the implementation of audit recommendations. Within the Authority Covalent is used to monitor progress which allows outstanding recommendations to be considered monthly by the management teams.

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

The Authority continues to develop and refine its project management framework ensuring that there is greater accountability and improved governance with regard to the management and delivery of projects. Regular reports are provided to the Investment Committee and Combined Authority on progress with Local Growth Deal schemes, including the projects within the West Yorkshire plus Transport Fund. Further work will take place during 2015/16 to ensure that the delivery of capital projects is effectively organised and managed and that the procedures in place are suitably robust for the increasing volume of complex projects that need to be delivered by WYCA.

The Authority has in place comprehensive risk management arrangements. Reviews of risk take place at management team level, supported by the Risk Manual which provides guidance on the identification, assessment and reporting of risk. 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 Authority's Risk register is considered quarterly by the Governance and Audit Committee. These arrangements will be further developed and evolved to meet the changing needs of the West Yorkshire Combined Authority.

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 Authority has reviewed the internal audit function and concluded that it complies with the requirements of PSIAS and the Local Government Application Note.

5. Significant Internal Control 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.

6. Conclusion

Throughout 2014/15 the Authority has continued to demonstrate an ongoing commitment to best practice and good corporate governance consistent with the principles of the CIPFA/SOLACE Framework in Local Government and this is clearly demonstrated by the adoption of a Code of Corporate Governance which captures and summarises these principles. We are also satisfied with the improvements that are continuing under the guidance of the Governance and Audit Committee.

The West Yorkshire Combined Authority Order 2014 dissolved both the West Yorkshire Passenger Transport Executive and the West Yorkshire Integrated Transport Authority from 1 April 2014. While the assets and functions of the Executive (and Authority) transferred across to the new West Yorkshire Combined Authority (WYCA) the governance arrangements have undergone significant change to reflect the way in which decision making is undertaken within the Authority with the creation of a Transport Committee and an Investment Committee to support the Combined Authority in its capital investment decisions. Appropriate governance arrangements included revised Standing Orders, Financial Regulations, codes of conduct and decision making arrangements for the new committee structure were prepared for approval at the inaugural meeting of the West Yorkshire Combined Authority on 1 April 2014.

There is further work to be done during 2015/16 to ensure that all governance arrangements are fully aligned and that the Economic Development and regeneration function are integrated fully into the Authority's governance framework. This will include for example the development of the Authority's risk appetite, ensuring that risk registers are expanded to include the new areas of activity and decision-making and assurance frameworks are fully developed. Any new governance arrangements will be kept under review by the WYCA and will also be reflected in internal audit work programmes. For the year ended 31 March 2015 the inaugural Combined Authority's statement of accounts will be signed by the West Yorkshire Combined Authority's Chair and Head of Paid Service alongside the Chief Financial Officer.

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

Cllr Box
Chair

A Lythgo
Head of Paid Service

xx September 2015

WEST YORKSHIRE COMBINED AUTHORITY
MOVEMENT IN RESERVES STATEMENT AS AT 31 MARCH 2015

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.

Note	General Fund £000's	Capital Grants Unapplied £000's	Rail Reserve £000's	WY Transport Fund £000's	NGT Reserve £000's	Total Usable reserves £000's	Capital Adjustment Account £000's	Financial Instruments Adj A/C £000's	Revaluation Reserve £000's	Pension Reserve £000's	Total Unusable reserves £000's	Total £000's
Balance at 1st April 2014	-	-	-	-	-	-	-	-	-	-	-	-
Transfer of balances 1 April 2014	6,571	12,523	2,075	4,085	1,043	26,297	(20,768)	36	10,425	(63,893)	(74,200)	(47,903)
Movement in reserves during 2014/15												
Surplus on Provision of Service	16,378	-	-	-	-	16,378	-	-	-	-	-	16,378
Actuarial Gains/(Losses)	-	-	-	-	-	-	-	-	-	(3,907)	(3,907)	(3,907)
Total Comprehensive Income and Expenditure	16,378	-	-	-	-	16,378	-	-	-	(3,907)	(3,907)	12,471
Adjustments between accounting basis and funding basis under regs												
MRP	(3,678)	-	-	-	-	(3,678)	3,678	-	-	-	3,678	-
Finance costs early settlement discounts	76	-	-	-	-	76	-	(76)	-	-	(76)	-
Capital grants released	73,956	-	-	-	-	73,956	(73,956)	-	-	-	(73,956)	-
Capital grants applied	(86,813)	-	-	(7,047)	23	(93,837)	93,837	-	-	-	93,837	-
Capital Grants unapplied	-	12,774	-	-	-	12,774	(12,774)	-	-	-	(12,774)	-
Depreciation	5,300	-	-	-	-	5,300	(5,300)	-	-	-	(5,300)	-
Transfer to pension reserve	1,050	-	-	-	-	1,050	-	-	-	(1,050)	(1,050)	-
Revaluation of fixed assets	-	-	-	-	-	-	-	-	1,246	-	1,246	1,246
Total adjustments between accounting basis and funding basis under regs	(10,109)	12,774	-	(7,047)	23	(4,359)	5,485	(76)	1,246	(1,050)	5,605	1,246
Increase/ (decrease) in year before												
Transfer to ear-marked reserve	6,269	12,774	-	(7,047)	23	12,019	5,485	(76)	1,246	(4,957)	1,698	13,717
Transfer to ear-marked reserve	(4,895)	-	-	4,895	-	-	-	-	-	-	-	-
Increase/ (decrease) in year	1,374	12,774	-	(2,152)	23	12,019	5,485	(76)	1,246	(4,957)	1,698	13,717
Balance at 31st March 2015	7,945	25,297	2,075	1,933	1,066	38,316	(15,283)	(40)	11,671	(68,850)	(72,502)	(34,186)

WEST YORKSHIRE COMBINED AUTHORITY
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 MARCH 2015

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 2014/15 and the Accounts and Audit Regulations 2011.

		2014/15		
	Notes	Gross Expenditure £000's	Gross Income £000's	Net Expenditure £000's
Highways and Transport Services	3,7	254,901	(171,757)	83,144
Corporate and Democratic Core	3	8,806	-	8,806
Cost of Services - continuing operations		263,707	(171,757)	91,950
Interest Payable	5	3,302	-	3,302
Interest and Investment income	5	-	(291)	(291)
Pensions interest cost and expected return on assets	6	2,611		2,611
		269,620	(172,048)	97,572
Non-Specific Grant Income				
-District Council Levies	11	-	(101,093)	(101,093)
- Integrated Transport/Maintenance (Capital)	7	-	(50,931)	(50,931)
- Government and Other Grants (Capital)	7	-	(35,882)	(35,882)
Capital grants released		73,956	-	73,956
(Surplus) on Provision of Services		343,576	(359,954)	(16,378)
Actuarial gains and losses recognised on pension assets	6	3,907	-	3,907
Revaluation Gain	8	-	(1,246)	(1,246)
Other Comprehensive Income and Expenditure		3,907	(1,246)	2,661
Total Comprehensive Income and Expenditure				(13,717)

Note :

- 1 The movement in reserves statement is shown on page 23.
- 2 The notes on pages 27 to 44 form part of these accounts.
- 3 Income and expenditure arises solely from continuing operations. The Authority has had no acquisitions or disposals of operations in the year.

WEST YORKSHIRE COMBINED AUTHORITY
BALANCE SHEET
FOR THE YEAR ENDED 31 MARCH 2015

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. Unusable 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).

