

GOVERNANCE AND AUDIT COMMITTEE

**MEETING TO BE HELD AT 2.00 PM ON 19 APRIL 2016
WELLINGTON HOUSE, WELLINGTON STREET, LEEDS**

A G E N D A

1. APOLOGIES FOR ABSENCE

2. DECLARATIONS OF INTEREST

3. EXCLUSION OF THE PRESS AND PUBLIC

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

**4. MINUTES OF THE MEETING HELD ON 9 FEBRUARY 2016
(pages 4 - 11)**

Copy attached.

**5. EXTERNAL AUDIT UPDATE
(pages 12 - 50)**

To consider the attached report

**6. INTERNAL AUDIT PROGRESS REPORT
(pages 51 - 64)**

To consider the attached report.

**7. INTERNAL AUDIT PLAN 2016/17
(pages 65 - 79)**

To consider the attached report.

8. INTERNAL CONTROLS AND FINANCIAL MONITORING
(pages 80 - 88)

To consider the attached report.

Signed:



WYCA Managing Director

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

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

Compilation of Agenda by:	Ruth Chaplin
Telephone No:	Leeds (0113) 251 7217
Date:	11 April 2016

ITEM 4

**MINUTES OF THE MEETING OF THE
GOVERNANCE & AUDIT COMMITTEE
HELD ON TUESDAY 9 FEBRUARY 2016 IN WELLINGTON HOUSE, LEEDS**

Present: Councillor G Hussain (Chair)

Councillors N Barnes, S Benton and H Richards

In attendance: S Appleton and M Kirkham (Mazars)

21. Apologies for Absence

An apology for absence was received from Roger Marsh (WYCA/LEP).

22. Declarations of Disclosable Pecuniary Interests

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

23. Minutes

Resolved: That the minutes of the meeting held on 19 November 2015 be approved.

24. External Audit Update

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

External Audit 2014/15

At its meeting on 19 November 2015, the Committee had received the Annual Audit Letter from Deloitte completing the final element of the 2014/15 audit.

It was reported that all external audit issues were now the responsibility of the Authority's new auditors, Mazars, who had commenced their planning process for the 2015/16 audit and had met with officers to understand the organisation and its risks. A progress report from Mazars was attached as Appendix A to the submitted

report. Members noted that an interim audit was planned for February following which Mazars would compile their Audit Strategy Memorandum setting out their approach to the work, the scope of the work to be undertaken, the risks to be addressed and the expected audit fee. The Audit Strategy Memorandum would be presented by Mazars to the next meeting of the Committee on 19 April.

It was reported that the Department for Transport (DfT) had carried out an audit of the Special Rail Grant for 2014/15 which had previously been undertaken by the external auditors but, under new arrangements, would be the responsibility of the DfT. Verbal confirmation had been received indicating that there were no issues arising from the DfT's audit and written confirmation was expected to follow.

Resolved: That the position with regard to external audit work be noted.

25. Internal Audit Progress Report

The Committee considered a report on work undertaken by the Internal Audit Section from 1 November 2015 to 31 January 2016 and the key issues which had been identified were outlined in paragraphs 4.3.1 to 4.3.8 of the submitted report.

<u>Review</u>	<u>Opinion</u>
Treasury	Well Controlled
Purchasing	Requires Improvement
Low Moor Rail Station Project Healthcheck	Requires Improvement
Castleford Bus Station Development Project Healthcheck	Well Controlled
Health & Safety Management	Requires Improvement
Payroll & Personnel Records	Controlled
Debtors	Well Controlled
Payzone System – Follow Up	

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

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

Purchasing

It was reported that the objective of the review had been to look at the reliability of systems in operation for the procurement of goods and services and the arrangements in place for the disposal of assets. The review had identified issues around the provision of evidence to demonstrate the appropriate approval of tenders and the development of arrangements for the capture and maintenance of information required for the control of

contractors. It was recommended that evidence concerning the award of tenders should be improved and it was reported that procedures were being developed to hold tender documents and decision making records in one place.

Low Moor Rail Station Project Healthcheck

It was reported that the objective of the review had been to assess project management arrangements against the PRINCE2 framework. The review had identified that a number of PRINCE2 strategy documents were not available (although it was recognised that the project commenced prior to PRINCE2 being adopted) and it was recommended that guidance be produced for rail infrastructure projects which mapped PRINCE2 strategies and documentation to the equivalent GRIP framework items.

Health & Safety Management

It was reported that the objective of the review had been to assess the existence and operation of a framework of measures to enable Health & Safety functions to be provided to WYCA. A number of recommendations had been made including the need to update procedures for reporting, monitoring and resolving actions required as a result of risk assessments and infringements, to update fire and bomb procedures and to develop a communications protocol to ensure employees were aware of the Health & Safety policy.

Members discussed WYCA's Business Continuity Plan and ability to respond to emergency situations such as a security alert in a bus station. It was suggested that it may be prudent to re-visit the Plan to ensure it was fit for purpose.

Members noted the arrangements which were in place to monitor the implementation of audit recommendations and considered the information, contained in Appendix B, relating to a number of overdue high priority recommendations. It was reported that all of the recommended actions in Appendix B had now been completed. Members queried the timescales involved in implementing the recommendations set out in Appendix B. In response, it was acknowledged that due to the complexity of the working relationship between WYCA and Yorcard, the timescales set had been quite ambitious and that in future it would be prudent to set more realistic timescales.

Details of progress made to date in completing the Audit Plan 2015/16 were provided in Appendix A of the submitted report. It was noted that the performance of individual audit assignments was substantially in line with the Plan with a forecast overrun of 31 days which was mainly due to the intentional over-programming approved by the Combined Authority at their March 2015 meeting.

It was reported that in addition to completion of the above audit reviews, audit testing work had been concluded in relation to Tendered Subsidised Bus Services, Risk Management, ICT Data Security, Prepaid Tickets & Concessionary Travel, Creditors and CHASE CRM Audit Follow-up. A summary of the results from those reviews would be provided to the Committee at the next meeting.

Resolved:

- (i) That the report be noted.
- (ii) That a report on the Business Continuity Plan be submitted to the next meeting of the Committee.

26. Internal Audit Plan 2016/17

The Committee considered a report on the Internal Audit Plan 2016/17.

It was reported that the International Auditing Standards required the Head of Internal Audit to establish a risk based plan to determine the priorities of the internal audit activity consistent with the Authority's objectives.

The draft Audit Plan for 2016/17 was attached at Appendix 1 and set out the elements of the audit universe, showing audit assignments to be included in the plan and provisional assessments which gave each auditable entity a high, medium or low risk rating. It was reported that some of the work required was essential to ensure compliance with legislative requirements and the production of statements in published annual accounts. These areas had been identified as fundamental and audit assurance in these areas would be prioritised.

Members were advised that a final version of the Internal Audit Plan would be circulated to the Committee for comment prior to the document being considered by the Combined Authority at its meeting on 31 March 2016.

Members discussed the potential for fraud, particularly in relation to concessionary fares and prepaid tickets and were given assurances that procedures and checks were in place to identify any misuse/malpractice and that developments with smart ticketing software should bring about significant improvements in identifying fraudulent activity.

Members sought assurances that Internal Audit had adequate resource to undertake the work in respect of Growth Deal funding. It was reported that discussions had been held and were ongoing with the LEP teams about the scope and extent of the work involved and, should it emerge that additional resource would be required to undertake the work, the Committee would be made aware and other means of carrying out the work would be explored, including co-sourcing and buying-in of audit services.

It was suggested that an additional work stream be included in the Audit Plan to look at governance arrangements and transparency in relation to the substantial sums of external funding managed by WYCA.

Resolved:

- (i) That the feedback provided by the Committee be noted.

- (ii) That further work be done on the Audit Plan to widen the scope of some of the audit assignments including external funding and economic development activities.
- (iii) That the final version of the Plan be circulated to members prior to it being considered by WYCA on 31 March 2016.
- (iv) That the requirement for Internal Audit to be allocated independent and adequate budget provision in 2016/17 to deliver the Audit Plan be noted.
- (v) That the Committee carry out a quarterly review of the Action Plan.

27. Internal Controls and Financial Monitoring

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

Internal Controls

It was reported that since the last meeting there had been no significant changes to the arrangements for internal controls within the Combined Authority. Members noted that regular governance meetings continued to be held with Leeds City Council to consider and review the transactions relating to investments and treasury management being carried out jointly with Leeds City Council. Members noted that some amendments to the treasury management arrangements had been approved at the meeting of the WYCA held on 4 February 2016. These were detailed in Agenda Item 9 on the agenda.

Key Indicators

The Committee considered the 'key indicators' specifically with regard to accidents to date in 2015 and noted that there were no matters of concern. Since the Committee last reviewed the data available for the period to 30 September 2015, there had been no reportable accidents to the HSE and no accidents or near misses which would require further work/investigation.

Financial Monitoring – Revenue Budgets

Members were provided with a summary of the forecast position for the 2015/16 budget which had been reported to the WYCA on 4 February 2016 as part of the budget report. The budget for 2016/17 was set out in Agenda Item 9 which also provided detail on the individual budget blocks and the position in respect of reserves.

It was reported that the main changes to the 2015/16 outturn since the last meeting of the Committee were the receipt of a one off sum arising from an option exercised by a supplier to extend an advertising contract in place, and a change in the expected level of Enterprise Zone receipts.

Financial Monitoring – Capital Budgets

It was reported that delivery of the Transport Fund and Local Growth Fund projects was being monitored by the Investment Committee and dashboards indicating progress on these were available on the WYCA website. The budget report at Agenda Item 9 provided full details of the capital expenditure in 2015/16, expected expenditure in 2016/17 and the funding available to the Authority and how it was proposed to be utilised.

Risk Management

Members noted that there had been no significant changes to risk management arrangements since the last meeting of the Committee and the detailed risk registers and corporate risk register continued to be monitored.

As reported to the last meeting of the Committee, a key element of risk previously identified related to the delivery of the Local Growth Deal and the need to ensure expenditure was achieved and properly managed. Measures in place to support this, including the Assurance Framework and Single Appraisal Framework were currently under review to ensure that they remained relevant as delivery of the Growth Deal developed and would bring together the Transport Assurance Framework and LEP Assurance Framework into one document.

To further support this, work had been undertaken to develop a Finance Handbook setting out details of how schemes (transport and non-transport) within the Growth Deal should be costed, how to seek approvals and how funding would be advanced and the responsibilities and accountabilities of different parties working on Growth Deal schemes. Development of the handbook, a draft of which was attached at Appendix A to the submitted report, had been a collaborative piece of work, led by Bradford Council and involving finance and senior highways officers from all West Yorkshire Districts. The handbook would provide a robust way for the Authority to demonstrate compliance with central government requirements for control of funding and contained a suggested scheme of delegation to enable projects to progress more rapidly through the gateway process.

