

GOVERNANCE AND AUDIT COMMITTEE

**MEETING TO BE HELD AT 12.00 pm ON 1 DECEMBER 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 29 SEPTEMBER 2016**

(pages 3 - 8)

Copy attached.

- 5. REVISED COMMITTEE MEMBERSHIP**

(pages 9 - 10)

To consider the attached report.

- 6. TREASURY MANAGEMENT PRESENTATION**

(pages 11 - 12)

To consider the attached report.

- 7. EXTERNAL AUDIT MATTERS**

(pages 13 - 49)

To consider the attached report.

8. INTERNAL AUDIT PROGRESS REPORT
(pages 50 - 69)

To consider the attached report

9. INTERNAL CONTROLS AND FINANCIAL MONITORING
(pages 70 - 74)

To consider the attached report.

Signed:



WYCA Managing Director

**MINUTES OF THE MEETING OF THE
GOVERNANCE & AUDIT COMMITTEE
HELD ON THURSDAY 29 SEPTEMBER 2016 IN WELLINGTON HOUSE, LEEDS**

Present:

Roger Marsh (Chair)
Councillor David Sheard
Councillor Nadeem Ahmed
(by telephone)

In Attendance:

Angela Taylor	-	WYCA
Russell Gott	-	WYCA
Angie Shearon	-	WYCA
Steve Appleton	-	Mazars

12. Apologies for Absence

An apology for absence was received from Councillor Andrew Carter.

13. Declarations of Disclosable Pecuniary Interests

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

14. Minutes

Resolved: That the minutes of the meeting held on 28 July 2016 be approved.

15. Appointment of External Auditors – New Arrangements

The Committee considered a report setting out options in relation to new arrangements for appointing WYCA’s auditor further to the Local Audit and Accountability Act 2014 (the Act).

It was reported that the Act abolished the Audit Commission with effect from 1 April 2015 and established new arrangements for the audit of authorities, including combined authorities. Prior to 1 April 2015, auditors had been appointed under contracts let by the Audit Commission. Under transitional arrangements, Public Sector Audit Appointments (PSAA) were responsible for managing the existing contract which would end when the 2017/18 accounts were completed. For the 2018/19 accounts, external auditors must be appointed by 31 December 2017 under one of the new processes provided by the Act and therefore WYCA must make a timely decision about the appointment process it wished to adopt.

The options available to WYCA for appointing an auditor for the 2018/19 accounts were summarised in paragraphs 2.4 to 2.13 of the submitted report. Having considered the three available options, and resource and financial implications, and the expected preference of the West Yorkshire local authorities, members were of the view that Option 3 provided the preferred option for the new arrangements.

Members were informed that a letter had recently been received from PSAA indicating that, unless WYCA advised them to the contrary, Mazars would be appointed as WYCA's external auditors for 2017/18.

Resolved:

- (i) That the new options for appointing external auditors be noted.
- (ii) That the Committee recommend to WYCA that it should opt into a 'sector led body' scheme for appointing its auditors for the 2018/2019 accounts onwards further to the Local Audit and Accountability Act 2014 (option 3 set out in the submitted report).
- (iii) That the Committee endorse the notification from PSAA that Mazars be appointed as WYCA's external auditors for 2017/18.

16. Internal Audit Progress Report

The Committee considered a report on work undertaken by the Internal Audit Section from 1 July 2016 to 1 September 2016.

Details of progress made to date in completing the Audit Plan for 2016/17 were provided in Appendix A of the submitted report.

The Committee discussed the Audit Plan which was forecast to overrun by 206 days due to a shortfall in resource which had previously been reported to both the Committee and the WYCA at their meeting in April. It was reported that progress with the Plan was continually monitored and adjustments made where possible; for example, if an activity was not sufficiently developed to enable audit to take place. However, despite this, it was acknowledged that the 2016/17 Plan could not be delivered on time without additional resource.

Members discussed available options to resolve the situation and were advised that a number of local authority and private sector audit providers had been contacted concerning provision of resource to help complete the Audit Plan. Information and costs were currently being collated and evaluated and a decision would be made on the most effective way forward. Information would be forwarded to the Committee ahead of the next meeting with a full update on progress presented to the next meeting in December. Members accepted that it was important that the Plan was completed in its entirety in order to facilitate preparation of the statutory annual audit opinion.

The Committee discussed progress with certain activities within the Audit Plan, particularly issues surrounding risk management and data protection/security and the arrangements in place to protect WYCA ICT systems from attack. Members asked that an update on these issues, including the Authority's risk appetite statement and other risk management arrangements, be provided to the next meeting of the Committee.

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 overdue high priority recommendations.

The report provided members with an overview of the audit reviews undertaken in the period 1 April to 30 June 2016 and the key issues which had been identified were outlined in paragraphs 4.3.1 to 4.3.3 of the submitted report.

<u>Review</u>	<u>Opinion</u>
Contract Monitoring (facilities maintenance)	Requires Improvement
Transparency Code	Controlled
Local Transport Plan	Well controlled
English National Concessions Travel Scheme	Controlled

In addition to completion of the above audit reviews, audit testing work had also been undertaken in relation to Skills Capital Funding, West Yorkshire and York Broadband Programme, Tendered Subsidised Bus Services and Apprenticeship Grant for Employers. A summary of the results from those reviews would be provided at the next meeting.

Resolved:

- (i) That the report be noted.
- (ii) That the progress made in addressing the forecast internal audit resourcing shortfall, as detailed in paragraph 4.1 of the submitted report, be noted and a further update be submitted to the next meeting of the committee.
- (iii) That a report on risk management and arrangements to protect WYCA's ICT systems from attack be submitted to a future meeting of the committee.

17. Approval of Annual Accounts 2015/16

The Committee considered the Annual Accounts for 2015/16 for the West Yorkshire Combined Authority.

It was reported that the Annual Accounts had now been finalised, and were attached to the report at Appendix A. WYCA's external auditors, Mazars, had completed their audit work and their conclusions were set out in the Audit Completion Report at Appendix D. The report provided members with all the information required to enable them to consider the accounts for approval.