	Notes	31 March 15 £000's
Assets		
Non-current assets		
Property, Plant, Equipment	10(d)	85,989
Donated Assets	10(d)	397
Assets held for sale	10(d)	650
		87,036
Current Assets		
Short term investment	19	35,000
Short term debtors	14	21,430
Cash and cash equivalents	15	9,175
		65,605
Total assets		152,641
Liabilities		
Current liabilities		
Short term borrowing	17	(4,572)
Trade and Other payables	16	(25,050)
Accruals and deferred income	16	(10,843)
Provisions	21	(154)
		(40,619)
Long term borrowing	17,19	(76,500)
Other long term liabilities		
Donated Asset Account	10(c)	(858)
Net Pension liability	6	(68,850)
Long term liabilities		(146,208)
Total Liabilities		(186,827)
NET LIABILITIES		(34,186)
Usable Reserves		
General Fund Balance		7,945
Capital Grants Unapplied Reserve	2	25,297
Rail Reserve	20	2,075
NGT Reserve	20	1,066
WY Transport Fund Reserve	20	1,933
		38,316
Unusable Reserves		
Capital Adjustment Account	2	(15,283)
Financial instrument adjustment account		(40)
Pension Reserves	6	(68,850)
Revaluation Reserve	8	11,671
		(72,502)
Total reserves		(34,186)

- Note :**
1. The movement in reserves statement is shown on page 23.
 2. The notes on pages 27 to 44 form part of these accounts.
 3. The opening balances of WYCA transferred in on 1 April 2014 are shown in note 28

SIGNED ON BEHALF OF THE COMBINED AUTHORITY

The financial statements on pages 23-44 were approved by the Combined Authority on xx September 2015 and were signed on their behalf by :

A Taylor
Chief Financial Officer
WYCA

Date : 17 September 2015

WEST YORKSHIRE COMBINED AUTHORITY
CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2015

Purpose of cashflow

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

		2014/15 £000's
Operating Activities		
Surplus on the Provision of Service		16,378
Depreciation	10d	5,300
Increase in creditors		16
(Increase) in debtors		(10,658)
Transfer to the Pension Reserve		1,050
Provisions		3
Profit from the sale of property, plant and equipment,	4	(54)
Fixed assets charged to revenue		794
Net cash generated from operating activities		12,829
Cash flows from investing activities		
Purchase of property, plant and equipment,	10d	(7,901)
Short term investment	19	(7,500)
Proceeds from the sale of property, plant and equipment,	4,10d	780
Net cash flows from investing activities		(14,621)
Cash flows from financing activities		
Receipt of new loans		2,500
Repayment of loans	17	(1,000)
Net cash used from financing activities		1,500
Net decrease in cash and cash equivalents		(292)
Cash and cash equivalents at the beginning of the reporting period		9,467
Cash and cash equivalents at the end of the reporting period	15	9,175

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

		2014/15 £000's
Interest paid	5	3,302
Interest received	5	(291)

Note

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.

NOTES TO THE ACCOUNTS:-

1 The Accounts

The Code of Practice on Local Authority Accounting based code on International Financial Reporting Standards in the United Kingdom 2014/15(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 now a single entity carrying out the functions and powers of the former West Yorkshire Integrated Transport Authority and the West Yorkshire Passenger Transport Executive.

2 Depreciation and Minimum Revenue Provision

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 2014/15 the amount is £3.678m.

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 Group 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).

	2014/15 £000's
Capital Adjustment Account	
Opening Balance	20,768
	<u>20,768</u>
Revenue Funded from Capital Under statute	73,956
Depreciation	5,300
Capital Grants applied to financing	-
Statutory provision for the financing of Capital Investment (MRP)	(3,678)
Capital receipts applied	(81,063)
Balance at the end of the Year	<u><u>15,283</u></u>
 Capital Grants unapplied	
Opening balance	12,523
Capital receipts (applied)/unapplied in year	12,774
Balance c/f	<u><u>25,297</u></u>

3 Segmental Reporting

The analysis of income and expenditure by service on the face of the comprehensive income and expenditure statement is that specified by the Service Reporting Code of Practice (SeRCOP). However, decisions about resource allocation are taken by the Authority on the basis of budget reports. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular capital grants are credited to the revenue account over the life of the asset to offset depreciation charges and the cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current/past service cost of benefits accrued in the year.

Presented below is the restatement of Cost of Services and specific and non-specific grant income as reported to the Authority's decision makers.

3. Segmental Reporting - Resource allocation

	Bus Services	Concessions	Rail	Prepaid Tickets	Passenger Facilities	Other	Total
	2015 £000's	2015 £000's	2015 £000's	2015 £000's	2015 £000's	2015 £000's	2015 £000's
Other Income	(13,214)	-	-	(29,678)	(2,581)	(4,905)	(50,378)
Government Grants	(4,269)	-	(43,154)	-	-	-	(47,423)
Total Income	(17,483)	-	(43,154)	(29,678)	(2,581)	(4,905)	(97,801)
Operating Expenditure	34,825	53,736	42,251	29,678	-	-	160,490
Other Cost of Service Expenditure	7,798	-	-	-	8,363	9,361	25,522
Total Operating Expenditure	42,623	53,736	42,251	29,678	8,363	9,361	186,012
Cost of services	25,140	53,736	(903)	-	5,782	4,456	88,211

Reconciliation of Segmental Analysis and Cost of services in the Comprehensive Income and Expenditure Statement

	2014/15 £000's
Segmental Analysis of	
Cost of Service	88,211
Pensions IAS19	(1,561)
Non Government Capital Grants	-
Depreciation/Capital expenditure	5,300
Cost of Service CIES	91,950

4 Disposal of Fixed Assets

	2014/15 £000's
(Profit) on disposal of fixed assets by the Authority	(54)

5 Financing Income and Costs

	2014/15 £000's
Interest receivable on Loans, deposits and other debts	(291)
Interest payable on Loans	3,302
Effect of early settlement of Loans	76

6 Pension Costs

6.1 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 they 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 2015/16 and 2016/17 remains at 13.5% and the deficit lump sums are £1.03m and £1.09m respectively.

6.2 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 15 £000's
i) Current Employees	2,270
ii) Former Employees	1,226

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.

6.3 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:

	31/03/2015	
	Unfunded	Funded
Duration of liabilities	12	14.4
Inflation : RPI	2.9%	2.9%
CPI	1.8%	1.8%
Rate of increase in salaries	-	3.3%
Rate of increase for pensions in payment	1.8%	1.8%
Pension account revaluation rate	-	1.8%
Rate used to discount funded scheme liabilities	3.1%	3.1%

6.3 Pension disclosures required under IAS 19 (continued)

Mortality assumptions

Post retirement mortality (retirement in normal health) :-

31/03/2015

Males : 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	24.8 (27.8) Years
- of a male (female) current pensioner aged 65	22.6 (25.5) 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 2015 (showing the proportion of assets between the classes of investment) and are as follows:-

The assets of the scheme were:

	31 March 2015			Asset £000's
	Quoted %	Unquoted %	Total %	
Equities	69.9	6.3	76.2	95,672
Government Bonds	10.6	0.0	10.6	13,309
Other Bonds	4.7	0.0	4.7	5,901
Property	4.3	0.0	4.3	5,399
Cash/Liquidity	1.9	0.0	1.9	2,386
Other	0.0	2.3	2.3	2,888
Total	91.4	8.6	100.0	125,555

Reconciliation of unfunded/funded status to Balance Sheet

	31 March 2015	
	£000's Unfunded	£000's Funded
Fair Value of assets	-	125,555
Present value of unfunded/ funded defined benefit obligation	13,608	180,797
Funded status	-	(55,242)
Impact of minimum funding requirement /asset ceiling	-	-
Asset/(liability) recognised on the balance sheet	(13,608)	(55,242)