Members were informed that the intention was that the Assurance Framework, Single Appraisal Framework and Finance handbook would form part of a suite of guidance documents intended to assist in mitigating the risks to delivery of complex projects and input would be sought from the Committee at a future meeting once the documents had been further developed. Subject to further refinements, a final draft of the handbook would be considered at a future meeting of the West Yorkshire & York Investment Committee prior to submission to the WYCA for approval.

Resolved:

- (i) That the report be noted.
- (ii) That progress made on the development of the Finance Handbook be noted.

28. 2016/17 Budget and Treasury Management Policy

The Committee considered a report on the budget for 2016/17, the treasury management policy and the latest draft of the Service Level Agreement for treasury management purposes.

It was reported that the 2016/17 budget had been considered and approved by the WYCA at its meeting on 4 February 2016. A copy of the budget report to the WYCA, together with the prudential statement setting out the treasury management arrangements was attached as Appendix A to the submitted report.

Reserves

Members were asked to note that forecast reserves for the end of 2015/16 were higher than those required by the reserves policy and the approach of utilising an element of the reserves to support the 2016/17 budget had previously been endorsed. In addition, it had been established that there were likely to be timing delays in the receipt of business rates income from the Enterprise Zone that had been earmarked to support the trade and inward investment work. Whilst there had been a strong uptake from businesses at the site, the timing of the actual receipt of the rates was likely to be delayed until late into 2016/17 and beyond. It was proposed that WYCA manage this through the use of cash balances and reserves and that the funding received in full in subsequent years be repaid to reserves.

Capital Budget

The budget report set out the challenges of managing significant Growth Deal funding and the need to ensure it was utilised in the year as it was not permissible to carry forward any unused funding to future years. The budget report set out how Growth Deal funding could be applied to other elements of WYCA's overall capital portfolio rather than utilising Local Transport Plan Integrated Transport block funding which it is permissible to carry forward and can then be applied to Growth Deal expenditure in 2016/17. This approach had been endorsed by both WYCA's Investment Committee and by the Department for Business, Innovation and Skills who had made the award.

Treasury Management

At the November meeting of the Committee, members received a presentation on the Service Level Agreement (SLA) in place between WYCA and Leeds City Council, who were responsible for undertaking the day to day treasury management responsibilities on behalf of the Authority. The Agreement had been re-drafted to recognise that LEP funding was now the responsibility of the Authority and the latest draft was attached as Appendix B to the submitted report for the consideration of the Committee.

It was reported that, in order to manage the significant increases in cash balances that had arisen as a result of the timing of receipt of Growth Deal funds, a number of specific changes to treasury management arrangements had been approved by the Authority, and were set out in paragraph 14 of the Prudential Funding Statement appended to the

submitted report. The changes provided further opportunities to place funds without increasing the risk above acceptable levels.

Resolved:

- (i) That the report be noted.
- (ii) That the draft Service Level Agreement be noted.

Originator: Angela Taylor,
Director, Resources



ITEM 5

Report to: Governance and Audit Committee

Date: 19 April 2016

Subject: External Audit Update

1. Purpose

1.1. To provide the Committee with an update on external audit matters.

2. Information

2.1. At its previous meeting the Committee considered a progress report from Mazars with respect to the work they would be undertaking in relation to the audit of the 2015/16 annual accounts. Mazars have now completed their interim audit work and have produced a number of documents setting out progress and next steps:

- a) **External Audit Progress Report – attached as Appendix A.** This summarises the work undertaken and sets out the requirement for the Committee to consider, by 5 June, some key questions. It is proposed that the Chair agrees a response with the Director, Resources.
- b) **Audit Strategy Memorandum – attached as Appendix B.** This sets the approach Mazars are taking including the scope and timeline of the work they will undertake, the risks they will be addressing and provides confirmation of the expected audit fee.
- c) **Value for Money Audit Risk Assessment – attached as Appendix C.** This sets out the outcome of the planning work and identifies the risks in specific areas as relating to assessing the value for money opinion as required as part of the year end audit.

Mazars will be present at the meeting to present these documents and respond to any questions arising.

- 2.2. Work has recently been undertaken by Mazars on capital grant claims for 2014/15 and by the Department for Transport on the Special Rail Grant claim for 2015/16. No issues have been identified with any of this work.
- 2.3 The Committee may recall previous reports regarding the consequences of the abolition of the Audit Commission which, as part of its role, appointed auditors to public sector bodies. On 5 October 2015 the Secretary of State notified his intention to extend the transitional arrangements, whereby auditors are appointed by Public Sector Audit Appointments Limited under the contracts previously negotiated by the Audit Commission. Whilst NHS and smaller local government bodies will move to the new appointment regime on 1 April 2017, larger local government bodies will remain on current appointments contracts until the completion of the 2017/18 audits. This means new appointments will need to be made by 31 December 2017.
- 2.4 In 2017, authorities will need to make choices about the arrangements for appointing external auditors. Briefly these options comprise:
- setting up an independent Auditor Panel
 - joining with other councils to set up a joint independent Auditor Panel
 - opting-in to a sector led body that will negotiate contracts and make the appointment on behalf of councils, removing the need to set up an independent Auditor Panel.
- 2.5 Work is underway by the Local Government Association to assess the interest in establishing a sector led body; this approach may be more cost effective and less resource intensive than the first or second option. It is proposed that a full report be brought back to this Committee later this year to determine the best way to procure an Auditor Panel. As part of this officers will engage with other local authorities in the Combined Authority region to understand the approach being taken by them and what opportunities that may offer to the WYCA.

3. Financial Implications

- 3.1. None arising directly from this report. The audit fee is included in the 2015/16 budget.

4. Legal Implications

- 4.1. None arising directly from this report.

5. Staffing Implications

- 5.1. None arising directly from this report.

6. Recommendations

- 6.1. That the Committee notes the documents from Mazars, namely the External Audit Progress Report, the Audit Strategy Memorandum and the Value for Money Audit Risk Assessment.

- 6.2. That the Committee agree that the Chair responds on its behalf to the questions set out in the External Audit Progress Report and that this response be shared with Members before its submission on 5 June.
- 6.3. That the Committee notes the future work required to establish an Auditor Panel for 1 December 2017.

West Yorkshire Combined Authority

External Audit Progress Report

19 April 2016

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

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01

Purpose of this paper

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

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

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

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

02

Summary of audit progress

2015/16 planning

We have now completed our audit planning and our Audit Strategy Memorandum is also on the agenda for this meeting. The Memorandum sets out the risks we have identified for both the opinion on the financial statements and the value for money conclusion, and our overall approach to the audit.

Request for information

International Auditing Standards require auditors to ask 'those charged with governance' (i.e. the Governance and Audit Committee) about arrangements the entity has put in place:

- to prevent and detect fraud; and
- to comply with applicable law and regulations.

Our request also covers the appropriateness of the going concern assumption. We list below our questions and would be grateful if the Committee could provide a response by 3 June 2016.

Your responses will inform our assessment of the risk of fraud and error within the financial statements, which in turn determines the extent of audit work we need to undertake.

Audit of West Yorkshire Combined Authority for the year end 31 March 2016

- 1) How do you exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error;
 - identifying and responding to risks of fraud in the Authority, please detail any specific risks of fraud which management have identified, and classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
 - communicating to employees its view on business practice and ethical behavior; and
 - communicating to you the processes for identifying and responding to fraud or error.
- 2) How do you oversee management processes for identifying and responding to possible breaches of internal control? Are you aware of any significant breaches of internal control during 2015/16?
- 3) How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of significant non-compliance during 2015/16?
- 4) Are you aware of any actual or potential litigation or claims that would affect the financial statements?
- 5) Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Authority's ability to continue as a going concern?

03

Publications

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

- Guidance for Directors of companies partly or fully owned by the public sector, January 2016;
- Supporting the transition, Public Sector Audit Appointments Ltd, February 2016;
- Cipfa: Guide to auditor panels, December 2015; and
- Mazars: Public services blog 'Let's talk public services'

Guidance for Directors of companies partly or fully owned by the public sector, January 2016

This guidance, which has been published by the Cabinet office, is to help directors of companies owned by the public sector, in full or in part, to understand their duties and responsibilities, including identifying and managing conflicts of interest. As local government and related bodies increasingly explore alternative models of service delivery, including establishing local authority trading companies, this guidance is of relevance.

<https://www.gov.uk/government/publications/guidance-for-directors-of-companies-fully-or-partly-owned-by-the-public-sector>

An additional guidance paper referred to in the Cabinet Office report is a National Audit Office paper produced in January 2015 on Conflicts of Interest. This is also of relevance to authorities that are operating in an increasingly complex environment of related entities.

<https://www.nao.org.uk/report/conflicts-interest-2/>

Supporting the transition, Public Sector Audit Appointments Ltd, February 2016

Public Sector Audit Appointments Ltd (PSAA) has published its Corporate Plan for the period to 2018. The Plan sets out how the company will discharge the functions delegated to it by the Secretary of State for Communities and Local Government which include managing audit contracts originally let by the Audit Commission and supporting a smooth transition to the new audit regime introduced by the Local Audit and Accountability Act 2014.

PSAA's work programme involves two parallel strands:

- ensuring that the existing audit contracts continue to deliver good quality and positive value for audited bodies and effective assurance to the public; and
- providing as much support as possible to assist local bodies to prepare for, and be ready to meet, their new responsibilities as the legislation is fully implemented.

For principal local authorities and criminal justice bodies the existing arrangements will continue for audits up to and including 2017/18. For these bodies the new regime will apply to 2018/19 audits and beyond.

As part of its role in supporting local bodies to prepare for their responsibilities under the new regime, PSAA has set up on its website a dedicated Supporting the transition area containing resources to assist local public bodies in making the transition to the new arrangements.

<http://www.psa.co.uk/supporting-the-transition/>

A further important aspect of PSAA's work in relation to the new regime will involve working with the Local Government Association and the Improvement and Development Agency to explore the feasibility of PSAA seeking to become a 'sector-led body' with the ability to enter into contracts and appoint auditors to local bodies in the new regime. Further information will be provided on PSAA's website as this work progresses.

CIPFA: Guide to auditor panels, December 2015

This publication is aimed at those within local authorities who will have a role to play in deciding how and who to appoint as their organisation's local auditors.

It has been commissioned by DCLG, and a working group including DCLG, NAO, Public Sector Audit Appointments Limited (PSAA) and other stakeholders have ensured that the guidance is relevant and specific to authorities.