Steve Appleton of Mazars provided an overview of the work involved in the audit of WYCA's accounts together with a summary of key findings and talked the committee through the conclusions set out in the Audit Completion Report. Mazars would be issuing an unqualified opinion, without modification, on the statement of accounts and an unqualified value for money conclusion.

It was reported that it was the first year where the budgets of the Leeds City Region Enterprise Partnership (LEP) had been combined with those of WYCA. Members acknowledged the difficulties of the work involved and extended their thanks to the WYCA officers involved in the completion of the accounts and to Mazars.

Members were informed that, as part of the audit process, the auditors required a representation letter providing assurance that WYCA had provided all necessary information and disclosures to the auditors. The wording for this was within their report and it was noted that the Director, Resources would be signing this letter.

It was reported that, in order for Mazars to issue an audit completion notice along with the audit opinion, the Whole of Government Accounts submission had to be audited, in line with instructions issued by the National Audit Office, by the deadline of 30 September. This work had been completed and the submission was ready to sign off, however, members were asked to note that, due to a technical issue, it may not be possible to meet the deadline. Steve Appleton provided assurance that this would have no impact on the audit and that a follow up certificate would be provided as soon as practically possible.

The Committee considered the Treasury Management Statement at Appendix B of the report and noted that a number of changes had been made to treasury management arrangements during the year as a result of the scale of funding received for the Growth Deal enabling funds to be placed securely with a range of counterparties. Members considered that it would be prudent for the Committee to review, on an annual basis, WYCA's Treasury Management arrangements and asked that the item be included on the agenda for the December meeting.

Resolved:

- (i) That the Treasury Management policy and report and the methods of capital funding as outlined in Appendix B of the submitted report be approved.
- (ii) That the final report of Mazars be noted.
- (iv) That the Annual Accounts for the West Yorkshire Combined Authority for the year ended 31 March 2016 be approved.
- (v) That a representation letter providing assurance that WYCA had provided all necessary information and disclosures to the auditors be signed by Angela Taylor, Director of Resources and Section 73 officer, and provided to Mazars.

- (vi) That Leeds City Council's Treasury Management Team be invited to attend the December meeting of the committee to discuss treasury management arrangements provided by them for WYCA under a Service Level Agreement.

18. Internal Controls and Financial Monitoring

The Committee considered a report on any changes to 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 (LCC) to consider and review the transactions relating to investments and treasury management being carried out jointly with LCC. The Service Level Agreement (SLA) regulating the arrangement had recently been fully updated and signed off by both organisations.

Key Indicators

The Committee had previously requested regular information via key indicators, specifically with regard to accidents reportable to the Health and Safety Executive and key controls. There had been one reportable accident in the period 1 April – 31 August 2016 relating to a fall at a bus station but there was no indication of any defect having contributed to the incident.

Financial Monitoring – Revenue Budgets

Members noted the final position for 2015/16 was covered as part of the item on the annual accounts. It was reported that the position for 2016/17 up to the end of August showed a saving of £1m against the concessionary fares budget which, together with small overspends against other budget lines and an increase in expected income, would reduce the call on reserves for 2016/17.

The Committee noted that the ongoing work on organisational development within WYCA and the need to respond to the growing city region agenda would continue to put pressure upon budgets and that government funding continued to reduce putting pressure on maintaining the current level of WYCA funding. It was noted that work was underway to update and develop the medium term financial strategy.

Financial Monitoring – Capital Budgets

It was reported that delivery of the Transport Fund and Local Growth Fund projects was being monitored by the Investment Committee. Members noted that there had been an element of underspending on the Growth Deal projects in 2015/16 but it had been possible to carry the funding forward to 2016/17. Work was underway to update programme delivery profiles which would be reported to the next Investment Committee with revised forecasts for this year using a dashboard approach.

Risk Management

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

Work to fully integrate the activities of the former Passenger Transport Authority/Executive, Leeds City Region Enterprise Partnership, the inward investment team from Leeds and Partners and the Regional Economic Intelligence Unit had been completed and had resulted in a unified set of objectives and priorities aligned with the Strategic Economic Plan. These had been incorporated in WYCA's corporate plan for which a detailed risk register was being developed and would be brought to a future meeting of the Committee for consideration.

Resolved: That the report be noted.

Originator: A Taylor Director,
Resources

Author: E Davenport



ITEM 5

Report to: Governance & Audit Committee

Date: 1 December 2016

Subject: Revised Committee membership

1. Purpose

1.1 To inform Members about a review of the current membership of the Governance and Audit Committee by WYCA, and about proposed arrangements for the appointment of an independent Chair for the Committee, in due course.

2. Information

2.1 Current membership

2.1.1 As Members will be aware, further to the Cities and Local Government Act 2016, the WYCA cannot lawfully co-opt members to its Governance and Audit Committee, unless or until this is provided for by Order of the Secretary of State.

2.1.2 The WYCA appointed 3 CA Members to its Governance and Audit Committee at its annual meeting, and the current quorum requires all 3 members to attend, although each CA Member has a substitute who may attend in their place, providing some flexibility.

2.1.3 To reduce the risk of an inquorate meeting, the WYCA at its meeting on 1 December will be asked to review whether any additional CA Member(s) ought to be appointed to the Governance and Audit Committee.

2.2 Appointment of an independent Chair

2.2.1 The Department for Communities and Local Government has confirmed that the Secretary of State will by Order provide for changes in relation to audit committee arrangements, to be in force by May 2017. Although a draft Order is not yet available, the DCLG have confirmed that the Order will require combined authorities to appoint an independent Chair for their audit committee.

2.2.2 The recruitment process for an independent Chair of the Governance and Audit Committee needs to be progressed, if the anticipated requirement to appoint is to be met at the WYCA's meeting in April 2017. For this reason, the WYCA at its meeting on 1 December will be asked to request the Head of Legal and Democratic Services to progress appointment arrangements, including convening an interview panel of 3 CA Members to make recommendations to the WYCA in relation to the appointment.

3. Financial Implications

3.1 There are no financial implications arising from appointing any additional CA Member to the Governance and Audit Committee; CA Members do not receive allowances.

3.2 The WYCA's Independent Remuneration Panel will make recommendations to the WYCA about the remuneration for any independent Chair to be appointed to this committee.