Reconciliation of present value of scheme liabilities

	£000's 31/03/2015 Unfunded	£000's 31/03/2015 All Benefits
1 April	13,739	180,988
Current service cost	-	1,826
Interest cost	552	7,424
Member Contributions	-	634
Past service cost	-	76
Actuarial gain/loss financial assumptn	668	13,911
Actuarial gain/loss Demographic	0	0
Actuarial gain/loss experience	(128)	(1,290)
Curtailements	-	-
Benefits paid	(1,223)	(9,164)
31 March	13,608	194,405

Reconciliation of fair value of scheme assets

	£000's 31/03/2015 Unfunded	£000's 31/03/2015 All Benefits
1 April	-	117,095
Interest income on scheme assets	-	4,813
Remeasurement of (losses)/gains	-	8,714
Contributions paid by employer	1,223	3,463
Member Contributions	-	634
Benefits paid	(1,223)	(9,164)
31 March	-	125,555

Actual return on assets

	31/03/2015 £000's
Interest income on assets	4,813
Remeasurement gain/(loss) on assets	8,714
Actual return on assets	13,527

The amounts recognised in the Comprehensive Income and Expenditure Statement

Cost of Service	31/03/2015 £'000
Current Service Cost	1,826
Past Service Cost	76
Curtailments or settlements	-

Financing Investment Income and Expenditure

Interest on net defined benefit liability	2,611
Total pension cost recognised	4,513

Remeasurements in Other Comprehensive Income and Expenditure

Return on plan assets (in excess)/below that recognised in net interest	(8,714)
Actuarial gains/losses due to change in Financial assumption	13,911
Actuarial gains/losses due to change in Demographic assumption	-
Actuarial gains/losses due to liability experience	(1,290)
Total amount recognised in Other Comprehensive income	3,907
Total amount recognised	8,420

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 2015 and the projected service cost for the year ending 31 March 2016 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	-0.1%pa
Present value of total obligation £000's	178,266	183,421
% change in present value of total obligation	-1.4%	1.5%
Projected service cost £000's	2,169	2,313
Approximate % change in projected service cost	-3.2%	3.2%
Adjustment to rate of increase in salaries	+0.1%pa	-0.1%pa
Present value of total obligation £000's	181,246	180,353
% change in present value of total obligation	0.2%	-0.2%
Projected service cost £000's	2,240	2,240
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	-0.1%pa
Present value of total obligation £000's	184,413	177,181
% change in present value of total obligation	2%	-2.0%
Projected service cost £000's	2,313	2,169
Approximate % change in projected service cost	3.2%	-3.2%

Adjustment to mortality age rating assumption	-1 year	+1 year
Present value of total obligation £000's	185,661	175,937
% change in present value of total obligation	2.7%	-2.7%
Projected service cost £000's	2,318	2,162
Approximate % change in projected service cost	3.5%	-3.5%

Estimated pension expense in future periods

This is an estimate of the charges to the estimated surplus or deficit on the income and expenditure provision of services in future periods, based on the assumptions as at 31 March 2015 as set out above.

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

	31/03/2016
	£'000
Projected service cost	2,240
Past Service cost	-
Interest on the net defined benefit liability/(asset)	1,668
	<u>3,908</u>

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

	31/03/2016
	£'000
Past Service cost	-
Interest on the net defined benefit liability/(asset)	403
	<u>403</u>

7 Government and Other Grant Income

	2014/15
	£000's
Revenue	
Special Rail Grant (SRG) - Department for Transport	43,154
Section 31 LSTF - Department for Transport	1,125
Section 31 BBAF - Department for Transport	998
Community Transport Support Grant - Department for Transport	42
Bus Service Operator Grant - Department for Transport	2,066
Congestion Performance Fund - Department for Transport	38
	<u>47,423</u>

Capital

Integrated Transport Block/Maintenance - DfT	50,931
Section 31 BBAF - Department for Transport	1,230
Section 31 Cycle City Ambition Grant - Department for Transport	7,163
Section 31 LSTF - Department for Transport	94
Cleaner Bus Technology Grant - Department for Transport	499
Section 31 Leeds Station Southern Ent - Department for Transport	11,760
Section 31 Kirkstall Forge App Bridge - Department for Transport	9,375
Section 31 Huddersfield Rail Station Gates Grant	101
Other Capital Grants	5,660
	<u>86,813</u>

The funding for the provision of rail services under the franchising arrangements was paid directly to the the Authority. The Authority received the pre-determined sums directly from the Government (DfT) in the first instance. The amounts payable as follows:-

	2014/15 £000's
Payments to Operators	42,251
Contribution to the Authority administration costs	903
	<hr/> 43,154 <hr/>

8 Revaluation Reserve

	2014/15 £000's
Balance at 1 April	10,425
Surplus on revaluation	1,246
Balance at 31 March	<hr/> 11,671 <hr/>

9 Officers' Remuneration and Members Allowances

	2014/15 £000's
(a) Employees Costs Amounted to:	
Wages and Salaries	9,395
Social Security Costs	651
Other Pension Costs	2,190
	<hr/> 12,236 <hr/>

Members' Allowances :-

The total members' allowances paid in the year was £157,812 .

(b) The average number of persons
employed was:

	<u>Number</u>
Manual	42
Management and Administration	368
	<hr/> 410 <hr/>

c) At 31 March 15 the unused holiday entitlement across the Authority totalled:-

31/03/15 £'000s
<hr/> 138 <hr/>

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 2011 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 2014/15
£50,001 - £55,000	6
£55,001 - £60,000	1
£60,001 - £65,000	6
£70,001 - £75,000	1
£90,001 - £95,000	1
£100,001 - £105,000	2
£115,001 - £120,000	1

Termination benefits were paid by the Authority arising from the termination of employment incurring liabilities of £127,619 in 2014/15. 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 Contributions	Total
Director of Passenger Services	2014/15	116,589	-	968	-	15,740	133,297
Director of Development	2014/15	104,055	-	136	-	14,047	118,238
Director of Resources - S151 Officer	2014/15	104,055	-	-	-	14,047	118,102
Assistant Director Legal - Monitoring Officer	2014/15	60,410	-	25	-	8,155	68,590

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
	2014/15	2014/15	2014/15	2014/15 £
£0-£20,000	0	2	2	28,806
£80,001-£100,000	0	1	1	98,813
Total	0	3	3	127,619

10 Property, Plant & Equipment

- (a) The property assets of the former WYITA Group transferred to the Combined Authority on 1 April 2014.

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. This resulted in an overall valuation of £16,212,823 which gave a loss on revaluation of £71,966.

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.

- 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 has been deemed surplus to requirements for the purposes of the Authority's continuing business. The sale has been agreed with a Vehicle hire company. The asset was held in non-infrastructure land and buildings and revalued at 31 March 15, this value has been used to measure the asset's value for classification as an asset held for sale.

	2014/15 £000's
Balance Outstanding at start of the year	726
Assets newly classified held for sale :-	
Property plant and Equipment	650
Disposal of property, plant and Equipment in year	(726)
Balance Outstanding at end of the year	<u>650</u>

- c) Donated Asset 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 Asset 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 Asset Account. After initial recognition Donated Assets are categorised as either Infrastructure Assets and are valued at historical cost or for Non-Infrastructure Assets and valued at Fair Value.