<http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>

Mazars: Public services blog 'Let's talk public services'

Mazars has launched a blog 'Let's talk public services' where Mazars' team of auditors and advisors working with UK public service organisations can provide a place in which public service practitioners can exchange experience and ideas relevant to their jobs. The blog can be found here:

<http://blogs.mazars.com/lets-talk-public-services>

04

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Audit Strategy Memorandum

West Yorkshire Combined Authority

April 2016

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West Yorkshire Combined Authority
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April 2016

Dear Members

Audit Strategy Memorandum for the year ending 31 March 2016

We are delighted to present our Audit Strategy Memorandum for West Yorkshire Combined Authority for the year ending 31 March 2016.

The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. It is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, and Appendix A summarises our considerations and conclusions on our independence as auditors.

We value two-way communication with yourselves and we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion through which we can also understand your expectations.

This document will be presented at the Governance and Audit Committee meeting on 19 April 2016. If you would like to discuss any matters in more detail please do not hesitate to contact me on 0113 387 8850 Yours faithfully

Mark Kirkham
Partner, for and on behalf of Mazars LLP

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Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ and ‘Terms of Appointment’ issued by Public Sector Appointments Limited. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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01 Purpose and Background

Purpose of this document

This document sets out our audit plan in respect of the audit of the financial statements of West Yorkshire Combined Authority (the Combined Authority) for the year ending 31 March 2016, and forms the basis for discussion at the Governance and Audit Committee meeting on 19 April 2016.

The plan sets out our proposed audit approach and is prepared to assist you in fulfilling your governance responsibilities. The responsibilities of those charged with governance are defined as to oversee the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the financial reporting process.

We see a clear and open communication between ourselves and you as important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring as part of the two-way communication process that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks you face, which might affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

Appendix C outlines the form, timing and content of our communication with you during the course of the audit. Appendix D sets out forthcoming accounting and other issues that will be of interest.

Scope of engagement

We are appointed to perform the external audit of your accounts for the year to 31 March 2016. The scope of our engagement is laid out in the National Audit Office's Code of Audit Practice.

Responsibilities

• Audit opinion and value for money conclusion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Governance and Audit Committee, as those charged with governance, of their responsibilities. We are also required to reach a conclusion on the arrangements that the Combined Authority has put in place to secure economy, efficiency and effectiveness in its use of resources (our Value for Money conclusion).

• Whole of Government Accounts

We report to the National Audit Office in respect of the consistency of the Combined Authority's Whole of Government Accounts submission with the financial statements.

• Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. In accordance with International Standards on Auditing (UK and Ireland), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as whole are free from

material misstatement, whether caused by fraud or error. Our audit, however, should not be relied upon to identify all such misstatements.

We are required to enquire of those charged with governance as to their knowledge of instances of fraud, the risk of fraud and their views on management controls that mitigate the fraud risks.

Significant matters considered

As part of our risk based approach to planning we consider a number of key performance and control environment features together with external developments. The following paragraphs set out some of the key aspects for 2015/16. We take into account the impact of the Combined Authority's financial performance and control environment, together with external factors in sections 2 and 3 of this document. Our current view is that this information does not give rise to any additional significant risks for our audit.

Key performance and control environment features

We use the Combined Authority's latest financial monitoring reports and medium term financial strategy to consider the current financial position. The following table summarises in year activity to date.

Area	Budget	Forecast as at February 2016
Net revenue expenditure	£97.213m	£98.689m
Funded by:		
Transport levy	£96.198m	£96.198m
LEP funding	Nil	£2.913m
Use of reserves/(addition to reserves)	£1.015m	(£0.422m)

The budget for 2016/17, approved in February 2015, shows net revenue expenditure of £102.501m with planned use of £4.096m reserves. The significant planned use of reserves partly reflects a timing issue with business rates income from the Enterprise Zone as management plan to restore £1.9m to reserves in subsequent years.

02 Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide you with an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards of Auditing (UK and Ireland) and in accordance with the National Audit Office's Code of Audit Practice. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Audit approach

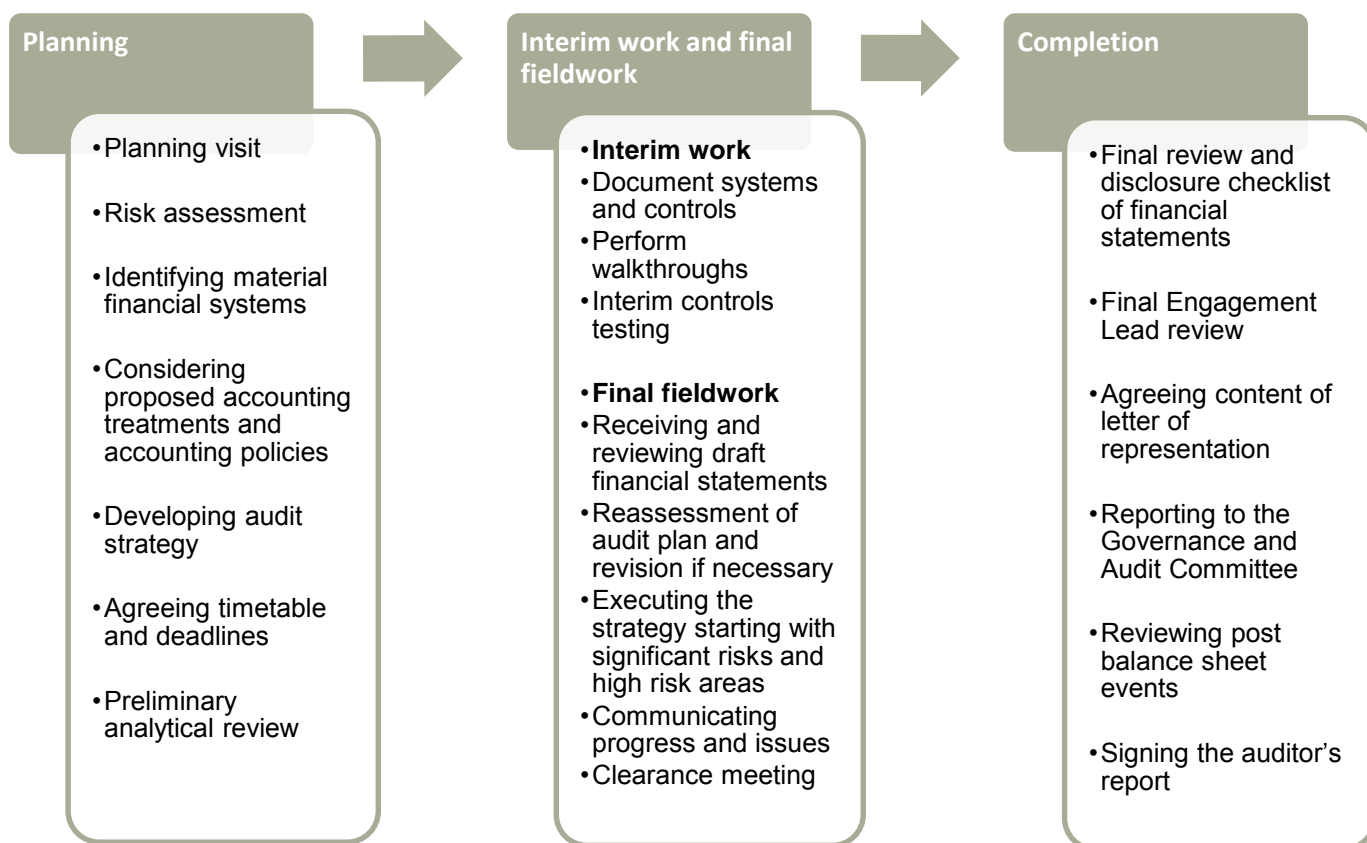
We apply a risk-based audit approach primarily driven by the matters we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment we develop our audit strategy and design audit procedures in response to this assessment. The work undertaken could include a combination of the following as appropriate:

- testing of internal controls;
- substantive analytical procedures; and
- detailed substantive testing.

We have decided to take a wholly substantive approach to our audit testing as we consider this is the most efficient way to obtain the assurance we need.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Materiality and misstatements are explained in more detail in Appendix B.

The diagram overleaf outlines the procedures we perform at the different stages of the audit.



Reliance on Internal Audit

Where possible we will seek to utilise the work performed by internal audit to modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls evaluation procedures.

We do not plan to rely directly on internal audit's work as we intend to adopt a wholly substantive approach to obtaining our audit assurance. However, we indirectly use the work of internal audit in assessing the control environment, which informs our review of the Annual Governance Statement and the sample sizes for our substantive testing.

Service organisations

There are material entries in your financial statements where the Combined Authority is dependent on an external organisation. We call these entities service organisations. The table below outlines our approach to understanding the services the Combined Authority receives from each organisation and the effectiveness of controls in place to reduce the risk of material misstatement in the financial statements.

Nature of services provided and items of account	Name of service organisation	Audit approach to be adopted
Treasury management services affecting bank balances, investments and borrowing	Leeds City Council	Sufficient appropriate audit evidence will be obtained from direct confirmations requested from third parties.

The work of experts

We plan to rely on the work of the following experts:

Item(s) of account	Management's expert	Our expert
Defined benefit liability and associated IAS 19 entries and disclosures	Actuary (Aon Hewitt)	National Audit Office's consulting actuary (PWC)
Property, plant and equipment valuations	Lambert, Smith and Hampton	National Audit Office's consulting valuer (Gerald Eve)
Financial instruments: fair value estimates	Capita	Central assurance provided by the National Audit Office

Timeline

The diagram below sets out the timing of the key phases of our audit work. We will communicate with management throughout the audit process and will ensure significant issues identified are communicated to those charged with governance on a timely basis.



03 Significant risks and key judgement areas

We have performed our planning procedures, including our risk assessment, as detailed in section 2. In addition, we met with management as part of the audit planning process to discuss the risks that, in management's opinion, the Combined Authority faces and we have considered the impact on our audit risk. The risks that we identify as significant for the purpose of our audit are the risks of material misstatement that in our judgement require special audit consideration.

We set out below the significant audit risks identified as a result of these meetings and planning procedures which we will pay particular attention to during our audit in order to reduce the risk of material misstatement in the financial statements.

Significant audit risks

Management override of controls

Description of the risk

International Standards on Auditing (ISA) 240 – *The auditor's responsibility to consider fraud in an audit of financial statements* requires us to consider the potential for management override because controls that may be sufficient to detect error may not be effective in detecting fraud.

In all entities, management at various levels is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we will address this risk

We will address this risk by:

- evaluating and testing the basis for material accounting estimates included in the financial statements;
- reviewing unusual or significant transactions outside the normal course of business; and
- testing a sample of journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Revenue recognition

Description of the risk

In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. We have identified the following as key areas of focus for the significant risk:

- grant income is recognised when all conditions attached to the grant have been met so there is significant management judgement in determining when the conditions have been met; and
- prepaid ticket income is recognised based on sale information from a variety of sources including travel centres, railway stations and payzone.