4. Legal Implications

4.1 The WYCA will have to comply with any Order relating to membership of its audit committee.

5. Staffing Implications

5.1 None

6. Consultees

6.1 None

7. Recommendations

7.1 That the Committee note the above update in respect of revised membership for this committee, and ask the Director of Resources to provide a verbal update, further to the WYCA meeting on 1 December.

8. Background Documents

8.1 None

Originator: Angela Taylor
Director, Resources



ITEM 6

Report to: Governance and Audit Committee

Date: 1 December 2016

Subject: Presentation on Treasury Management

1. Purpose

- 1.1. To consider a presentation on treasury management arrangements in place for the WYCA.

2. Information

- 2.1. WYCA's treasury management is undertaken jointly by WYCA and Leeds City Council (LCC) officers, under the terms of a recently redrafted and reapproved Service Level Agreement.
- 2.2. Officers from LCC – Bhupinder Chana, Head of Finance, Supporting City Development Directorate and Strategy and Resources Directorate – Capital, Insurance and Treasury Management, and David Brown, Treasury Manager - will provide a presentation on the risks underlying treasury management, the measures in place to manage these risks and the role of the Governance and Audit Committee in monitoring these arrangements.
- 2.3. Copies of the presentation will be available at the meeting.

3. Financial implications

- 3.1. None arising directly from this report.

4. Legal Implications

- 4.1. None arising directly from this report.

5. Staffing Implications

5.1. None arising directly from this report.

6. Recommendations

6.1. That the Committee note the treasury management arrangements in place and consider whether it requires any further information to subsequent meetings.

Originator: Angela Taylor,
Director, Resources



ITEM 7

Report to: Governance & Audit Committee

Date: 1 December 2016

Subject: External audit matters

1. Purpose

1.1. This report sets out information on the following matters:

- The annual audit letter for 2015/16
- Future appointment of external auditors
- Consultation on the work programme and fees for 2017/18
- Mazars planning for the 2016/17 audit

2. Information

2.1. At its last meeting the Governance and Audit Committee considered and approved the annual accounts for 2015/16. This represented the last substantive item of external audit work for the financial year. Mazars, the Authority's external auditors, are then required to publish by 31 October their **annual audit letter** setting out the work they have undertaken over the year and the conclusions reached. The letter is attached as Appendix A.

2.2. The letter sets out the work undertaken in the year, confirms that an unqualified audit opinion and value for money conclusion have been issued and that the audit fee for the year is unchanged. It also highlights the future challenges to the Authority that will be relevant in planning the audit of next year.

2.3. Also at its last meeting this Committee considered the options available for **appointing external auditors for the 2018/19** annual accounts, following the abolition of the Audit Commission and the end of the transition arrangements which have seen Public Sector Audit Appointments (PSAA) take on responsibility for the appointment of auditors. The recommendation of this Committee to the full Authority to utilise PSAA for future appointments has been put to their meeting of

1 December and a verbal update will be provided as to the outcome of that recommendation.

- 2.4. Since the last meeting PSAA has formally issued its invitation for authorities to opt in and this is attached as appendix B. It confirms the benefits of using PSAA and some of the practical arrangements that will apply, including the proposal that these arrangements will run for 5 years. WYCA has until 9 March 2017 to submit its formal acceptance after which there will be a period of consultation with regard to the individual appointment – timescales are set out on the final page of the appendix.
- 2.5. The year end audit for 2017/18 has already been awarded to Mazars. In accordance with its usual practice **PSAA are consulting now on the proposed work programme and scale of fees** for 2017/18. The consultation document is attached as Appendix C with the key details summarised below.
- 2.6. The general proposal is for the work programme and fees to be unchanged from the current year with one exception that relates to highways network assets. A change to the accounting requirements that takes effect from 2017/18 will require further work by auditors for those organisations that carry highways network assets on their balance sheet. WYCA is not in this position and hence the audit fee of £33k for 2016/17 should remain unchanged for future audits.
- 2.7. Responses to the consultation are due by 12 January 2017. As there are no changes to the work or fees for the WYCA it is proposed that the WYCA does not need to submit a response.
- 2.8. Mazars have provided an Audit Progress Report, attached as Appendix E which sets out their early planning for the 2016/17 year end audit. Given the timing of the next meeting of this Committee which is in April Mazars have included in the report the request for the Committee to provide a response regarding the arrangements in place for the prevention of fraud and compliance with the law. It is proposed that this response is brought to the April meeting for approval. Mazars will be present at the meeting to answer any questions in relation to the report and their year end planning process.

3. **Financial Implications**

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

4. **Legal Implications**

- 4.1. None arising directly from this report.

5. **Staffing Implications**

- 5.1. None arising directly from this report.

6. **Consultees**

6.1. None.

7. **Recommendations**

7.1. The Governance and Audit Committee is asked to note the annual audit letter and the audit progress report and consider whether to provide a response to the consultation on fees and work programme for 2017/18.

8. **Background Documents**

8.1. None.

APPENDIX A

Annual Audit Letter 2015/16

West Yorkshire Combined Authority

October 2016

Mazars LLP
Mazars House
Gelderd Road
Gildersome
Leeds
LS27 7JN

Members
West Yorkshire Combined Authority
Wellington House
40-50 Wellington Street
Leeds
LS1 2DE

25 October 2016

Dear Members

Annual Audit Letter 2016

I am delighted to present to you West Yorkshire Combined Authority's (the Authority's) Annual Audit Letter. The purpose of this document is to summarise the outcome of the audit of the Authority's 2015/16 annual accounts and our work on our value for money conclusion.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies issued by the National Audit Office and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2015.

2015/2016 has been another challenging year for the Combined Authority and like most other authorities across the country West Yorkshire Combined Authority made some tough decisions on its spending priorities and plans. We reflect on these matters in the value for money and future challenges sections of this letter.

Given the difficult circumstances we were pleased to issue an unqualified opinion on the statement of accounts and the value for money conclusion.

I would like to express my thanks for the assistance of the Combined Authority's finance team, as well as senior officers and the Governance and Audit Committee. The continued constructive approach to our audit is appreciated.