Donated Asset Account	2014/15 £000's
Balance B/fwd 1 April	668
Movement in year	190
Balance C/fwd 31 March	<u>858</u>

10. PROPERTY, PLANT AND EQUIPMENT

d) The movements

in the year
1 April 2014 to
31 March 2015 are :

	TOTAL	LAND AND BUILDINGS	INFRA-STRUCTURE ASSETS	DONATED ASSETS	ASSETS HELD FOR SALE	VEHICLES OWNED	VEHICLES LEASED	EQUIPMENT OWNED	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	£000's
COST VALUATION										
Transferred at 1 April 2014	140,517	8,861	71,133	1,013	726	22,258	8	22,067	54	14,397
Additions	7,901	-	241	-	-	1,358	-	79	-	6,223
Transfer from payments on assets in course of construction	-	-	5,495	-	-	-	-	69	-	(5,564)
Disposals	(1,275)	-	-	-	(726)	(549)	-	-	-	-
Revaluation Adjustments	337	337	-	-	-	-	-	-	-	-
Reclassification Adjustments	190	-	440	(250)	-	-	-	-	-	-
Write off to Revenue	(794)	-	-	-	-	-	-	-	-	(794)
Transfer Assets held for sale	-	(650)	-	-	650	-	-	-	-	-
At 31 March 2015	146,876	8,548	77,309	763	650	23,067	8	22,215	54	14,262

ACCUMULATED DEPRECIATION

Transferred at 1 April 2014	55,998	681	21,349	627	-	13,092	8	20,187	54	-
Charge for the year	5,300	228	2,467	47	-	1,794	-	764	-	-
Disposals	(549)	-	-	-	-	(549)	-	-	-	-
Reclassification adjustments	-	-	308	(308)	-	-	-	-	-	-
Revaluation Adjustments	(909)	(909)	-	-	-	-	-	-	-	-
Transfer Assets held for Sale	-	-	-	-	-	-	-	-	-	-
At 31 March 2015	59,840	0	24,124	366	-	14,337	8	20,951	54	-

NET BOOK VALUES

31 March 2015	87,036	8,548	53,185	397	650	8,730	-	1,264	-	14,262
1 April 2014	84,519	8,180	49,784	386	726	9,166	-	1,880	-	14,397

11 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 received is disclosed in Note 7.

- The Authority receives financing through its Levy 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 2014/15 are set out below:

Education transport amounts received by the Authority :-		Transport Levy:-	Local Transport Block Funding:-
	2014/15 £m	2014/15 £m	2014/15 £m
Bradford MDC	2.05	23.85	6.26
Calderdale MDC	0.80	9.12	4.61
Kirklees MDC	0.38	18.63	5.82
Leeds City Council	1.89	34.03	10.50
Wakefield MDC	1.96	15.46	4.42
	<u>7.08</u>	<u>101.09</u>	<u>31.61</u>

Officers

Mr A Lythgo was the Head of Paid Service for the Combined Authority and also the Chief Executive of Kirklees Council. No remuneration was paid to the Head of Paid Service for undertaking the role of Head of Paid Service for the Combined Authority.

Yorcard Ltd is a Joint Venture trading company operated in conjunction with SYPTE and is fully disclosed in note 22. 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 2015 recharges totalling £82,000 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 2015 fees totalling £0 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 remove 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 made to one franchised rail operator for the provision of local rail services. A note of the effect of rail franchising and the funding arrangements is attached as part of these accounts on page 33 (Note 7).

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 segmental reporting on page 28.

12 Exceptional Item

There were no exceptional items in 2014/15.

13 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. The Combined Authority is awaiting confirmation of this status from HMRC.

14 Short Term Debtors

31 March 15
£000's

Central government bodies	14,230
Other Local Authorities	3,906
Bodies external to general government	3,294

21,430

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.

15 Cash & Cash Equivalents

31 March 15
£000's

Bank Current Accounts	9,175
-----------------------	-------

9,175

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.

16 Trade and Other Payables

31 March 15
£000's

Central government bodies	180
Other Local Authorities	5,471
Bodies external to general government	19,399
	<u>25,050</u>

31 March 15
£000's

DEFERRED INCOME

Central government	10,705
Other local authorities	-
Bodies external to general government	138
	<u>10,843</u>

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.

17 Loans Outstanding

31 March 15
£000's

Lender:-

Public Works Loans Board	53,251
Other Market Loans	25,321
Short Term Loans	2,500
	<u>81,072</u>

Maturity:-

Loans repayable within 12 months	4,572
1-2 years	1,000
2-5 years	500
5-10 years	-
in more than 10 years	75,000
	<u>81,072</u>

18 Capital Expenditure and Financing

2014/15
£000's

Capital investment

Operational assets acquired in year	<u>81,063</u>
-------------------------------------	---------------

Sources of finance

Borrowing (credit approvals)	-
Capital receipts	-
Government grants and other contributions	81,063
Revenue contributions	-
	<u>81,063</u>

19 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.

19 Financial Instruments Continued

	31 March 2015	
	£000's Carrying Amount	£000's Fair value
Financial Assets		
Current trade debtors	21,430	21,430
Cash and cash equivalents	9,175	9,175
Short term investment	35,000	35,113
Financial Liabilities		
Short-term creditors	35,893	35,893
Floating rate borrowing - due within 1yr	-	-
Fixed Rate borrowing - due within 1 yr	3,509	3,516
Floating rate borrowing - due after 1yr	5,067	6,054
Fixed Rate borrowing - due after 1 yr	72,496	91,474
	<u>81,072</u>	<u>101,044</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.

Hedging Instruments

The Authority holds no financial instruments that could be classified as hedging instruments.

Loans 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.

19 Financial Instruments Continued

Current	Effective interest rate	Maturity	31 March 15 £000's
Salford MBC	4.20%	Apr 2015	2,500
PWLB - EIP	2.81%	Jun 2015	500
PWLB - EIP	2.81%	Dec 2015	500
			3,500
Non- Current			
Public Works Loan Board	3.70%	Jan 2056	5,000
Public Works Loan Board	4.40%	Jan 2052	5,000
Public Works Loan Board	4.40%	Jul 2054	8,000
Public Works Loan Board	4.40%	Jun 2053	8,000
Public Works Loan Board	4.55%	Jun 2052	4,000
Public Works Loan Board	4.55%	Apr 2055	6,000
Public Works Loan Board	4.55%	Apr 2056	6,000
Public Works Loan Board	4.55%	Apr 2057	8,000
PWLB - EIP	2.81%	Jun 2015	-
PWLB - EIP	2.81%	Dec 2015	-
PWLB - EIP	2.81%	Jun 2016	500
PWLB - EIP	2.81%	Dec 2016	500
PWLB - EIP	2.81%	Jun 2017	500
Barclays - LOBO's	3.97%	May 2065	5,000
Barclays - LOBO's	3.80%	Aug 2065	5,000
Barclays - LOBO's	3.99%	Oct 2066	5,000
Barclays - LOBO's	4.30%	Dec 2076	5,000
Barclays - LOBO's	4.32%	May 2077	5,000
			76,500
Total			80,000

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.

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 exposure to adverse rates.

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 £325k if interest rates varied by 1% in the year.

The Authority is not exposed to any material currency risk.

20 Net Assets employed**31 March 15
£000's**

Total Reserves and Balances

(34,186)

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 2015. The Rail Reserve is ear-marked for rail infrastructure investment and is to be held pending future investment into identified rail projects. As at 31 March 2015 the Rail Reserve has so far provided £805k of funding for the Leeds Station Southern Entrance scheme.

The Total Reserves balance for the Authority includes an NGT Reserve of £1.066m under Usable Reserves at 31 March 2015 to ear-mark capital funding that is designated solely for the purpose of delivering the Leeds NGT scheme which received DfT programme entry in July 2012.

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 £1.933m at 31 March 2015.

21 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:-

	Other	Restructure	Total
At 1 April 2014	151	-	151
Arising during year	3	-	3
Utilised in year	-	-	-
At 31 March 2015	<u>154</u>	<u>-</u>	<u>154</u>

The Combined Authority as at 31 March 2015 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 2015 as specified in IAS37. There were no environmental provisions at 31 March 2015.