How we will address this risk

We will evaluate the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we will undertake a range of substantive procedures including:

- reviewing the reasonableness of the judgements made by management in determining whether grant conditions have been met; and
- testing the recognition of prepaid ticket income to information and returns from sales outlets to ensure income has been recognised in the right year.

Pension Estimates (IAS 19)

Description of the risk

The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.

How we will address this risk

We will discuss with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we will:

- evaluate the management controls you have in place to assess the reasonableness of the figures provided by the Actuary; and
- consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.

Key management judgements

We recognise that within your financial statements there are specific accounting transactions and disclosures where management has exercised judgement. We consider that these areas require specific audit focus. We highlight below what we consider to be the key areas of management judgement and our planned audit approach.

Valuation of land and buildings

Description of the area of judgement

Land and buildings are carried on the Balance Sheet at current value and are material. Management engage Lambert, Smith and Hampton, as an expert, to determine the value of property to be included in the financial statements.

In addition a new financial reporting standard (IFRS13 fair value measurement) applies to the valuation of surplus property for 2015/16 and judgements may be required about 'highest and best' use values.

Our planned audit approach

We continue to liaise with management on the approach taken by the Combined Authority to the valuation of land and buildings including the requirements of IFRS13.

We will review:

- the scope and terms of the engagement with the valuer; and
- how management use the valuer's report to value land and buildings in the financial statements.

We will write to the valuer to obtain information on the methodology and their procedures to ensure objectivity and quality.

We will also consider evidence of regional valuation trends.

04 Value for Money Conclusion

Scope of work

For 2015/16, we are required to satisfy ourselves the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We perform our work in this area in accordance with guidance set out by the NAO in Auditor Guidance Note 3. This requires us to consider one overall criterion which is made up of three sub-criteria.

Overall criterion: *in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

Sub-criteria	Guidance
Informed decision-making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance. Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management. Reliable and timely financial reporting that supports the delivery of strategic priorities. Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. Managing and utilising assets effectively to support the delivery of strategic priorities. Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities. Commissioning services effectively to support the delivery of strategic priorities. Procuring supplies and services effectively to support the delivery of strategic priorities.

As part of our work, we will also:

- review your annual governance statement;
- consider the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carry out any risk-based work we determine appropriate.

Significant risks

Having completed our initial planning work, we have not identified any significant audit risks to the VFM conclusion at this stage.

05 Your audit team

Below are your audit team and their contact details.

Engagement lead
(Partner)

- Mark Kirkham
- mark.kirkham@mazars.co.uk
- 0191 383 6300 or 07747 764 529

Engagement manager
(Senior Manager)

- Steve Appleton
- steve.appleton@mazars.co.uk
- 07881 283 340

Team leader (Assistant
Manager)

- Abi Medic
- abi.medic@mazars.co.uk
- 07881 283 644

06 Fees for audit and other services

Our audit fees for the audit of the financial statements and for any assurance or other services are outlined in the tables below.

Area of work	2015/16 Proposed fee	2015/16 Scale Fee	2014/15 Actual fee
Core audit work required by NAO's Code of Audit Practice	33,720	33,720	44,960
Total fee	33,720	33,720	44,960
Non audit work			
Department for Transport – major projects (Leeds Rail Growth) – accountant's report on a grant claim	2,000	N/a	N/a
Department for Transport – major projects (Leeds Station Southern Access) – accountant's report on a grant claim	2,000	N/a	N/a

Appendix A - Independence

We are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the Auditing Practices Board's Ethical Standards. In addition we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you, and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement, there are no relationships between us, and any of our related or subsidiary entities, and you, and your related entities, creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- all partners and staff are required to complete an annual independence declaration;
- all new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- rotation policies covering audit engagement partners and other key members of the audit team who are required to rotate off a client after a set number of years; and
- use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement lead.

We wish to confirm that in our professional judgement, as at the date of this document, we are independent and comply with UK regulatory and professional requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Mark Kirkham, Engagement Lead.

Prior to the provision of any non-audit services the Engagement Lead will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

The following threats to our independence and associated safeguards have been identified.

Issue	Perceived threat	Safeguards and procedures
Services in relation to grants and returns certification and assurance.	We have considered threats and safeguards for all grants work as follows: <ul style="list-style-type: none">• Self-review: the work does not involve the preparation of information that has a material impact on the financial statements subject to audit by Mazars;• Self-interest: the total fee level is not deemed to be significant to either the Authority or Mazars. The work undertaken is not paid on a contingency basis;• Management: the work does not involve Mazars making any decisions in behalf of management:	

- Advocacy: the work does not involve Mazars advocating the Authority to third parties;
- Familiarity: the work is not deemed to give rise to a familiarity threat given these pieces of assurance work used to be within the Audit Commission's certification regime and were the responsibility of the Authority's appointed auditor; and
- Intimidation: the nature of the work does not give rise to any such threat.

Appendix B – Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

We have set materiality at the planning stage at £3,956,000 with a clearly trivial threshold of £119,000 below which identified errors will not usually be reported. We have set lower materiality levels for the disclosure of officers' remuneration, members' allowances and exit packages as we consider these items to be of specific interest to users of the accounts sufficient to warrant audit procedures which would not otherwise be applied based on the materiality level for the audit as a whole. The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

We discuss with management any significant misstatements or anomalies that we identify during the course of the audit and we report in our Audit Completion Report all unadjusted misstatements we have identified other than those which are clearly trivial, and obtain written representation that explains why these remain unadjusted.

Appendix C – Key communication points

ISA 260 'Communication with Those Charged with Governance' and ISA 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present to the Governance Committee the following reports:

- our Audit Strategy Memorandum;
- our Audit Completion Report; and
- Annual Audit Letter.

These documents will be discussed with management prior to being presented to the Audit Committee and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements.
- The planned scope and timing of the audit.
- Significant audit risks and areas of management judgement.
- Our independence.
- Responsibilities for preventing and detecting errors.
- Materiality.
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control.
- Significant findings from the audit.
- Significant matters discussed with management.
- Our conclusions on the significant audit risks and areas of management judgement.
- Unadjusted misstatements.
- Management representation letter.
- Our proposed draft audit report.
- Independence.

Key communication points to be included in our Annual Audit Letter

- Summary of the key matters arising from the audit for the year
- Final fees for audit and other services
- Future challenges

Appendix D – Forthcoming accounting and other issues

The 2015/16 CIPFA Code of Practice on Local Authority Accounting (the Code) has made several changes, of which you should be aware. Officers attended a local workshop we held to explain these changes and the possible impact on preparing the financial statements. The workshop provided full details of the changes in the 2015/16 Code as well as a forward look to potential future accounting changes that may be of relevance to the Combined Authority. If you require detailed information on any of these changes or any other emerging issues, please contact any member of the engagement team.

Forthcoming accounting issues

Early deadlines	How this may affect the Authority
The Accounts and Audit Regulations 2015 outline earlier deadlines for local authorities to produce their statements of account to 31 May from the 2017/18 financial year. The deadline for the completion of the audit will also move forward to 31 July.	The impacts of this change on local authorities and their auditors are significant and we have begun to discuss with officers how we will meet the challenges the new dates place on us all.
Fair Value accounting	How this may affect the Authority
The Code adopts the principles of IFRS 13 in respect of measuring fair value for the first time in 2015/16.	We have discussed with officers the implications of IFRS13 on the valuation basis for any assets held as surplus (e.g. vacated premises) as they will need valuing at market value rather than existing use value.

West Yorkshire Combined Authority

Value for money audit risk assessment – 2015/16 planning stage

April 2016



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Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies’ and ‘Terms of Appointment’ issued by Public Sector Appointments Limited. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.

01

Executive Summary

This document sets out the considerations which underpin the plan for the specific work we consider necessary to reach a safe VFM conclusion.

Auditor Guidance Note 03 issued by the National Audit Office (NAO), sets out the requirements for value for money (VFM) work in 2015/16. In respect of local government bodies, it states:

"Section 20(1) of the Act requires that: 'In auditing the accounts of a relevant authority other than a health service body, a local auditor must, by examination of the accounts and otherwise, be satisfied ... (c) that the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'."

Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on the following overall evaluation criterion:

Overall criterion: In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements but these are not separate and auditors are not required to reach a distinct judgement against each one:

Sub-criteria:

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

We used the NAO's guidance to carry out an initial audit risk assessment using a red / amber / green (RAG) rating with the following definitions.

No audit risks to the vfm conclusion identified to date and no further work planned.



Not considered to be at audit risk at this stage although risk indicators to be followed up as further information becomes available.



Significant audit risk identified. This denotes risk to us as auditors in reaching a safe value for money conclusion so additional work is required to address our risk. It is a planning assessment of audit risk rather than a rating of the Combined Authority's arrangements.



The guidance also gives the following examples of issues which could be significant audit risks:




- organisational change or transformation;
- significant funding gaps in financial planning;
- legislative or policy changes; and
- repeated financial difficulties, or persistently poor performance.

Overall planning considerations

The Combined Authority has arrangements in place although for some areas, which we show as amber in section 2 of the report, we need to obtain additional information to enable us to reach a safe value for money conclusion. This reflects our developing understanding of the Combined Authority during the first year of our audit.

We have not identified a significant audit risk (ie red rating) that would require a specific piece of work to support the value for money conclusion.

Our audit risk assessment is dynamic and can change as the audit progresses and new information is considered.

Proper arrangements	
Informed decision making	 Amber
Sustainable resource deployment	 Green
Working with partners and other third parties	 Amber

We have identified a couple of areas (amber rated) where further audit work is required to obtain sufficient assurance to inform our conclusion as set out below:

- update our understanding of the integration of the LEP into the Combined Authority’s risk management and governance processes;
- consideration of Internal Audit’s recent work on risk management;
- update our understanding of the development of the Single Transport Plan;
- review of the Annual Governance Statement; and
- consideration of evidence obtained from relevant audit work on the financial statements.

02




Proper arrangements


The NAO guidance defines proper arrangements based on existing sector requirements to have arrangements in place to ensure proper governance, resource and risk management, and internal controls, and to report on the design and operation of those arrangements through Annual Governance Statements. For combined authorities, this is the CIPFA/SOLACE framework for local government.

Drawing on the relevant requirements applicable to local bodies, proper arrangements cover the areas detailed in the tables in this section of the report.




The RAG rating reflects our planning assessment which we complete to determine whether any specific pieces of audit work are necessary to enable us to reach a safe VFM conclusion.