If you would like to discuss any matters in more detail then please do not hesitate to contact me or my senior manager Steve Appleton on 0113 387 8850.

Yours faithfully

Mark Kirkham
Partner
Mazars LLP

Contents

01 Key messages	2
02 Financial statements.....	3
03 VFM conclusion.....	5
04 Future challenges	6
05 Fees.....	7

Our reports are prepared in the context of the ‘Statement of responsibilities of auditors and audited bodies 2015-16’ issued by Public Sector Audit Appointments Ltd. 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 Key messages

Our Annual Audit Letter provides a summary of our work and findings for the 2015/16 audit period for Members and other interested parties.

We reported the detailed findings from our audit work to the Governance and Audit Committee in our Audit Completion Reports for West Yorkshire Combined Authority on 29 September 2016.

We also confirmed that your Whole of Government Accounts (WGA) return was consistent with the audited financial statements.

The key conclusions for each element are summarised below:

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Combined Authority's financial statements on 30 September 2016.

Our VFM conclusion

We carried out sufficient, relevant work, in line with the National Audit Office's guidance, so that we could conclude on whether you had in place, for 2015/16, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We issued an unqualified VFM conclusion on 30 September 2016.

Whole of Government Accounts (WGA)

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of your WGA consolidation pack with the audited statement of accounts. We reported that your consolidation pack was consistent with the audited statement of accounts.

Our other responsibilities

As the Combined Authority's appointed external auditor, we have other powers and responsibilities as set out in the Local Audit and Accountability Act 2014. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions about the accounts or valid objections in relation to your 2015/16 accounts from local electors, nor did we exercise our wider reporting powers.

02 Financial statements

Audit of the financial statements

We audited your financial statements in line with auditing standards and we reported our detailed findings to the meeting of the Governance and Audit Committee on 29 September 2016. We issued an audit report, including an unqualified opinion, on the statement of accounts on 30 September 2016.

Preparation of the accounts

The Combined Authority presented us with draft accounts in advance of the national deadline. Working papers and other supporting evidence were produced on a timely basis throughout the audit.

Risk and materiality

Our work on your financial statements aims to provide reasonable assurance that your accounts are free from material misstatement. The assessment of materiality is, therefore, a key part of our work and we specify an overall materiality threshold, based on your gross revenue expenditure, together with lower materiality values for accounting entries we consider to be more sensitive, such as officer remuneration and members' allowances.

We consider materiality when planning and performing our work and in assessing the results.

At the planning stage, we make a judgement 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 updated our materiality calculation when we received the draft accounts and set the overall level at £4.8m.

In applying our view of materiality we identified the following three significant risks:

- management override of controls;
- revenue recognition; and
- accounting entries for pensions.

We also identified the valuation of land and buildings as a key management judgement.

We carried out a programme of work to address these risks which included including the testing of journals, transactions and disclosures. Our work did not identify any issues to report.

In completing our work we assess the scale of errors and uncertainties using our materiality calculation to determine the impact on our audit reports. We did not identify any material errors in your statement of accounts.

Issues arising from the audit of the accounts

We would like to highlight the following key points:

- officers prepared good quality draft financial statements and working papers;
- there were very few errors identified and no errors impacting on the Combined Authority's General Fund balance;
- all errors were corrected other than those which were clearly trivial; and
- the audit progressed well and there were no significant difficulties encountered. We received the full co-operation of officers.

Annual Governance Statement (AGS)

The AGS is drafted by the Combined Authority to provide assurance to the reader over how it is managed and how it has dealt with risks in the year. We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or was inconsistent with what we know about the Combined Authority. We found no areas of concern to report.

03 VFM conclusion

For 2015/16, we are required to satisfy ourselves the Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We performed our work in this area in accordance with guidance set out by the NAO in Auditor Guidance Note 3. This required us to consider one overall criterion as set out below.

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.*

Our work in this area focused on the three sub-criteria specified by the National Audit Office namely:

Sub-criteria	Focus of the sub-criteria
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 also:

- reviewed your Annual Governance Statement; and
- considered the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities.

Overall conclusion

We satisfied ourselves that, in all significant respects, the Combined Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016 and we issued an unqualified VFM conclusion.

04 Future challenges

Financial challenges

The Combined Authority has made good progress in addressing its challenges to date and has a proven track record of strong budget management and delivering planned budget reductions. The Combined Authority managed its 2015/16 revenue budget to achieve a £1.5m additional transfer to reserves than had been planned in the approved budget.

In common with most authorities the Combined Authority faces a continuing financial challenge to maintain services at a time of unprecedented reductions in local government funding.

The revenue funding for many of the Combined Authority's activities comes from the West Yorkshire local authorities, with further contributions from them and the other City Region authorities for economic activities. The financial pressures facing these authorities will impact on levy levels as the authorities seek to reduce their future contributions. The Combined Authority is working on a range of options to make further savings and improve efficiency.

Other challenges

The Combined Authority's workload has been increasing due in part to the Growth Deal funding which requires greater delivery capacity and additional support from policy and other teams. The Combined Authority is implementing its 'One Organisation' initiative to streamline its approach and to ensure closer alignment between strategy, policy and delivery.

05 Fees

As outlined in our Audit Strategy Memorandum for West Yorkshire Combined Authority presented to the Governance and Audit Committee on 19 April 2016, Public Sector Audit Appointments Ltd (PSAA) sets a scale fee for our audit and certification work. The fees applicable to our work in 2015/16 are summarised below.

Element of work	2014/15 Final Fee (charged by previous auditors)	2015/16 As previously reported	2015/16 Final Fee
Core audit work required by the NAO's Code of Audit Practice	£45,000	£33,720	£33,720
Non-audit work for certification of grants outside the PSAA regime	£2,000	£4,000	£4,000
Total	£47,000	£37,720	£37,720

Non-audit work during the year relates to our work certifying Department for Transport grants for which fees were agreed separately with officers.