22 Joint Venture

At 31 March 2015 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 Group'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 :-

	2014/15 £000's
Turnover	596
Profit before Tax	(2)
Taxation	-
Profit after Tax	(2)
Fixed Assets	8
Current Assets	215
Liabilities due within 1yr	(210)
Liabilities due after 1yr or more	(8)
Net Assets	<u>5</u>

23 Auditors Remuneration**2014/15
£000's**

Audit Services	40
Other Services	<u>2</u>
	<u>42</u>

24 Financial Commitments**31 March 15
£000's****(a) Capital Commitments**Contracted For but not Provided in the Accounts
Authorised but not Contracted For

59,501
50,593
<u>110,094</u>

Capital Commitments Authorised but not contracted for have increased in 2014/15 reflecting the approval of large scale capital schemes in the year such as West Yorkshire Transport Fund schemes of £36.3m and LTP transport block payments of £10.3m.

(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 while the life of the contracts are substantially shorter than the asset's economic useful life and are therefore deemed to be operating leases.

Bus Operator Payments - IFRIC 4**2014/15
£000's**Minimum lease payments under operating leases recognised
in the year :Within 1 year
Within 2-5 years
Beyond 5 years

<u>3,031</u>
2,338
4,584
-
<u>6,922</u>

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 infra-structure 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 :-

Bus Operator Payments - IFRIC 12**2014/15
£000's**

Minimum lease payments under IFRIC 12 recognised in the year :

Within 1 year
Within 2-5 years
Beyond 5 years

<u>5,242</u>
5,117
14,637
2,483
<u>22,237</u>

25 Contingent Liabilities

The Combined Authority had a contingent liability at 1 April 2014 arising from possible claims relating to NGT acquisitions. The liability continues at 31 March 2015 but it is not practical to disclose an estimate of the financial effect, amount and timing due to the uncertainty.

26 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 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 negative balance sheet arising from the pension liability does not undermine the presumption of going concern as the Combined Authority is making additional pension contributions to address the deficit.

27 Events After the Balance Sheet Date

The Statement of Accounts were authorised for issue by the Chief Financial Officer on xx September 2015. There have been no adjustments to the financial statements for events after the balance sheet date.

28 Transfer of Balances

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 WYITA and WYPTE were dissolved. All of the functions, assets, liabilities and powers of the WYITA and WYPTE were transferred to the WYCA under the provisions of the 2014 Order. The transfer of former WYITA and WYPTE group balances took effect on the 1st April 2014 establishing the opening position for the newly formed West Yorkshire Combined Authority. The assets, liabilities and reserves subject to the transfer are disclosed below:-

	01 April 14 £000's
Non-current assets	
Property, Plant, Equipment	83,407
Donated Assets	386
Assets held for sale	726
	<u>84,519</u>
Current Assets	
Short term investment	27,500
Short term debtors	10,772
Cash and cash equivalents	9,467
	<u>47,739</u>
Current liabilities	
Short term borrowing	(2,080)
Trade and Other payables	(15,145)
Accruals and deferred income	(20,724)
Provisions	(151)
	<u>(38,100)</u>
Long term borrowing	(77,500)
Other long term liabilities	
Net Pension liability	(63,893)
Net liability	<u>(47,235)</u>
Usable Reserves	
General Fund Balance	6,571
Capital Grants Unapplied Reserve	12,523
Rail Reserve	2,075
NGT Reserve	1,043
WY Transport Fund Reserve	4,085
	<u>26,297</u>
Unusable Reserves	
Capital Adjustment Account	(20,768)
Financial instrument adjustment account	36
Donated Asset Account	668
Pension Reserves	(63,893)
Revaluation Reserve	10,425
	<u>(73,532)</u>
Total Reserves	<u>(47,235)</u>

TREASURY MANAGEMENT STATEMENT 2015/16
AND REVIEW 2014/15

1. The following sets out the results of the West Yorkshire Combined Authority's borrowing and lending transactions in 2014/15 in accordance with the CIPFA Code of Practice "Treasury Management in Local Authorities" adopted by the Authority.

2. **BORROWING AND INVESTMENT**

	£m
Total loans outstanding at 1 April 2014	78.5
Loan repayments	-1.0
New loans acquired	0.0
Loans outstanding at 31 March 2015	77.5

- 2.1 The schedule of the loans outstanding at 31 March 2015 is set out in the notes to the accounts and is shown in the annex at the end of this appendix. It should also be noted that at the year end a short term loan of £2.5m was also in place for cashflow purposes. Set out below are the investments in place at 31 March 2015.

Deposits	Maturity Date	Interest rate	£m
Toronto Dominion Bank	16/04/15	0.56000	5.00
Commonwealth Bank of Australia	28/07/15	0.84000	7.50
London Borough of Enfield	04/06/15	0.57000	7.50
Nationwide Building Society	02/07/15	0.66000	7.50
United Overseas Bank Ltd	14/09/15	0.60000	7.50
			<u>35.00</u>

- 2.2 WYCA'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. WYCA's regulations on placing money on deposit were reviewed during the 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 WYCA funds.

- 2.3 At the year end WYCA had placed five sums totalling £35.0m on deposit with different counterparties, each for a year's term but staggered to enable a review of cashflow to be made at least each quarter and each re-investment therefore reconsidered before being placed again. This approach has worked well to date and has increased the interest income for the organisation. This approach will be continued and will be useful in managing the funding due from the Local Growth Deal and other Leeds City Region Enterprise Partnership projects.

3. COMMENT

- 3.1 2014/15 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.
- 3.2 Regular advice was received about the financial market which was closely monitored on behalf of the WYCA by Leeds City Council. Application of the stringent treasury management policy assisted in ensuring that the WYCA's funds were held securely. The agreed policy is to seek to minimise the rate at which the WYCA 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 in 2.2 above an opportunity to do this within the current investment criteria which are aimed at protecting balances and not maximising income has been achieved.
- 3.2 The money market is being constantly monitored to ensure that the WYCA's bank account is maintained with a minimum cash balance (nearly always below £1,000) with temporary borrowing and investments being used as appropriate. A special business reserve account has been used previously to ensure interest from overnight funds is maximised but in the current climate the available rate is negligible. Funds are being left in the current account where they attract an interest rate close to base rate. Longer term investments (subject to a maximum term and exposure) are made as required to secure better returns from surplus funds.
- 3.3 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 WYCA funding having been received as direct grant in recent years. Previously capital expenditure had been financed through borrowing. The WYCA 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.
- 3.4 This situation is now likely to change as the WYCA 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.

- 3.5 It has previously been reported to this Committee that the instability in the banking sector had led to increased difficulties in managing the Authority's exposure risk. Previously the Authority 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.
- 3.6 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.
- 3.7 The average borrowing rate for the Authority continues to be at below 4.5%, well ahead of many local authorities.
- 3.8 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 Authority's exposure risk or to reprofile the debt to assist in making repayments in the coming years.
- 3.9 The prudential limits set in February are reviewed below.

4 TREASURY MANAGEMENT

- 4.1 All placement of funds during 2014/15 was undertaken by Leeds City Council in accordance with rules approved by the WYCA adopting the advice from the Chartered Institute of Public Finance and Accountancy (CIPFA). This ensured all investment decisions not merely sought the highest return but sought to ensure the safety of those funds and to limit the WYCA's exposure to any one organisation.
- 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 January 2015 took the appropriate decisions for 2015/16, with some subsequent amendments approved in March to increase the limits on investments. 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 creation of the West Yorkshire Transport Fund progresses.
- 5.3 It is therefore recommended that the following decisions, as taken in January and March 2015, are endorsed:
 - 5.4.1 That the treasury management policy shall be:
 - 5.4.1.1 That the WYCA adopts the CIPFA code of practice for Treasury Management in the Public Sector.
 - 5.4.1.2 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.
 - 5.4.1.3 That there shall be no long term investments for a term of greater than one year, other than to other local authorities;
 - 5.4.1.4 To utilise the expertise of the treasury management team in Leeds City Council for future years.
 - 5.4.1.5 To use the following rules for short term investments:-
 - 5.4.1.5.1 the investments shall be determined by the Chief Financial Officer.
 - 5.4.1.5.2 the Chief Financial Officer shall determine the amounts and periods.
 - 5.4.1.5.3 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.