Informed decision making



Proper arrangements	RAG Rating	Arrangements at West Yorkshire Combined Authority
Acting in the public interest, through demonstrating and applying the principles and values of sound governance.	 Green	<ul style="list-style-type: none"> • Governance structure in place. • Minutes and agenda papers available on website for the Combined Authority and committees. • Arrangements for internal challenge and review. • 2014/15 Annual Governance Statement compliant with the CIPFA / SOLACE Delivering Good Governance Framework.
Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.	 Green	<ul style="list-style-type: none"> • Relevant financial and other information available to support decision making and performance management. • We are not aware of data quality problems in respect of financial and performance information. • Consistent data in financial reports.
Reliable and timely financial reporting that supports the delivery of strategic priorities.	 Green	<ul style="list-style-type: none"> • Regular and timely financial reporting. • Outturn materially close to in-year financial reports. • Track record of delivering financial plan.

Proper arrangements	RAG Rating	Arrangements at West Yorkshire Combined Authority
Managing risks effectively and maintaining a sound system of internal control.	 Amber	<ul style="list-style-type: none"> • Risk management arrangements in place with corporate risk register actively reviewed by management throughout the year. • Annual Governance Statement subject to challenge by Governance and Audit Committee. • Regular reporting by Internal Audit on internal control. • Challenge of integrating LEP into Combined Authority's risk management and governance structures. Further audit consideration required to reach VFM conclusion.

Sustainable resource deployment

Proper arrangements	RAG Rating	Arrangements at West Yorkshire Combined Authority
Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	 Green	<ul style="list-style-type: none"> • Balanced budget set for 2016/17 with strategic use of reserves. • A three year Medium Term Financial Strategy covering the years 2016/17 to 2018/19 adopted. • Constructive engagement and agreement with districts over transport levy.
Managing and utilising assets effectively to support the delivery of strategic priorities.	 Green	<ul style="list-style-type: none"> • Asset register in place. • Asset management plan in place.
Planning, organising and developing the workforce effectively to deliver strategic priorities.	 Green	<ul style="list-style-type: none"> • Inward transfer of staff from Leeds and Partners and the Regional Economic Intelligence Unit. • Internal controls to challenge recruitment. • Monitoring of staff sickness absence.

Working with partners and other third parties

Proper arrangements	RAG Rating	Arrangements at West Yorkshire Combined Authority
Working with third parties effectively to deliver strategic priorities.	 Amber	<ul style="list-style-type: none"> • Strategic Economic Plan for city region revised (February 2016). • Single Transport Plan in development • Further audit consideration required to reach VFM conclusion.
Procuring supplies and services effectively to support the delivery of strategic priorities.	 Green	<ul style="list-style-type: none"> • Procurement arrangements in place to secure cost effective purchasing.

Originator: Russell Gott
Internal Audit Manager



ITEM 6

Report to: Governance and Audit Committee

Date: 19 April 2016

Subject: Internal Audit Progress Report

1. Purpose

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

2. Information

2.1. This report provides details of activities undertaken by the Internal Audit Section in the period from 1 February 2016 to 31 March 2016 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:

- Tendered Subsidised Bus services
- Main Accounting System
- Prepaid Tickets & Concessionary Travel
- Creditors
- CHASE CRM Audit Follow-up

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 a forecast overrun of 6 days. 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, one review was 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 4.3.4 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 2015/16	35	40	2
Number of Audit Recommendations Fully Implemented.	19	20	1
In Progress Audit Recommendations	16	20	1
Overdue Audit Recommendations.	2	6	0

The majority of the overdue medium priority recommendations have an implementation date of 31ST March 2016 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. **Tendered Subsidised Bus Services**

Opinion – “controlled”

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

Objectives

Local Authorities are able to secure the provision of local bus services that would not otherwise be provided on a commercial basis by bus operators by offering a contract for the provision of service after a competitive tendering process. This mechanism helps to ensure that access to the public transport network is maintained and enhanced for people living in areas that would otherwise have limited public transport services.

This review focused on the systems for ensuring that payments are properly calculated, authorised and recorded, processes for evaluating tenders received from operators and the operation of contract monitoring and contract compliance processes. The scope of the audit included a review of contracts for the provision of both schools and non- schools transport.

Observations

A number of medium priority observations were provided concerning improvements to the documentation of processes and publicising tender awards.

4.3.2. Main Accounting System

Opinion – “well controlled”

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

Objectives

The review focused on the operation of systems and controls including the reconciliation of transactions to movements on WYCA’s bank accounts, consistency with published financial accounts, interfaces with supporting/feeder systems, budgetary control and examination of the approval of journal transactions.

Observations

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

4.3.3. Prepaid Tickets & Concessionary Travel

Opinion – “requires improvement”

Controls relating to the introduction of smart processes need to be identified and fully embedded.

Objectives

The objectives of this review were to assess the arrangements in place for the calculation of the prepaid ticket pool, concessionary fares reimbursements and the management of agents’ ticket stocks. Arrangements relating to the calculation and administration of prepaid ticket payments and concessionary fares reimbursements were found to be operating satisfactorily. In addition, third-party assurance was obtained in relation to Metro ticket stock and cash handling systems operated by

Northern Rail.

Observations

The audit identified a requirement for the control environment to be determined for on-line ticket sales transactions which are planned to be introduced later in the year. In addition, that system user access rights be identified and enforced prior to the roll-out of CHASE system upgrades. That a plan be produced which defines a protocol for reporting changes or system performance issues in relation to smartcard usage.

4.3.4. Creditors

Opinion – “well controlled”

Creditor payments are well controlled

Objectives

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

Observation

There were no significant recommendations identified for the attention of management. However comments were provided in relation to the updating of written procedures and arrangements for controlling payments where there are no invoices, PANI's.

4.3.5. CHASE CRM (customer hubs and service experience) Audit Follow-up

Objectives

In early 2015 a review of the development of the CHASE CRM system to be delivered by Yorcard Limited was undertaken. The report was issued in July 2015. Since that time management responses have been recorded and updated on the Covalent audit recommendation tracking system. Given the significance of the issues identified as a result of this review it was decided to follow up the stated management actions and review those where no progress had been reported. This follow up included discussions with WYCA and Yorcard Limited representatives and an examination of any evidence provided to support action taken.

Observations

Of the 17 audit recommendations originally issued, it was established that 5 high priority and 4 medium priority audit recommendations had been implemented. However, 5 high priority and 3 medium priority recommendations remain

outstanding, 1 of the high priority recommendation is overdue. Details of the high priority overdue recommendations are included in **Appendix 'B'** of this report.

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 Risk Management, ICT Data Security, Metro Travel Centre Operations, Yorcard ICT Administration and Contract Monitoring. Final release of these audit reports is now subject to quality reviews of the audit files and the agreement of implementation actions. A summary of the results from these reviews will be provided to this Committee at the next meeting.

6. Financial Implications

- 6.1. None relating directly to the Internal Audit function.

7. Legal Implications

- 7.1. The Accounts and Audit Regulations 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 these arrangements.

8. Staffing Implications

- 8.1. The performance of ICT systems audits requires the buy-in of third party specialist services.

9. Recommendations

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

Originator: Russell Gott
Internal Audit Manager



Appendix A
Audit Plan Progress

Internal Audit Plan 2015/16

Report Type: Actions Report
Report Author: Russell Gott
Generated on: 31 March 2016

Directorate	Milestone Description	Summary	Estimated Days	Actual Days	Milestone Completed
Passenger Services	Unannounced Visits	Unannounced visits to Travel Centres to check cash and ticket stocks.	5	3	Complete
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	Complete
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	20	Complete

Directorate	Milestone Description	Summary	Estimated Days	Actual Days	Milestone Completed
Cross-Cutting	AGS	Completion of Annual Report and internal audit opinion	2	2	Complete
Development	Local Transport Plan Capital Programme Management	Review of arrangements to identify, monitor, control and report on the Capital Programme.	15	15	Complete
Development	Interreg Carbon Responsible Transport Strategies (CARE NORTH)	Head of IA assurance. Periodic report and claim review and certification.	5	5	Complete
Development	Interreg Improving Transport & Accessibility through new Community Technology (ITRACT)	Head of IA assurance. Periodic report and claim review and certification.	5	5	Complete
Passenger Services	Better Bus Area Fund	Head of IA assurance. Periodic report and claim review and certification.	5	5	Complete
Passenger Services	Bus Services Operators Grant	Head of IA assurance.	5	5	Complete
Passenger Services	Cycle City Grant	Head of IA assurance. Periodic report and claim review and certification.	5	5	Complete
Development	Transport Fund	Head of IA assurance.	10	6	Finalising

Directorate	Milestone Description	Summary	Estimated Days	Actual Days	Milestone Completed
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	Complete
Resources	VAT	Arrangements for the accounting and submission of VAT returns to HM Revenues & Customs.	5	5	Complete
Resources	Data Security/ Protection	Arrangements for the protection of data from loss.	25	23	Report being drafted
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.	15	15	Completed
Enterprise Partnership	Economic Development	LEP assurance mapping. Review of processes and controls for the provision of economic development functions for West Yorkshire. Local Growth Fund *Skills Gap: - Calderdale College Kirklees College	30	19	Finalising

Directorate	Milestone Description	Summary	Estimated Days	Actual Days	Milestone Completed
		Leeds City College Shipley College * West Yorkshire Broadband			
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.	10	10	Completed
Cross-Cutting	Health & Safety	Health & Safety Policy meets legal requirements as provided in the Health & Safety at Work Act and other relevant Acts. Workplaces and welfare requirements, recording accidents, illness and first aid, use and maintenance of work equipment, control of exposure to hazardous substances, electrical equipment, noise and radiation. Provision of protective clothing or equipment, Reporting of injuries, diseases and dangerous occurrences to the enforcing authority (RIDDOR). The control and management of asbestos, management of contractors, smoke free legislation, alcohol and substance abuse.	15	17	Completed
Passenger Services	Prepaid Tickets & Concessionary Travel	Arrangements for accounting for stocks, cash, Haven system controls and reporting, calculations of prepaid ticket pool and distribution, concessionary fares reimbursements, on account payments and quarterly adjustments. Consider controls for smartcard transactions. Payzone sales system.	20	19	Completed
Passenger Services	Tendered Subsidised Contracts	Tendering arrangements, batches, de minimis contracts, insurance, operator's licenses, lost mileage, payment calculations and processes. Arrangements support and provide contract compliance. Public and education services.	15	17	Completed
Passenger Services	Passenger Facilities/Contract Monitoring	Bus station repairs, maintenance, cleaning and security. Shelter cleaning & repairs.	15	14	Testing completed
Resources	Payroll	Review of the operation of key controls including arrangements for starters, leavers, pay points, member's allowances, expenses & deductions.	12	13	Completed