Should you require any further information on this letter or on any other aspects of our work, please contact:

Mark Kirkham

Partner

T: 0113 387 8850

E: mark.kirkham@mazars.co.uk

Mazars LLP
Mazars House
Gelder Road
Gildersome
Leeds
LS27 7JN

27 October 2016

Email: appointingperson@psaa.co.uk

Ben Still
West Yorkshire Combined Authority
Wellington House
40-50 Wellington Street
Leeds LS1 2DE

Copied to: Angela Taylor, Director of Resources, West Yorkshire Combined Authority

Dear Mr Still

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely



Jon Hayes, Chief Officer

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

Proposed work programme and scales of fees 2017/18

Local government and police bodies

October 2016

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

The Secretary of State for Communities and Local Government delegated a number of statutory functions (from the Audit Commission Act 1998) to PSAA on a transitional basis by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.

As a consequence of these delegations, for 2017/18 the company will continue to be responsible under transitional arrangements for appointing auditors to local government and police bodies, for setting audit fees and for making arrangements for certification of housing benefit subsidy claims.

Looking beyond 2017/18, the Secretary of State has specified PSAA as an appointing person for principal local government bodies from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

Contents

Introduction.....	2
Background	2
2017/18 fees.....	2
Distribution of surplus	3
New local audit arrangements	3
Responding to this consultation	3
Proposed work programme for 2017/18	4
Audit.....	4
Auditors' local value for money arrangements work.....	4
Certification work.....	4
National report.....	5
Proposed scales of fees for 2017/18	6
Scales of audit fees for local government and police bodies.....	6
Pension fund audits.....	6
Certification work.....	6
Value added tax	7
Next steps	8

Introduction

- 1 This consultation document sets out the work that auditors will undertake at principal local government and police audited bodies during 2017/18, with the associated proposed scale audit fees and indicative certification fees.
- 2 We hope the information set out in this document is helpful to stakeholders in considering our proposals for the 2017/18 scale fees, as well as supporting audited bodies' financial planning.

Background

- 3 The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis from 1 April 2015.
- 4 In October 2015, the Secretary of State confirmed that the transitional arrangements would be extended for one year for audits of principal local government bodies only, to cover the audit of the accounts for 2017/18. The audit contracts previously let by the Audit Commission and novated to PSAA have therefore also been extended for one year to give effect to this decision.
- 5 PSAA's responsibilities under the transitional arrangements include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on [PSAA and its responsibilities](#) is available on our website.
- 6 From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 will apply for principal local government and police bodies. PSAA will play a new and different role in these arrangements.

2017/18 fees

- 7 There are no changes to the overall work programme for local government and police audited bodies for 2017/18. We therefore propose that 2017/18 scale audit fees are set at the same level as the scale fees applicable for 2016/17.
- 8 The proposed scale fees for 2017/18 reflect the significant fee reductions of up to 55 per cent made to scale fees since 2012/13. When these reductions were made, the expectation was that they would continue to apply for the length of the current audit contracts, providing there are no significant changes to auditors' work, and subject to annual review.
- 9 PSAA may approve variations to published scale fees and indicative certification fees for individual audited bodies, to reflect changes in circumstances or audit risks.
- 10 For authorities with highways network assets, a change in accounting requirements implemented by CIPFA/LASAAC in 2016/17 will continue to require some additional audit work in 2017/18. The fee variation process will apply in 2017/18 for this additional work, because the amount of work will vary at each authority.

Distribution of surplus

11 Following completion of the Audit Commission's accounts, PSAA received a payment in respect of the Audit Commission's retained earnings. PSAA operates on a not-for-profit basis and will therefore distribute this and any other surpluses from audit fees to audited bodies on a timetable to be established during 2017. The amount of the redistribution is likely to be in the order of 15 per cent of scale audit fees for local government bodies.

New local audit arrangements

12 In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies, under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

13 PSAA will therefore make auditor appointments to principal local government bodies that choose to opt into the national scheme the company is developing with the sector, for audits of the accounts from 2018/19.

14 We intend to run the scheme in a way that will save time and resources for local public bodies. A collective procurement will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality. Using the scheme will avoid the need for opted-in authorities to:

- establish an audit panel with independent members;
- manage their own auditor procurement and cover its costs;
- monitor the independence of their appointed auditor for the durations of the appointment; and
- manage the contract with the auditor.

15 We expect to issue the invitation to opt into the national auditor appointment arrangements at the end of October 2016 with an expected deadline for responses in early March 2017.

16 Further information is available on the [appointing person page](#) of our website.

Responding to this consultation

We welcome comments on the proposals contained in this document. Please send comments by email to:

workandfeesconsultation@psaa.co.uk

The consultation will close on **Thursday 12 January 2017**.

Proposed work programme for 2017/18

Audit

17 Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory [Code of Audit Practice](#) and guidance for auditors. Audits of the accounts for 2017/18 will be undertaken under this Code, on the basis of the work programme and scale fees set out in this consultation. Further information on the NAO Code and guidance is available on the [NAO website](#).

18 Auditors tailor their work to reflect local circumstances and their assessment of audit risk. They do this by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks.

Audit work on highways network assets

19 New requirements were introduced from 2016/17 in the *Code of Practice on Local Authority Accounting in the United Kingdom* in relation to the measurement requirements for highways network assets.

20 As we have set out in the [2016/17 work programme and fees](#) published on our website in March 2016, fees for the additional work identified by auditors at individual audited bodies for 2016/17 will be subject to approval under the normal fee variations process. An expected range of £5,000 to £10,000 will apply, where authorities are able to provide the information required, and the auditor is able to rely on central assurance of the models in use.

21 Fees for additional audit work required for 2017/18 will also be approved under the fee variations process, with a lower expected range of £3,000 to £6,000, where authorities are able to provide the information required, and the auditor is able to rely on central assurance of the models in use. These fee ranges are indicative, and costs outside them may be necessary in some cases.

Auditors' local value for money arrangements work

22 Under the Local Audit and Accountability Act 2014, auditors are required to satisfy themselves that an audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money arrangements conclusion).

23 Auditors will apply a risk-based approach to their work, giving a conclusion on the arrangements in place. The NAO's Code of Audit Practice and supporting guidance for auditors set out the approach and reporting criteria applicable.

Certification work

24 At the request of the Department for Work and Pensions, auditors appointed by PSAA will certify local authority claims for housing benefit subsidy for 2017/18. This is the final year in which these certification arrangements will apply.