5.4.1.5.4 no investment will be for a period exceeding one year, other than as set out in 5.4.1.3

5.4.1.5.5 with the exception of an emergency overnight facility, there shall be no cross investments with Leeds City Council.

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 2015/16 – £88.23m

5.4.2.2 authorised limit for 2015/16 - £98.23m

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%

West Yorkshire Combined Authority
Capital expenditure and financing

2014/15

	TOTAL £m	WYCA £m
EXPENDITURE		
Basic payments	81,062,733	
RCCO	0	0
Capital grant	X	81,062,733
	<u>81,062,733</u>	<u>81,062,733</u>
CASH RECEIVED FROM:		
		X
External contributions - general	27,483,142	27,483,142
Section 31 grants - BBAF	1,230,163	1,230,163
Section 31 grants - CCAG	7,162,613	7,162,613
Reserves	7,029,706	7,029,706
 New Loans	 0	 0
MRP	3,678,000	3,678,000
Loan repayments	0	0
LTP grant	50,931,000	50,931,000
Revenue Loans	-16,451,891	-16,451,891
	<u>81,062,733</u>	<u>81,062,733</u>

AUTHORITY LOANS STATEMENT 2014/15

Type of Loan	Maturity Date	Interest Rate %	Amount £M	£M
<u>Existing Loans</u>				
Maturity (LOBO)	18.04.76	4.300	5.000	
Maturity (LOBO)	27.10.66	3.990	5.000	
Maturity (LOBO)	31.05.65	3.970	5.000	
Maturity (LOBO)	24.08.65	3.800	5.000	
Maturity (LOBO)	04.05.77	4.320	<u>5.000</u>	25.000
 Maturity (PWLB)	 15.01.52	 4.400	 5.000	
Maturity (PWLB)	15.07.54	4.400	8.000	
Maturity (PWLB)	02.06.53	4.400	8.000	
Maturity (PWLB)	15.01.56	3.700	5.000	
Maturity (PWLB)	18.04.57	4.550	8.000	
Maturity (PWLB)	27.04.55	4.550	6.000	
Maturity (PWLB)	25.04.56	4.550	6.000	
Maturity (PWLB)	10.06.52	4.550	<u>4.000</u>	50.000
 Maturity (EIP)	 17.6.2017	 2.810	 <u>2.500</u>	2.500
Temporary loans over the year end				2.500

LOANS OUTSTANDING 31st MARCH 2015

80.000

West Yorkshire Combined Authority

Actual Capital Expenditure 2014/15

Amount

£

£

Bus Related Schemes

Castleford Interchange	5,304,757	
Miscellaneous smaller schemes/adjustments	59,508	
Elland Road park and ride	120,000	
Transport hubs	124,946	
AccessBuses	782,979	
Clean bus technology	779,348	
Bus shelter replacements/improvements	241,512	7,413,050

Rail Related Schemes

wi-fi on trains	750,000	
Rail devolution	422,623	
Wakefield Kirkgate	515,714	
Kirkstall Forge/Apperley Bridge stations	9,373,867	
Low Moor station	451,321	
Customer information screens at rail stations	115,849	
Rail development	163,614	
Rail station car parks	379,859	12,172,847

Other Schemes

NGT	4,470,111
Leeds Station Southern Entrance	8,811,843
Cycle City Connect	7,222,614
Bus strategy	154,878
ICT upgrades and enhancements	158,950
West Yorkshire Transport Fund	7,169,100
Electric vehicle charging points	10,000
Telematics	113,707
CARE North	30,218
Local Sustainable Transport Fund	94,535
Smart transactions and information	1,542,887
LTP3 Development	55,951
Cycling/sustainability	19,508

LTP3 partner payments	31,622,534
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61,476,836

81,062,733

West Yorkshire Combined Authority

Final Report to the West Yorkshire Combined Authority
Governance and Audit Committee

31 March 2015

the
Distinctive
audit

Governance and Audit Committee
West Yorkshire Combined Authority
Wellington House
40-50 Wellington Street
Leeds
LS1 2DE

20 July 2015

Dear Sirs,

We have pleasure in setting out in this document our report to the Governance and Audit Committee with regard to the West Yorkshire Combined Authority for the year ended 31st March 2015. This report covers the principal matters that have arisen from our audit for the year ended 31st March 2015.

In summary:

- Work is continuing on some aspects of our underlying audit work and the outstanding areas which remain are detailed in our report. We will be in attendance at the Committee meeting on 28 July 2015 and will present an updated final report on our audit at that time.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.



Chris Powell

Senior Statutory Auditor

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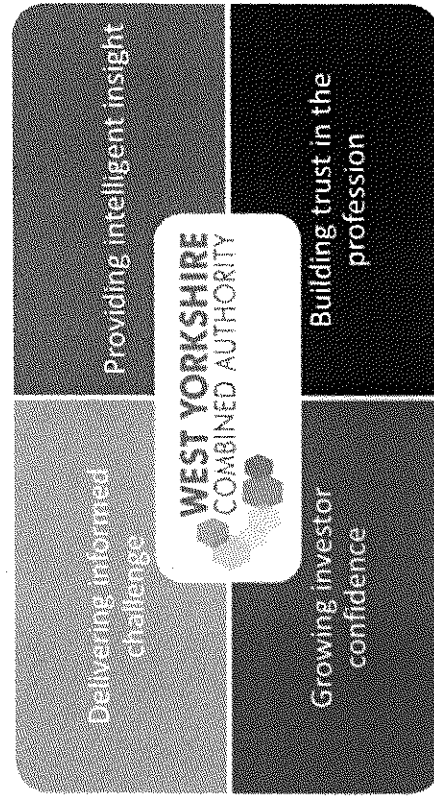
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A reminder of our audit plan:

- We determined materiality as £2.57m and a reporting threshold of £128k
- We identified 4 significant risks in our Audit Plan and have not made any changes from the scope set out in the Audit Plan.
- A controls based audit approach has not been considered appropriate for the current year, instead we have taken a substantive approach to testing the financial statements.



The big picture

The Big Picture

We anticipate issuing an unmodified audit opinion upon completion of our work.

Audit work

- We have discussed our initial comments on the draft financial statements with management.
- From our audit work on the financial statements to date we have not identified any material misstatements or significant deficiencies in internal controls at the Combined Authority, a small number of disclosure deficiencies have been identified which we understand will be corrected by management.
- We have undertaken a risk assessment in line with the Audit Commission guidance on assessing the delivery of Value for Money and have concluded that there are no specific risks to the delivery of Value for Money.
- A management representation letter will be circulated separately for consideration by management.
- From our work undertaken so far we expect to issue an unmodified opinion in line with your specified deadlines.

We have the following principal matters to complete:

- Receipt of bank confirmation letters;
- Receipt of confirmation from Mazars on the West Yorkshire Pension Fund asset values;
- Completion of fixed asset testing;
- Completion of grant income testing and expenditure testing for concessions;
- Completion of Whole of Government Accounts work;
- Completion of disclosure testing;
- Receipt of final Yorcard financial statements;
- Review of revised financial statements;
- Final review and close down procedures;
- Subsequent events review; and
- Receipt of letter of representation.

Significant audit risks

This section explains the nature of significant risks, how these risks have been addressed by our audit work and our conclusions. We also explain related presentational and/or disclosure matters within the financial statements.