Directorate	Milestone Description	Summary	Estimated Days	Actual Days	Milestone Completed
Resources	Treasury Management	Review of the operation of key controls including treasury management, segregation, review, authorisation, third part services and assurances, prudential code.	15	14	Completed
Cross-Cutting	Fraud Awareness	Maintaining employees' awareness of WYCA's counter- fraud arrangements.	2	2	Completed
Resources	I.C.T. Governance	Systems security - Back-ups, recovery plans, data integrity, email, internet controls, monitoring, access, ICT strategy, control of ICT equipment. Service desk	20	18	Report being drafted
Passenger Services	Metro Travel Centre Operations	Ticket sales, stock, cash handling security, reconciliations & reviews performed. Cash collected is administered and properly controlled to reduce the risk of loss or fraud. Associated back-office operations.	15	16	Report being drafted
Cross-Cutting	Risk Management	Effectiveness of risk management processes, risk management guidance and support, Identification of risk, risk evaluation, risk mitigation and control, monitoring risks, reporting the status of key risks and controls, recording the management of risks, including the effectiveness of the controls and other responses to them, risk awareness and training.	15	14	Completed
Development	Transport Fund – Business Case	Review of operation of Strategic assurance framework. Assessment and scrutiny of business cases - Quality Assurance.	20	8	Completed
Resources	Main Accounting – General Ledger	Review of the operation of key controls including System user rights, review, control, adequacy and timeliness, budgetary control, systems interface – education, Haven, and payroll. VAT.	8	8	Completed
Resources	Creditors	Review of the operation of key controls including segregation, authorisation, reconciliation of statements, BACS controls, and sub-contractors records.	8	7	Completed
Resources	Debtors	Test arrangements for write offs, requisitioning, reporting, review of accounts, debt age	6	6	Completed

Directorate	Milestone Description	Summary	Estimated Days	Actual Days	Milestone Completed
		monitoring and reporting.			
Resources	On-line Payments	Review of controls for the processing of on-line payments and credit/debit card payments received.	8	3	Completed
Cross- Cutting	Fraud Investigations	Contingency for fraud investigation.	10	3	Completed
Resources	ICT Services	Consideration of VfM aspects of processes.	10	0	Deferred
Cross-Cutting	Audit Follow-up	Follow up on implementation of key audit recommendations	20	24	Completed
Passenger Services	Survey Monitoring	Robustness of systems to identify changes in bus network in a timely manner. Changes to monitoring arrangements and move to smart.	12	8	Completed
Development	Castleford Bus Station Development	Project Healthcheck	0	15	Completed
Development	Low Moor Rail Station Development	Project Healthcheck	0	10	Completed
Total			425	393	

Approved Audit Plan 2015/16		425
Audit Days Delivered	393	
Projected Overrun	6	
Planned over programming	<u>26*</u>	425

*Over programming has been met through savings against fraud contingency, transport fund and economic development allocations.

Appendix B
Overdue High Priority Audit Recommendations

Title	Recommendations	Action	Due Date	Priority
<p>M/SD/P29/AR257 CHASE (customer hubs and service experience)- Support Maintenance Agreement</p>	<p>Support Maintenance Agreement</p> <p>A support and maintenance agreement should be put in place as soon as possible. This agreement will need to reflect operational requirements i.e. 24/7 operations. WYCA will also need to consider what internal resource will be required to support the proposed operations in the 24/7 environment also.</p> <p>UPDATE The Programme Board agreed that there should be a procurement process to identify a new, long term supplier for support and maintenance services. Therefore the present arrangements will only be in place for a further five months. This procurement is underway and the new supplier will assume primary responsibility on 1st October.</p>	<p>AD ICT</p>	<p>29 February 2016</p>	<p>High</p>
<p>M/SD/P29/AR282 Purchasing – Health & Safety Records</p>	<p>Health & Safety Records</p> <p>It is apparent the arrangements for the capture and maintenance of information required for the control of contractors require further consideration particularly in terms of clarification of processes, standardisation of approach and access to a single corporate database. It is strongly recommended that the benefits of this approach be provided to senior management along with the risks associated with the continuation of current arrangements.</p>	<p>AD Corporate Development</p>	<p>29 February 2016</p>	<p>High</p>

ITEM 7

Report to: Governance & Audit Committee

Date: 19 April 2016

Subject: Internal Audit 2016/17

1. Purpose

- 1.1 To consider the schedule of internal audit reviews for 2016/17 and the associated resource requirement.

2. Information

- 2.1. UK Public Sector Internal Audit Standards (PSIAS) require the Chief Audit Executive to deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Work undertaken within the Annual Audit Plan is the principal body of evidence required to substantiate the opinion provided by Internal Audit.

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

- The core activities of WYCA and specific risks associated with those objectives.
- Regulatory requirements for internal audit coverage.
- Significant recent changes within procedures and operations.
- Areas of concern or requests for coverage from WYCA's leadership team and members of the Combined Authority.
- The content of WYCA's risk registers and the controls that the organisation places reliance on to manage those risks.
- Results of cumulative internal audit knowledge and experience.

- 2.3 Information concerning the Audit Universe along with an initial indication of work to be included in the Audit Plan was provided to the February 2016 meeting of the Governance & Audit Committee. Subsequently, the plan has been developed primarily to meet assurance requirements of economic development functions. Members of the Governance & Audit Committee were contacted individually and provided with this updated plan for consideration in March 2016.

The Combined Authority have now approved the Internal Audit Plan 2016/17 at their meeting held on 31 March 2016.

- 2.4 Full details of the plan are provided in the appendix to this report and are presented under the following assurance blocks;

Core Business Processes	51%
Financial Systems	9%
Corporate Governance Frameworks	10%
Counter Fraud & Corruption	4%
Programmes & Projects	14%
Safeguarding Assets	5%
Follow-up	3%
Contingency	4%

- 2.5 The available audit resource has been calculated after deducting time for non-chargeable activities. This is in line with professional guidance and includes professional development, general consultancy/advice and administration.
- 2.6 The content and progress of work undertaken on the plan will be regularly reviewed and reported to the Governance & Audit Committee. The Internal Audit Plan must continue to be sufficiently flexible to enable assurance to be obtained over current as well as emerging risks. The Committee will be notified if any changes to the plan are required to address changing risks or audit priorities.
- 2.7 The Audit Plan identifies a shortfall in resource of 204 days. The plan is regarded as being the minimum assurance requirement needed to inform the audit opinion on WYCA's overall internal control, risk management and governance arrangements. The Plan does not include any provision for value added activities such as VFM reviews or any significant allowance for consultation in the development of new systems and processes.
- 2.8 Resource allocations for each audit entity are based on previous audit performance in conjunction with an assessment of the scope of each review. The depth of audit testing is established through the evaluation of risk and considers the existence and operation of key controls. Where new areas of assurance have been identified, for economic development activities, then the number of days required to perform this work is determined from an initial overview of these areas conducted during 2015/16 and from discussions with senior officers from within the directorate. It should be noted that there will inevitably be some time required for auditors to fully understand these entities, risks and controls. This should reduce in subsequent plans. However, the development of the Transport Plan along with the changing nature of economic development funding and the possible assurance requirements emerging from the devolution agenda, will mean that there will be further demand pressures on internal audit resource in the foreseeable future.
- 2.9 Options
In order to address the imbalance between the required level of assurance work

identified in the Audit Plan and the audit resource currently available a number of options have been considered.

2.9.1 Option 1. Reduce Audit Plan

Any significant reduction to the existing plan will impact the level of assurance which can be provided to WYCA and may result in a qualified internal audit opinion in 2016/17.

It is strongly recommended that the level of audit assurance is not reduced.

2.9.2 Option two. Increase Internal Audit Establishment – Internal Audit Manager (Preferred Option)

An increase to the Internal Audit establishment of one full time post will enable the Audit Plan to be completed without any reduction in coverage allowing the required level of assurance to be provided. As discussed earlier in section 2.8 of this report, the requirement for assurance will not reduce and is likely to increase in subsequent years therefore demonstrating a long-term requirement for this post.

2.9.3 Option Three. Buy – in Resource

There are two potential alternatives to consider for this option:

Local Authority

This would allow resource to be secured for a fixed period. However, there are a number of issues to consider. Local Authorities continue to be under pressure to cut costs under the Government's austerity measures. Staffing levels are consistently under scrutiny and it is unlikely that there will be availability of suitable internal auditors to fulfil this role from Local Authorities at this time. In addition, the uniqueness of WYCA's operations when compared with those of a Local Authority would mean that there could be significant amount of non-productive time required to gain an understanding of the organisation.

Auditing Firms

Again, this would allow resource to be secured for a fixed period. However, it is likely that the costs of this option could be prohibitive and would not provide value for money.

3. Financial Implications

- 3.1. A requirement to buy-in I.T. audit specialism for the review of data security and third party data hosting controls including systems penetration testing has been identified. In addition, an allowance has been identified for technical guidance in relation to WebTag and NTEM scheme evaluation methodology. These services will be secured in accordance with WYCA's procurement regulations.

- 3.2 The salary and other costs relating to the posts of Internal Audit Manager and Internal Auditors are provided for in the 2016/17 approved revenue budget.
- 3.3 The costs for developing options provided in sections 2.9.2 and 2.9.3 need to be determined.

4. Legal Implications

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

5. Staffing Implications

- 5.1. The provision of internal audit services as detailed in the Audit Plan requires the additional provision of 204 productive audit days. The current establishment of three audit staff on a full-time basis cannot meet this requirement.

6. Recommendations

- 6.1. That the preferred option provided in section 2.9.2 be supported in principle subject to the provision of detailed costings.
- 6.2 That officers be requested to expedite a solution to the resource short-fall without compromising audit coverage and the level of audit assurance which is sought in 2016/17.