25 Auditors will undertake this work as agents of PSAA, using guidance based on the arrangements previously developed by the Audit Commission.

National report

26 PSAA will publish an annual report summarising the results of auditors' work on audited bodies' 2017/18 financial statements and arrangements to secure value for money.

Proposed scales of fees for 2017/18

Scales of audit fees for local government and police bodies

27 The scales of fees for 2017/18 reflect the cost of the work programme outlined above. The proposed 2017/18 scale fee for each [local government](#) and [police](#) audited body is available on our website.

28 The proposed scale audit fees for 2017/18 audits are the scale fees applicable for 2016/17.

29 PSAA has the power to determine the fee above or below the scale fee, where it considers that substantially more or less work was required than envisaged by the scale fee. The scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

30 As the 2017/18 scale fees are based on the scale fees for 2016/17, they continue to reflect the auditor's assessment of audit risk and complexity. We would only expect variations from the scale fee to occur for 2017/18 where these factors are significantly different from those identified and reflected in the 2016/17 scale fee.

31 PSAA obtains updated fee information, and explanations for any proposed variations from the scale fee, from appointed auditors on a regular basis. We consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee. Auditors cannot invoice audited bodies for any variations to scale fees until these have been approved by PSAA.

32 PSAA will charge fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

Pension fund audits

33 The proposed scale fees for 2017/18 pension fund audits are the scale fees applicable for 2016/17. The proposed individual [pension fund audit scale fees](#) for 2017/18 are available on our website.

Certification work

34 The statutory duty to make certification arrangements, delegated to PSAA by the Secretary of State for the purpose of certifying housing benefit subsidy claims, requires PSAA to charge fees that cover the full cost of certification work.

35 An indicative certification fee is published each year for each relevant audited body, using the latest final certification fees available. Indicative fees for 2017/18 housing benefit subsidy certification work will be based on final 2015/16 certification fees. We will receive this information from auditors in January 2017, after this consultation has closed, and will publish indicative 2017/18 certification fees on our website in March 2017.

36 For the purposes of this consultation, audited bodies and stakeholders may wish to refer to the [indicative certification fees for 2015/16](#), published on our website.

37 Indicative fees for certification work are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

38 We expect variations from the indicative certification fee for an audited body to occur only where issues arise that are significantly different from those identified and reflected in the previous year's fee.

Value added tax

39 All the 2017/18 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

Next steps

40 PSAA has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing scales of fees, we are required to consult relevant representative organisations.

41 We welcome comments from audited bodies and stakeholders on the proposals contained in this document. The consultation will close on **Thursday 12 January 2017**.

Please send comments by email to:

workandfeesconsultation@psaa.co.uk

42 Following responses to this consultation, the PSAA Board will approve the final 2017/18 work programme and scales of fees for publication in late March 2017.

43 If you have comments or complaints about the way this consultation has been conducted, these should be sent by email to generalenquiries@psaa.co.uk.

APPENDIX D

West Yorkshire Combined Authority

Audit Progress Report

December 2016

Contents

01 Introduction.....	2
02 Audit progress.....	3
03 Request for information.....	4
04 National publications and other updates.....	5
05 Contact details.....	8

Our reports are prepared in the context of Public Sector Audit Appointments Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Members or employees of West Yorkshire Combined Authority are prepared for the sole use of the Authority. We take no responsibility to any Member or employee 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 Introduction

The purpose of this report is to update the Governance and Audit Committee of West Yorkshire Combined Authority (the Authority) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the contact details at the end of this update.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

02 Audit progress

We are starting planning for the 2016/17 audit which covers:

- the audit of the financial statements;
- our work to conclude on your arrangements for securing value for money; and
- a programme of work specified by NAO in respect of your Whole Government Accounts submission.

Our planning involves assessing the risks of material misstatement in the financial statements and the risks relating to the value for money conclusion and developing a plan of audit procedures to address the identified risks. We do this by:

- identifying the business risks facing the Combined Authority, including assessing your own risk management arrangements;
- considering the Combined Authority's financial performance;
- assessing internal control, including reviewing the control environment;
- evaluating and testing the IT control environment;
- assessing the risk of material misstatement arising from the activities and controls within the information systems; and
- walking through the key controls within the key financial systems.

We will hold planning meetings with senior managers to inform our planning risk assessments and to better understand the priorities and challenges the Combined Authority faces.

We will present our Audit Strategy Memorandum to the next Governance and Audit Committee. This will set out the significant risks we have identified for the audit, for both the opinion on the statement of accounts as well as the value for money conclusion, and our approach to the audit.

As part of our commitment to quality, team members have already attended our annual audit training conference which includes feedback from quality reviews to take into account in the coming year.

We are planning our annual accounts workshops which provide an update on the latest developments as well as a forum for our clients to discuss emerging issues. We will ensure officers receive invitations once we have agreed the dates.

03 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 our questions below and would be grateful if the Committee could provide a response for the next Governance and Audit Committee. 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.

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 2016/17?

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 2016/17?

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?

04 National publications and other updates

This section contains updates on the following:

1. **Regularity, Compliance and Quality Report 2015-16, PSAA August 2016**
2. **Local Public Service Reform, NAO, September 2016**
3. **Understanding Local Authorities Financial Statements, CIPFA, September 2016**
4. **Alternative Delivery Models, CIPFA, October 2016**

1. **Regularity, Compliance and Quality Report 2015-16, PSAA, August 2016**

Public Sector Audit Appointments Ltd (PSAA) is currently responsible for appointing the Authority's auditor, and assessing the performance of all appointed auditors. This consists of monitoring both the quality of the work undertaken and the regulatory compliance of all firms appointed under the Local Audit and Accountability Act.

The audit quality and regulatory compliance monitoring for 2015/16 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) conclusion and housing benefit (HB COUNT) work;
- an assessment as to whether PSAA could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published reports on the results of its inspection of audits in the private sector;
- the results of the inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of PSAA's commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 15 key indicators relating to PSAA's Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with PSAA's regulatory and information assurance requirements; and
- a review of each firm's client satisfaction surveys for 2014/15 work.