Summary of significant audit risks

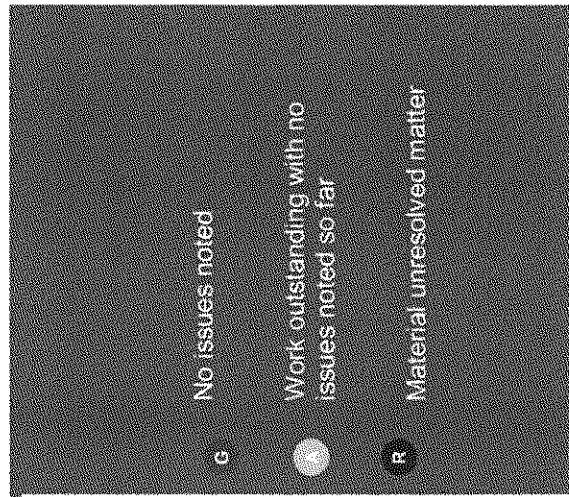
Key areas of judgement focused upon during the audit

Description of the risk	←	Acceptable Range	→	Findings
Revenue recognition	Overly Cautious and/or likely to future credit	✓	Overly Optimistic and/or likely to future debit	A
Management Estimates		✓		C
Valuation of Non-current Assets		✓		A
Capital Developments		✓		A

✓ Current Year Assessment ✓ Previous Year Assessment

Deloitte view

Our work is on-going but at the date of our report in our view, management have prepared financial statements which demonstrate fair and balanced judgement. Our independent assessment of these judgements is outlined in this section.



1. Revenue Recognition

Our work in relation to this significant risk is ongoing.

Nature of risk

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transaction or assertions give rise to such risks.

The key judgement area, its impact on the financial statements and our audit challenge

We have identified the following as the key areas of focus for our significant risk:

- **Prepaid Tickets:** The timing at which revenue is recognised required judgement, there is also a risk that the robustness of such information from various sources including Post Offices, railway stations, corporate sales and travel centres may not lead to accurate recognition of revenue;
- **Concessions:** This is considered to be a more complex area of revenue recognition, guided by rules set by the Department for Transport; and
- **Grant Income:** There is significant management judgement around determining if there are any conditions attached to a grant, and if so whether the conditions have been met. The potentially complex accounting requirements for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.

Audit work completed to address the significant risk

We have reviewed the process for income recognition and performed design and implementation work on the controls management have in place to ensure that income is captured and reported appropriately.

We have reviewed returns from various sales outlets for prepaid tickets to determine if revenue is recognised in the correct period and in accordance with accounting standards.

We have assessed the Authority's interpretation and application of DfT rules for concessions and from our testing undertaken we no longer consider this to be a significant risk in relation to revenue.

We are in the process of testing a sample of grants to receipt and reviewed the grant scheme rules to ensure the recognition of the grant is in compliance with any attached conditions.

Deloitte view

Our work in relation to grant income recognition is not yet completed. We will provide a verbal update at the Committee meeting on the final results of our audit procedures.

Prepaid ticket income is considered to be recognised in accordance with relevant accounting standards and the Authority has complied with DfT rules for concessions.

We do not consider there to be evidence of management bias in the revenue recognition policies adopted and policies are in line with other Local Government entities and the CIPFA Code.

2. Management override of controls

Assessment of management estimates for bias or fraud

Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The significant risk in relation to management override, its impact on the financial statements and our audit challenge

Management occupy a unique position within the WYCA in that their financial success, standing among their peers and future careers prospects can be heavily influenced by the financial results achieved by the WYCA. They are able, through the exercise of management judgement, bias and posting of journals, to override the normal operational controls within the WYCA and fraudulently manipulate the financial results.

Audit work completed to address the significant risk

We have performed the following audit procedures:

- We have reviewed the processes and performed design and implementation work on the controls management have in place over journal entries and other adjustments made in the preparation of the financial statements;
- Used our 'Audit Analytics' software to test a risk focused sample of journals to ensure the appropriateness of journal entries and we have not identified any other adjustments that would require additional testing;
- We have reviewed accounting estimates for evidence of bias; and
- Reviewed the business rationale of any significant transactions that are outside the normal course of business for the Authority.

Deloitte view

From our testing of a risk based sample of journals and review of Committee minutes, we do not consider management's estimates to be unreasonable and nor have we identified any evidence of bias.

3. Valuation of non-current assets

Our work in relation to this significant risk is ongoing.

Nature of risk

The Authority is required to revalue property, plant and equipment with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

The key judgement areas, its impact on the financial statements and our audit challenge

We have identified a related audit risk arising because:

- changes in the economic environment and volatility in the property markets, the assets being valued can be subject to material changes in value and there is a risk that these changes are not appropriately recorded in the financial statements; and
- valuations are by nature significant estimates which are based on assumptions made by management and specialists engaged by management.

We understand that the Authority engaged MRICS qualified valuer Lambert Smith Hampton to undertake a revaluation exercise of land and buildings as at 31 March 2015 in accordance with the Code of Practice.

Audit work completed to address the significant risk

Our internal property team are in the process of assessing the skills, qualifications, resources of the valuer, the scope and basis of the instructions to the valuer and the valuation methodology, including assumptions and changes to assumptions since the last valuation. Based on our previous experience this is unlikely to raise any significant issues.

We have also discussed the process with management to understand how the work of the valuers is scoped by the Authority and are satisfied that the process is both robust and well established.

We have confirmed that the disclosures included in the financial statements are in line with the requirements of the Code and our understanding.

Deloitte view

Our work in relation to the valuation of non-current assets is not yet completed. We will provide a verbal update at the Committee meeting on the final results of our audit procedures.

4. Capital Developments

The level of planned fixed asset movements over 2014/15, is expected to involve considerable accounting estimates and management judgment.

Nature of risk

WYCA is committed to undertaking a significant level of capital investment over the period of the West Yorkshire Local Transport Plan 2011-2026 ("the LTP").

The key judgement areas and their potential impact on the financial statements

The key audit risk is considered to arise in relation to:

- The identification and measurement of capital expenditure.
- The release of capital grants in line with grant terms.

Audit work completed to address the significant risk

We have reviewed the process for identification and measurement of capital expenditure and the release of capital grants and performed design and implementation work on the controls management have in place.

Our testing to gain assurance around the capitalisation of costs and the release of grant income is ongoing.

Deloitte view

Our work in relation to the capital development risk is not yet completed. We will provide a verbal update at the Committee meeting on the final results of our audit procedures.

Value for money and the Annual Governance Statement

Value for Money Conclusion and the Annual Governance Statement

Requirement

Under the Audit Commission Code of Audit practice, as appointed auditors, we are required to draw a conclusion regarding the Combined Authority's arrangements to secure economy, efficiency and effectiveness of its use of resources (the Value For Money (VFM) conclusion). The approach to local VFM audit work is not based on criteria specified by the Commission and we will meet our VFM duty by addressing the areas of focus determined by the Commission as set out below.

In respect of the Annual Governance Statement we are required to review the statement for compliance with the prescribed format and content and to report where the Statement is inconsistent with our understanding of the Combined Authority.

Area of Focus

In reaching our value for money conclusion our work is focused around:

- reviewing the annual governance statement;
- reviewing the results of the work of the Commission and other relevant regulatory bodies or inspectorates, to consider whether there is any impact on the auditors responsibilities at the audited body; and
- undertaking other local risk-based work as appropriate, or any work mandated by the Commission.

Audit work completed

Value for Money

We completed our risk assessment and concluded that there were no specific risks to the Value for Money conclusion for 2014/15 and, as a consequence, have not undertaken any locally determined risk based work.

We have considered the results of our work on the Annual Governance Statement, the results of our audit work, the findings of internal audit and concluded that there are no specific risks or issues to prevent us drawing a positive conclusion on the delivery of value for money.

Value for Money Conclusion and the Annual Governance Statement (continued)

Draft VFM opinion wording

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited body has put in place such arrangements.