Audit Plan 2016/17

ACTIVITY	PRIORITY	OUTLINE DESCRIPTION	RESOURCE
Core Business Activities			332 days
Prepaid Tickets & Concessionary Travel	MR, PR, LR 6 HIGH	Arrangements for accounting for stocks, cash, Haven system controls and reporting, calculations of prepaid ticket pool and distribution, concessionary fares reimbursements. Controls for smartcard transactions and use of smart data/provision of service monitoring information. Payzone sales system.	25
Metro Travel Centre Operations	MR, PR, LR 6 HIGH	Ticket sales, stock, cash collection/handling security. Fraud prevention controls and associated back-office operations.	15
Tendered Subsidised Contracts	MR, PR, LR 6 HIGH	Tendering arrangements, batches, de minimis contracts, insurance, operator's licences, lost mileage, payment calculations and processes. Arrangements support and provide contract compliance. Public and education services.	15
Contract Monitoring - CDM	LR, PR, CR, MR 9 HIGH	Compliance with The Construction (Design and Management) Regulations 2015	25

ACTIVITY	PRIORITY	OUTLINE DESCRIPTION	RESOURCE
English National Concessions Travel Scheme (ENCTS)	MR, PR, PR 6 HIGH	Data handling and protection requirements, access rights to ENCTS database, agreements with the third parties concerning the handling and maintenance of ENCTS data. Validation rules for applicants to provide evidence of identity, residency. System is secure and backed up at frequent intervals with limited access rights. Awareness and communication of requirements of Concessionary Bus Travel Act.	20
Business Growth Programme	LR, PR, CR, MR 9 HIGH	Project management controls, authorisation of expenditure, review of business processes. WYCA expenditure - over £110k Compliance with SLA for schemes administered by LCC – less than £100k	20
Growing Places Fund	LR, PR, CR, MR 9 HIGH	Administration of loans, evaluation criteria and monitoring procedures.	10
Access to Capital Grants Programme	LR, PR, CR, MR 9 HIGH	Project management controls, authorisation of expenditure, review of business processes	10
Skills Capital Projects	LR, PR, CR, MR 9 HIGH	Project management controls, authorisation of expenditure, review of business processes Compliance with conditions of grant, evaluation of eligibility of claims.	25
Resource Efficiency Fund including ESIF + LGF	LR, PR, CR, MR 9 HIGH	Processes & procedures, assessment of grant applications Compliance with funding agreements	10

ACTIVITY	PRIORITY	OUTLINE DESCRIPTION	RESOURCE
Energy Accelerator Projects including European Investment Bank funding (ELENA)	LR, PR, CR, MR 9 HIGH	Processes & procedures, loans provided through EIB Eligibility criteria Compliance with funding agreements	10
Employment Ownership Pilot (Skills Service)	LR, PR, CR, MR 9 HIGH	Processes & procedures, assessment of grant applications Compliance with funding agreements	10
Apprenticeship Grant	LR, PR, CR, MR 9 HIGH	Processes & procedures, assessment of grant applications Compliance with funding agreements	10
Central Heating Fund	LR, PR, CR, MR 9 HIGH	Processes & procedures, assessment of grant applications Compliance with funding agreements – provided through 3 rd party	10
Housing & Regeneration Projects	LR, PR, CR, MR 9 HIGH	Provision of funding for; - Barnsley Town Centre - Brownfield, Leeds	35

ACTIVITY	PRIORITY	OUTLINE DESCRIPTION	RESOURCE
		<ul style="list-style-type: none"> - Kirklees Housing Sites - Northgate House - Redhall 	
West Yorkshire Broadband	LR, PR, CR, MR 9 HIGH	Processes & procedures Certification of expenditure Compliance with funding agreements Compliance with partnership agreements/claw back provisions	25
Local Transport Plan Capital Programme Management	Mandatory	Review of arrangements to identify, monitor, control and report on the Capital Programme.	15
Transport Fund	Mandatory	Scheme evaluation – NTEM forecasts, compliance with WEBTAG Review of operation of Strategic assurance framework	30
Procurement	LR, MR, OR 6 HIGH	Review of the operation of key controls including tendering, ordering, commitments, compliance with Standing Orders and Financial Regulations, e- procurement, purchasing cards.	12

ACTIVITY	PRIORITY	OUTLINE DESCRIPTION	RESOURCE
Financial Systems			57 days
Main Accounting – General Ledger	Mandatory	Review of the operation of key controls including System user rights, review, control, adequacy and timeliness, budgetary control, systems interface – education, Haven, and payroll. VAT.	8
Creditors	Mandatory	Review of the operation of key controls including segregation, authorisation, reconciliation of supplier statements, BACS controls, and sub-contractors records.	8
Debtors	Mandatory	Test arrangements for write offs, requisitioning, reporting, review of accounts, debt age monitoring and reporting.	6
Payroll	Mandatory	Review of the operation of key controls including arrangements for starters, leavers, pay points, member’s allowances, expenses & deductions.	12
Treasury Management	Mandatory	Review of the operation of key controls including treasury management, segregation, review, authorisation, third part services and assurances, prudential code.	15
On-line Payments	LR, MR, OR 6 HIGH	Review of controls for the processing of on-line payments and credit/debit card payments received.	8
Corporate Governance			65 days
Risk Management	Mandatory	Effectiveness of risk management processes, risk management guidance and support, Identification of risk, risk evaluation, risk mitigation and control, monitoring risks, reporting the	15

ACTIVITY	PRIORITY	OUTLINE DESCRIPTION	RESOURCE
		status of key risks and controls, recording the management of risks, including the effectiveness of the controls and other responses to them, risk awareness and training.	
Health & Safety	LR, PR, MR 6 HIGH	Health & Safety Policy meets legal requirements as provided in the Health & Safety at Work Act and other relevant Acts. Workplaces and welfare requirements, recording accidents, illness and first aid, use and maintenance of work equipment, control of exposure to hazardous substances, electrical equipment, noise and radiation, (RIDDOR).	15
Transparency	PR, LR, OR 5 HIGH	Compliance with principles of the Local Government Transparency Code 2015	10
Code of Corporate Governance	LR, PR, MR 6 HIGH	Arrangements to ensure compliance with applicable statutes and assessment against SOLACE/CIPFA principles framework including appropriate arrangements for the safeguarding and accountability of public funds, clear and effective communication with WYCA's stakeholders, clearly defined roles and responsibilities at the head of the organisation. The framework of strategic control including matters reserved for the collective decision of the Board and arrangements for delegated decision making.	10
Business Contingency/Disaster Recovery	LR, PR, CR, MR 9 HIGH	Review of plan to be implemented in the event of incident(s) which impact on WYCA being able to operate.	10

ACTIVITY	PRIORITY	OUTLINE DESCRIPTION	RESOURCE
Annual Governance Statement	Mandatory	Financial reporting including compliance with relevant standards and codes of corporate governance. The establishment, monitoring and reporting on the systems of internal control.	5
Safeguarding of Assets			30 days
Data Security/ Protection	MR, CR, PR, LR, 9 HIGH	System penetration testing -arrangements to protect WYCA ICT systems from attack	15
Data Hosting	LR, PR, CR, MR 9 HIGH	To provide assurance on the delivery of robust service in line with contract and ensure adequate management controls exist relating to operations and the security of data including recovery if necessary.	15
Counter Fraud, Bribery & Corruption			27 days
Fraud Investigations	Mandatory	Contingency for fraud investigation.	20
Pro –Active Anti- Fraud Exercise	PR, LR, OR, CR 8 HIGH	Statistical analysis for duplicate payments, data matching for creditor payments into inappropriate bank accounts. Sample review of changes to bank payment master records.	5
Fraud Awareness	PR,LR 4 MODERATE	Maintaining employees’ awareness of WYCA’s counter- fraud arrangements.	2

ACTIVITY	PRIORITY	OUTLINE DESCRIPTION	RESOURCE
Programmes & Projects			90 days
Growth Deal – Economic Development	Mandatory	<p>Scheme Evaluation Criteria (SAF)</p> <p>Gateway Review Compliance (SAF)</p> <p>Third-Party Assurances</p> <p>Certification of Expenditure</p> <p>Governance Arrangements – Consultation/Compliance</p>	25
Smart Card & Information Programme (SCIP)	MR, CR, PR, OR 8 HIGH	Provision of independent, 3 rd line of defence programme assurance. (Smart transactions Web Customer Hubs and Service Experience (CHASE))	15
LTP	Mandatory	<p>Head of IA assurance.</p> <p>Periodic report and claim review and certification.</p> <p>Systems and procedures to control the allocation of payments and provide evidence of eligible expenditure.</p>	10
Interreg Carbon Responsible Transport	Mandatory	<p>Head of IA assurance.</p> <p>Periodic report and claim review and certification.</p>	5

ACTIVITY	PRIORITY	OUTLINE DESCRIPTION	RESOURCE
Strategies (SHARE NORTH)			
Interreg HORIZON project	Mandatory	Head of IA assurance. Periodic report and claim review and certification.	5
Green Deal Communities Fund	Mandatory	Head of IA assurance. Periodic report and claim review and compliance with MOU with LCC.	3
Better Bus Area Fund	Mandatory	Head of IA assurance. Periodic report and claim review and certification.	3
Smartcard Enabling Gateline Huddersfield	Mandatory	Head of IA assurance. Periodic report and claim review and certification.	3
Cycle City Grant	Mandatory	Head of IA assurance. Periodic report and claim review and certification.	3
Growth Deal - WY+Transport Fund	Mandatory	Head of IA assurance.	10
Bus Services Operator Grant	Mandatory	Head of IA assurance.	3

ACTIVITY	PRIORITY	OUTLINE DESCRIPTION	RESOURCE
ERDF & ESF Technical Assistance Project	Mandatory	Head of IA assurance. Periodic report and claim review and certification.	5
Audit Follow-up		Follow up on implementation of key audit recommendations.	20 days
Audit Plan Contingency		Contingency for any requirement for additional audit assurance and for other unplanned audit work identified in year.	30 days
Total			651

Available Resources 2016/17

Days per annum	480 ¹
Less	
Professional development	(14)
Consultancy/advice (ad-hoc)	(12)
Office administration	(12)
Corporate, functional support and other off-plan requirements	<u>(35)</u> ²
Available 2016/17	407
Planned days	651
Bought – in technical audit specialism	<u>(40)</u> ³
	611
	204

¹ excludes annual and statutory holidays and includes days planned for work assigned for Head of Internal Audit.

² includes corporate business planning, updating knowledge of business processes and input/consultation in respect of IA strategy and other functional policies.

³ audit specialism for data security, hosting and penetration testing. plus technical support concerning scheme appraisal webtag and NTEM forecasts

Originator: Angela Taylor
Director, Resources



ITEM 8

Report to: Governance and Audit Committee

Date: 19 April 2016

Subject: Internal Controls and Financial Monitoring

1. Purpose

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

2. Information

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

Internal controls

- 2.2. There have been no significant changes to internal controls in the period. 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. Some amendments to the treasury management arrangements have been approved at the last meeting of the WYCA and details of these, along with the reasons for needing to change, are set out in the following paragraphs taken from the report to the WYCA:
- 2.3. "The Authority approved the treasury management strategy at the budget meeting in February, including the approval of investment parameters within which the Authority would operate. Any investments undertaken by the Combined Authority follow the guidance of DCLG 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."