PSAA has recently completed this process for 2015/16. A 'RAG' rating system is used, and we are delighted to inform you that Mazars is one of only two firms that have been consistently graded 'green' in all areas, scoring joint-highest for quality of work undertaken, and highest for client satisfaction.

2016 Comparative performance for audit quality and regulatory compliance

BDO Green	Deloitte Green	EY Green	GT Amber	KPMG Amber	Mazars Green	PwC Amber
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2015 Comparative performance for audit quality and regulatory compliance

BDO Amber	Deloitte Amber	EY Green	GT Amber	KPMG Amber	Mazars Green	PwC Amber
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Areas for improvement were identified in the report, and we are committed to acting on the recommendations and further strengthening our audit approach for 2016/17.

The report has been attached to this report for the information of the Audit and Governance Committee, and can also be found at: <http://www.psa.co.uk/audit-quality/>

2. Local Public Service Reform, NAO, September 2016

The NAO undertook research early in 2016 to ascertain:

- How local public service reform is being pursued in eight places in England;
- What the enablers and barriers are; and
- How the Government is supporting reform at a local level.

In September 2016 they published a report summarising their findings and identifying sources of help for public services needing to redesign services to be financially sustainable. The report concludes that by working together, and with service users and citizens local public services can both improve outcomes and save money but a strategy is needed that:

- prevents or reduces demand for costly services;
- makes it easier for people to get access to the support they need; and
- redesigns services to meet people's needs in a more integrated and effective way.

The report is available on their website.

<https://www.nao.org.uk/report/local-public-service-reform/>

3. Understanding Local Authority Financial Statements, CIPFA, September 2016

This publication updates previous CIPFA guidance designed to make the complex financial statements required for local (including fire) authorities more understandable. The 2016/17 Code includes a revised format that is closer to that used for management reporting during the year. The document describes the changes and identifies opportunities to simplify presentation and make the messages clearer regarding:

- Comparison with budgets;
- Reserves positions; and
- Cash Flow.

<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/simplification-and-streamlining-the-presentation-of-local-authority-financial-statements>

4. Alternative Delivery Models, CIPFA, October 2016

Alternative service delivery models of various shapes and sizes are increasingly being used to deliver a growing number and range of public services in many locations in the UK.

An alternative delivery model can be a different way of managing, collaborating and contracting, or it can involve the establishment of a completely new organisation that could be wholly, or partly owned by the parent body or a completely independent enterprise.

They range from small community-based initiatives, employee led spin outs (large and small), local authority companies, to substantial multi-stakeholder partnerships involving private and public sector organisations.

At their best, these new models can provide greater flexibility and dynamism, while maintaining continued commitment to public service and wellbeing.

This combination of innovation in public enterprise and public/social purpose can make them effective vehicles for improving service outcomes.

<http://www.cipfa.org/policy-and-guidance/publications/a/a-practical-guide-to-alternative-delivery-models-online>

05 Contact details

Please let us know if you would like further information on any items in this report.

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Originator: Russell Gott
Internal Audit Manager



ITEM 8

Report to: Governance and Audit Committee

Date: 1 December 2016

Subject: Internal Audit Progress Report

1. Purpose

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

2. Information

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

2.2 This report provides details of activities undertaken by the Internal Audit Section in the period from 1 September 2016 to 30 November 2016 and provides progress in delivering the 2016/17 audit plan, audit opinions on reviews completed, executive summaries of significant issues identified and the status of any high priority recommendations which have not been implemented by the agreed timescales.

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

- Payroll & HR Records (controlled)
- Apprenticeship Grants for Employers (requires improvement)
- Tendered Subsidised Bus Services (controlled)
- Skills Capital Funding (requires improvement)
- Green Deal Communities Fund - certification of expenditure.
- L-CREATE certification of expenditure

3. How Control is Assessed

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

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

4. Audit Summary

- 4.1 The approved Internal Audit Plan for 2016/17 produced an imbalance between the audit resource which could be provided by the in-house service and the level of assurance required through the performance of audit reviews identified in the plan. Measures have now been instigated to secure additional resource to make up this shortfall through the procurement of bought-in services and the appointment of an additional internal auditor on a fixed-term basis. Full details of the Audit Plan are provided within **Appendix A**.
- 4.2 The reviews undertaken in the latest period were assessed as controlled and requires improvement. A summary of the internal audit reviews performed is provided in sections 4.3.1 to 4.3.6 of this report.
- 4.3 Progress in implementing all audit recommendations is monitored through Internal Audit’s outstanding recommendations tracking system. Information relating to the number of recommendations issued by internal audit and the status of management responses is provided below:

	Priority High	Priority Medium	Priority Low
Number of Audit Recommendations Issued (2016/17)	52	45	4
Number of Audit Recommendations Fully Implemented (2016/17)	41	34	2
Number of Audit Recommendation in Progress 2016/17	11	11	2
Total cumulative number of Audit Recommendations, in progress	49	41	2
Total cumulative number of Overdue Audit Recommendations.	13	24	1

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

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

4.3.1 Payroll & HR Records

Opinion – “controlled”

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

Objectives

The review focused on the reliability of systems operating for the calculation, production and maintenance of WYCA’s payroll. The audit examined arrangements for the separation of duties between members of staff responsible for the preparation of payroll and the processing of payments to employees, authorisation of prime documentation and system validation and review.

Principle observations

Although there were a number of comments relating to the reconciliation of records held separately within Payroll and HR, arrangements for the calculation of paid leave and recovery of Mcards from leavers, there were no high priority issues requiring management action.

4.3.2 Apprenticeship Grant for Employers

Opinion – “requires improvement”

Improvements were identified in relation to project management and data protection arrangements.

Objectives

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

- Checks ensuring compliance with grant eligibility criteria specified within the business and training provider briefing sheets
- Evidence of programme governance arrangements including structure, approval and reporting regime along with compliance with WYCA’s programme/project management procedures
- Verification of SFA/BIS funding and fulfilment of associated terms and conditions of grant offer
- Systems interface and reconciliation of grant payments
- Segregation of duties through from processing of application to authorisation and submission for payment

- System resilience and security including access arrangement, reporting, contingency plans and third party assurance
- Compliance with the requirements of the Data Protection Act
- Cost/income management

Principal Observations

A number of recommendations were provided in relation to improvements to data security/protection arrangements, the development and application of PRINCE2 project management principles and strengthening of control environment and cost monitoring processes.