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in October 2014, we have considered the results of the following:

- our review of the annual governance statement;*
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities; and*
- our locally determined risk-based work as necessary.*

As a result, we have concluded that there are no matters to report.

Annual Governance Statement

We have performed the following work in relation to the Annual Governance Statement (AGS):

- ensured that it complies with the requirements as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15.
- reviewed the Governance Statement to confirm that it is consistent with internal audit reports, Board minutes, the Internal Audit Annual Report and Opinion and our work on the financial statements.

Deloitte view

We anticipate issuing an unmodified opinion in respect of our VFM conclusion and we are satisfied that the Annual Governance statement is consistent with the prescribed format and our understanding of the Combined Authority.

In this section we set out our comments regarding your internal control and risk management processes. We communicate any significant deficiencies in the internal control environment to the Governance and Audit Committee.

Insight - Internal control and risk management

Internal control and risk management

We highlight a number of observations from our audit procedures



We are required to provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to risks that may affect financial reporting; and other risks arising from the entity's business model and the effectiveness of related internal controls.

Significant Risk	Internal Controls	Current position
Fraudulent manipulation of revenue recognition	<ul style="list-style-type: none"> Regular finance report to the Authority. Grant documentation reviewed for conditions and retained on file to ensure release is in line with conditions. Treasury management service provided by Leeds City Council. Reconciliation of prepaid tickets sales returns to stock movement. 	G
Management override of controls	<ul style="list-style-type: none"> Regular financial reporting to the Authority including progress against budget. Budget holders responsible for monitoring progress against budget. Manual approval process for journals, with journals posted by the finance team reviewed by Tom Edwards and Tom's reviewed by Angela Taylor. 	G
Valuation of non-current assets	<ul style="list-style-type: none"> Annual capital expenditure programme approved by the Authority. Authorisation limits and standard forms used for additions and disposals. Valuations are performed by external, independent valuers. 	G
Capital Developments	<ul style="list-style-type: none"> Annual capital expenditure programme approved by the Authority. Authorisation limits and standard forms used for additions and disposals. Grant documentation reviewed for conditions and retained on file to ensure release is in line with conditions. 	G

G No issues noted **A** Acceptable but could be improved **G** Requires significant improvement

Liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the work of internal audit and adjusted our audit approach as deemed appropriate. We did not place direct reliance on the work of internal audit however the findings influence the formation of our views on the risk and accuracy of the Annual Governance Statement.

Responsibility Statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Governance and Audit Committee and the Authority discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Explanatory foreword
- Our views on the effectiveness of your system of internal control relevant to risks that may affect financial reporting.
- Other insights we have identified from our audit

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan dated March 2015 and the supplementary "Briefing on audit matters" which was circulated as an appendix to the Audit Plan.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Authority.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Chartered Accountants

Leeds

20 July 2015

This report has been prepared for the Authority, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

Appendices

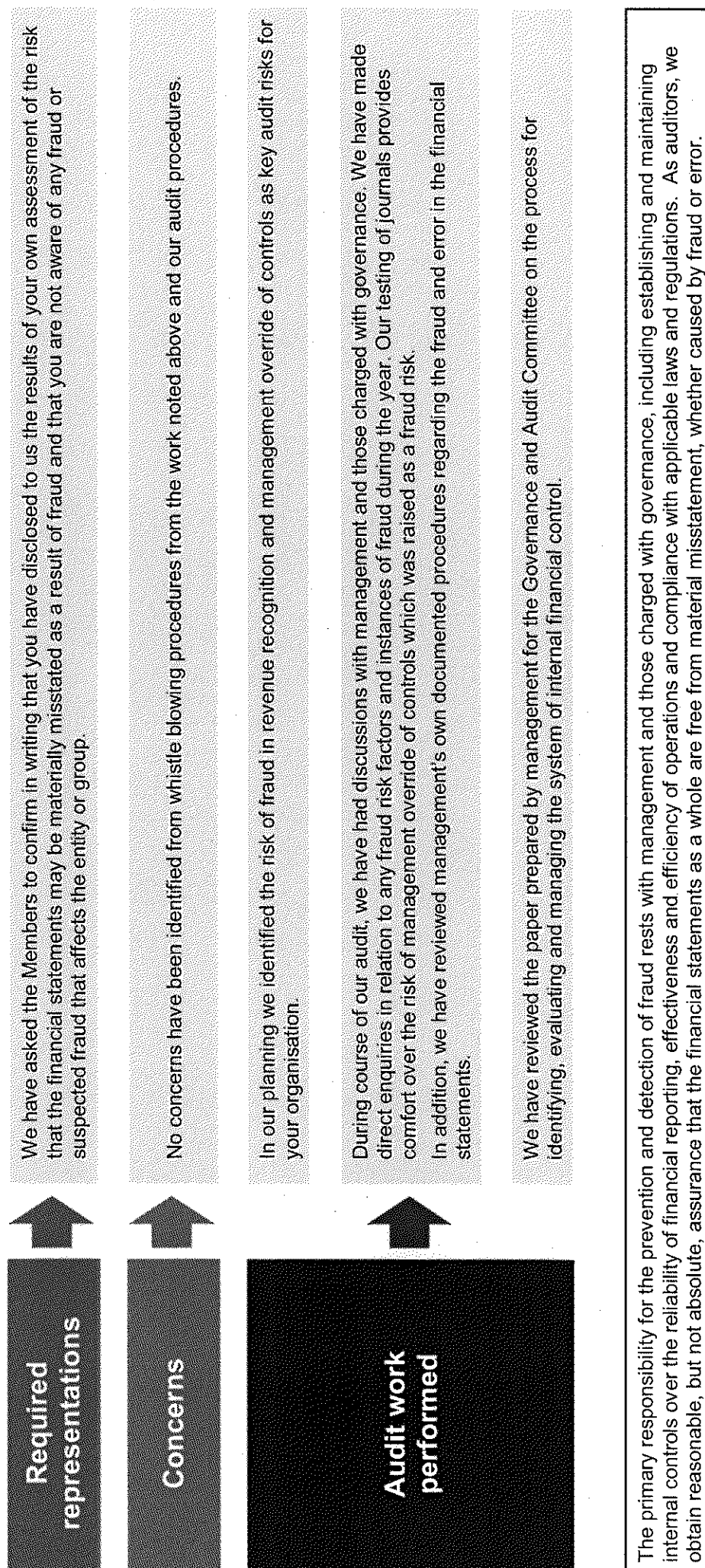
Appendix 1: Audit adjustments

Unadjusted misstatements detail

Uncorrected misstatements

There are no uncorrected misstatements to report at this stage however our work remains ongoing. From our work to date we have identified a small number of immaterial disclosure deficiencies in the financial statements which have been discussed with management and we understand they are intending to correct these within the final version of the financial statements. We will confirm these have been corrected as part of our final review of the financial statements.

Appendix 2: Fraud: responsibilities and representations



Appendix 3: Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland), the Listing Rules and the Companies Act, we are required to report to you on the matters listed below:

Independence confirmation

We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

Fees

We have not provided any non-audit services in the period from 1 April 2013 to 31 March 2015.

The certification of any grants received by WYCA are now outside of the scope of the Audit Commission contract and are considered to be a non-audit service and a separate fee would need to be agreed based on the level of work required by the funding body.

Deloitte in partnership with Peter Brett Associates are currently in the process of agreeing terms to develop a business case for WYCA's bus strategy, the work is intended to start in August.

Non-audit services

In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

There are no other relationships with West Yorkshire Combined Authority which would impact on our objectivity and independence.

The professional fees earned by Deloitte in the period from 1 April 2014 to 31 March 2015 are as follows:

	Current year £000
Audit of West Yorkshire Combined Authority	45
Total	45

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