- 2.4. Over recent weeks it has become apparent that there are stresses within the economic markets; with the continuing and sustained reduction in oil prices and lack of growth in emerging economies there have a number of downgrades to bank ratings. WYCA's current treasury arrangements include placing of money for terms up to one year with banks with a suitably robust rating but there is now some concern that this is becoming a riskier position. This could be further impacted in due course with the outcome of the referendum in June on membership of the European Union; this situation will be closely monitored.
- 2.5. The WYCA will be receiving £128m in April 2016 as Growth Deal payment and needs to ensure this funding can be safely invested. Following discussions with treasury advisors it is proposed that the investment limits with local authorities in respect of timeframes be extended to increase the options available to manage these sums and recognise the potential enhanced risk to longer term banking investments. It is proposed that limits be set in accordance with the Prudential Code for each of the next three years, and that those limits be, for investments for a period greater than 364 days, that no more than £20m will mature in each of 2016/17, 2017/18 and 2018/19."

Key indicators

- 2.6. The Committee has requested regular information via key indicators, specifically with regard to accidents. Set out below are the figures to date for 2016.

2016 Statistics chart:

2016 Month ending	Accidents	YTD	Near Misses	YTD	Collisions	YTD	First Aid	YTD	Abuse	YTD	RIDDOR S	YTD
January	2	2	4	4	2	2	10	10	-	-	0	0
February	5	7	4	8	1	3	11	21	2	2	0	0
March	11	18	17	25	3	6	21	42	2	4	0	0

- 2.7. Of the reported accidents the RIDDOR column at the end shows how many of these were reportable to the Health and Safety Executive (HSE). There have been no reportable accidents to the HSE. The increase in accidents and near misses in March have been investigated and cannot be attributed to any particular cause.
- 2.8. 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

- 2.9. The latest forecast position for 2015/16 is set out below with the forecast being as reported and approved by the WYCA as part of the budget report of 4 February

2016. The budget for 2016/17 is also as approved by that meeting and monitoring against it will now commence.

Combined Authority				
All £000's	Original budget	Forecast	Revised Estimate	Budget
	2015/16	2015/16	2015/16	2016/17
<u>Transport costs:</u>				
Concessionary Fares	55,474	55,339	55,339	57,003
- ENCS	44,711	45,029	45,029	46,205
- rail	671	646	646	662
- young people	10,092	9,664	9,664	10,136
Subsidised Services	19,632	19,354	19,354	18,999
Passenger Services	7,791	6,928	6,891	8,216
Rail - franchise costs	43,155	44,371	44,371	904
Policy and Delivery	485	502	502	634
Strategic priorities - TF/rail dev/QCS	0	0	0	350
<u>Economy</u>				
Policy and Delivery		1,720	1,720	1,918
Inward Investment		1,544	1,544	1,778
<u>Shared/Corporate</u>				
Pensions	1,406	1,356	1,271	1,394
Financing Charges	6,703	6,183	6,183	6,160
Corporate	5,722	5,763	5,860	6,049
	140,368	143,060	143,035	103,405
<u>Funded by:</u>				
Special Rail Grant	43,155	44,371	44,371	904
LEP Funding		2,913	2,913	1,707
Enterprise Zone receipts		0	0	500
Transport levy applied	96,198	96,198	96,198	96,198
Additional Transport Levy				
Net use of/(addition to) reserves	1,015	-422	-447	4,096
	140,368	143,060	143,035	103,405
	6,929	8,366	8,391	4,270

2.10. There are no significant changes to note since the revised outturn budget for 2015/16 was approved by the WYCA in February. The February meeting of this Committee considered the same information.

Financial monitoring – capital budgets

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

Risk management

- 2.13. There have been no significant changes to risk since the last meeting of this Committee. The detailed risk registers and corporate risk register continue to be monitored by officers. Work that is underway on fully integrating the activities of the various teams brought together by WYCA ie the former Passenger Transport Authority/Executive, the Leeds City Region Enterprise Partnership, the inward investment team from Leeds and Partners and the Regional Economic Intelligence Unit will result in a unified set of objectives and priorities aligned with the recently updated Strategic Economic Plan. This will then enable an updated set of corporate risks to be developed and these will be brought to a future meeting of this Committee for consideration.
- 2.14. As part of this work, and in preparation for the Annual Meeting scheduled for 23 June work will be done to update the Code of Corporate Governance. The current version is attached as Appendix A and comments for its further development are invited from 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.
- 6.2. That the Committee provide any feedback on the Code of Corporate Governance.

West Yorkshire Combined Authority

Local Code of Corporate Governance

Introduction

The definition of corporate governance is that it is about ‘how bodies ensure they do the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and culture and values, by which bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.’

The West Yorkshire Combined Authority (WYCA) has approved and adopted a code of corporate governance which is consistent with the principles of the best practice guidance issued jointly by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The framework is based upon the following six core principles:

1. Focussing on the purpose of the Authority and the outcomes for the community and creating and implementing a vision for the local area;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
3. Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of members and officers to be effective;
6. Engaging with local people and other stakeholders to ensure robust public accountability.

The WYCA is committed to meeting these principles and this statement sets out how the supporting principles beneath each statement will be achieved, monitored and reviewed.

The Authority's core principles

- 1 Focussing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area.**

Supporting principles:

Exercising leadership by clearly communicating the Authority's purpose and vision and its intended outcome for citizens and service users.

The WYCA has endorsed the Leeds City Region Enterprise Partnership's Strategic Economic Plan (SEP) for the region which sets out ambitious plans to drive economic growth. Alongside this the Local Transport Plan sets out key transport plans which are supported by bus, rail, freight, asset and network management strategies. This will be relaunched later in 2015 as the Single Transport Plan which will be updated for recent transport developments and to provide clearer links to the SEP. A manifesto and strategy for West Yorkshire are being further developed to set out the full extent of the WYCA's ambitions for the region and what this means for the people of West Yorkshire and the wider economy.

Ensuring that users receive a high quality of service whether directly, or in partnership or by commissioning.

The Authority will produce regular reports setting out its targets and the achievement against them. This will include progress on key projects in the West Yorkshire plus Transport Fund and other priority schemes in the Local Growth Deal. The annual tracker survey will demonstrate satisfaction with the provision of local public transport.

Ensuring that the Authority makes best use of resources and that tax payers and service users receive excellent value for money.

The Authority will prepare a three year financial strategy which is scrutinised by Members to ensure it supports the ambitions of the WYCA. Detailed annual budgets are considered and approved by the WYCA and shared with the constituent Councils. Annual accounts are produced within three months of the year end and an audit opinion on these and on the value for money position is provided by external auditors.

- 2 Members and officers working together to achieve a common purpose with clearly defined functions and roles.**

Supporting principles:

Ensuring effective leadership throughout the Authority by being clear about executive and non executive functions

Ensuring a constructive working relationship exists between elected Members and Officers

Ensuring relationships between the Authority and the public are clear.

The Authority has in place a clear constitution and a Committee structure covering all aspects of its activities. Schemes of delegation have been put in place to enable Committees, the Head of Paid Service and Directors to work effectively and make decisions in a transparent way. Statutory officers with the appropriate skills and resources have been appointed and ensure advice is given on the necessary financial and procedural matters.

The ways of working are published and reviewed annually, including Standing Orders and Financial Regulations, schemes of delegation, a Members Allowance Scheme and a protocol for Member/Officer relations. An Overview and Scrutiny Committee of co-opted members from all constituent authorities includes within its terms of reference the ability to call in any decision of the WYCA.

3 Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

Supporting principles

Ensuring members and officers exercise leadership by behaving in ways that uphold high standards of conduct and exemplify effective governance

Ensuring that organisational values are put into practice and are effective.

The WYCA expects the highest standards of conduct and personal behaviour from its Members and employees. Robust arrangements are in place to ensure that these high standards are promoted and upheld. Organisational values have been adopted by the Authority and are reflected in policies and protocols. The Authority has issued, and keeps under regular review, a number of documents including a Member Code of Conduct, an Officer Code of Conduct, a complaints procedure and an anti fraud and anti corruption policy which includes the whistleblowing policy. All employees are trained in the values, standards, policies and procedures that WYCA expects them to adhere to.

4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

Supporting principles

Exercising leadership by being rigorous and transparent about how decisions are made

Having good quality information, advice and support

Making sure an effective risk management system is in place

Recognising the limits of lawful action

The WYCA ensures that decision making is transparent and that appropriate advice is taken in reaching decisions. All key decisions of the WYCA and its Committees are made in public meetings with documents available to the public via the internet. Officer decisions are taken in accordance with the schemes of delegation in place and are recorded.

Appropriately skilled and qualified officers provide advice and input to the decision making process.

A risk management framework is in place and is overseen by the Governance and Audit Committee. A risk manual provides practical guidance to officers in recording, monitoring and managing risk through the performance management system.

The Authority has arrangements in place to ensure it collects, uses and stores information and data appropriately.

The Governance and Audit Committee oversees all governance arrangements and ensures these are operating effectively. It monitors and formally reviews the work of the internal audit function and considers the annual review produced by the Internal Audit Manager.

5 Developing the capacity and capability of members and officers to be effective

Supporting principles

Making sure Members and Officers have the skills, knowledge, experience and resources they need to perform well

Developing the capability of people with governance responsibilities

Encouraging new talent for membership of the Authority.

The WYCA seeks to ensure all Members and Officers have the necessary skills and training to fulfil their roles. Members receive an induction programme when they are appointed to a Committee of the WYCA and this is supplemented by specialised training courses where appropriate. Officers are appointed using competency based job descriptions and their performance against these competencies is regularly monitored and reviewed. A detailed learning and development plan ensures that training needs are met at both an individual and an organisational level. The commitment to staff development is demonstrated in the continued re-accreditation of both the Investor in People and Customer Service Excellence standards.

6 Engaging with local people and other stakeholders to ensure robust public accountability.

Supporting principle

Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders.

The WYCA engages with stakeholders and local people in a variety of ways. Its actions are readily available to the public via the publication of all meeting papers and decisions on the internet and the public nature of all its meetings. The WYCA fosters close links with the local District Councils, facilitated by the appointment of senior politicians from these Districts to the WYCA. The Chair of the Leeds City Region Enterprise Partnership sits on the WYCA to assist in ensuring close working with local businesses.

The District Engagement Sub-Committees provide the forum for local people to engage on public transport matters that are relevant to them. For all significant projects public consultation will be undertaken both electronically and in the form of public meetings.

Monitoring and review

It is the responsibility of the Governance and Audit Committee to keep corporate governance matters under review. As part of this process it undertakes regular reviews throughout the year with a formal review at the year end of the processes and systems in place during the year. This includes the results of the work carried out by the internal audit section. The Committee reviews the Annual Governance Statement which forms part of the statutory annual accounts which are subject to external audit. The Committee review and recommend this statement to the WYCA for consideration and approval.