4.3.3 Tendered Subsidised Bus Services

Opinion – “controlled”

There is an acceptable control framework in place. Key controls are in place and operating effectively for the management of these contracts.

Objectives

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

- The reliability of systems for ensuring that payments are properly calculated, authorised and recorded.
- Processes for evaluating tenders received from operators.
- Compliance with procedures for the award and approval of Tendered Subsidised Service contracts.
- The operation of contract monitoring and contract compliance processes
- Monitoring and recording of de-minimis contract expenditure.
- Contract payments processes – calculations and separation of duties.
- The extent to which assets and interests are accounted for and safeguarded from loss.
- The suitability and reliability of financial information and other management data held.
- Examine the arrangements for monitoring education taxi services via a taxi module implemented on the CoSA system.
- Systems recovery/contingency arrangements.

Principal Observations

There were no high priority recommendations provided. However, it was acknowledged that procedures needed to be further developed and documented for some aspects of the function.

4.3.4 Skills Capital Funding

Opinion – “requires improvement”

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

Objectives

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

- Submissions for funding are evaluated against grant conditions set out by the Employment and Skills Panel to deliver priorities set out in the LEP’s Skills Plan
- Evidence of active programme management provision of risk and issue registers
- Programme board, reporting regime and evidence of decision making
- Benefits review and evaluation
- Compliance with State Aid and other statutory requirements
- Eligibility checks through grant payment processing
- Evidence of expenditure claimed
- Evidence of match funding elements provided and reviewed
- Review of project outputs, comparison with conditions of grant. Certification by recipient College
- Separation of duties between processing and approval of grant claim. Cost and income reconciliation and monitoring
- Evidence and evaluation of match funding elements of claim
- Change control records maintained and adequately reported and approved
- Contract/agreement, set out VAT accounting arrangements. Confirmation of compliance with these requirements provided at each claim.
- Considered the management of one scheme, (Shipleigh College) and the wider programme governance arrangements

Principal Observations

This review identified eight key areas for improvement that predominately relate to the application of PRINCE2 project management principles.

4.3.5 Green Deal Communities Fund – Certification

Objectives

The objectives of this review were to identify and assess the legitimacy of expenditure incurred in relation to the Green Deal Communities Fund for the period from 1 April 2014 to 31 March 2016. This included;

- An assessment of compliance with the conditions of funding.
- Examinations of evidence of expenditure.

- Arithmetic checks.
- Evidence of authorisation.
- Examination of the procurement process.

All items tested were eligible under the conditions of funding and were accurately provided in the submission of expenditure for the period from 1 April 2014 to 31 March 2016.

4.3.6 L-CREATE Grant Claim

Objectives

The objectives of this review were to assess the accuracy of the second claim for the period 1 July 2016 to 30 September 2016 to be submitted to the European Regional Development Fund and European Structural Investment Fund in respect of activities within the L-CREATE project.

All items tested were eligible under the conditions of funding and were accurately provided in the ERDF and ESIF submissions of expenditure for the period from 1 July 2016 to 30 September 2016.

5. Work in Progress

- 5.1 In addition to the completion of scheduled audit reviews provided in section 4 of this report, audit reviews have been performed in relation to West Yorkshire and York Broadband Programme, Growing Places fund and Treasury Management. Release of these audit reports will be subject to quality reviews 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. Internal Audit Plan 2017/18

- 6.1 Work on the development of the Internal Audit Plan for 2017/18 is to commence during December 2016. As part of this process, members of the Governance & Audit Committee need to be consulted regarding the scope and level of assurance required. It is noted that the next scheduled meeting of the committee is on 6th April 2017. Therefore, it is proposed that the Internal Audit Manager consult with members of the Governance & Audit Committee individually prior to seeking formal approval of the Audit Plan at the April meeting.

7. Financial Implications

- 7.1 The costs of temporarily increasing the audit team have been included in revised budgets for the year.

8. Legal Implications

- 8.1 None relating directly to the Internal Audit function.

9. Staffing Implications

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

10. Recommendations

10.1 That the Internal Audit progress report be noted.

10.2 That the Internal Audit Manager consults with members of the Governance & Audit Committee, on an individual basis concerning the development of the 2017/18 Internal Audit Plan

Appendix A



Internal Audit Plan 2016/17

Report Type: Actions Report

Report Author: Russell Gott

Generated on: 16 November 2016

ACTIVITY	OUTLINE DESCRIPTION	ALLOCATED RESOURCE	ACTUAL RESOURCE	AUDIT OPINION
Skills Capital Projects	Project management controls, authorisation of expenditure, review of business processes. Compliance with conditions of grant, evaluation of eligibility of claims.	25	28	Requires Improvement
West Yorkshire Broadband	Processes & procedures Certification of expenditure Compliance with funding agreements Compliance with partnership agreements/claw back provisions	25	9	In Progress
Local Transport Plan Capital Programme Management	Review of arrangements to identify, monitor, control and report on the Capital Programme.	15	15	Well Controlled

Transparency	Compliance with principles of the Local Government Transparency Code 2015	10	10	Controlled
Code of Corporate Governance	Arrangements to ensure compliance with applicable statutes and assessment against SOLACE/CIPFA principles framework including appropriate arrangements for the safeguarding and accountability of public funds, clear and effective communication with WYCA's stakeholders, clearly defined roles and responsibilities at the head of the organisation.	10	8	Acceptable
Annual Governance Statement	Financial reporting including compliance with relevant standards and codes of corporate governance. The establishment, monitoring and reporting on the systems of internal control.	5	5	Not Applicable
Pro –Active Anti- Fraud Exercise	Statistical analysis for duplicate payments, data matching for creditor payments into inappropriate bank accounts. Sample review of changes to bank payment master records.	5	0	
ERDF & ESF Technical Assistance Project	Head of IA assurance. Periodic report and claim review and certification.	5	6	Substantial Assurance
Growth Deal – Economic Development	Scheme Evaluation Criteria (SAF) Gateway Review Compliance (SAF) Third-Party Assurances	25	5	In Progress

	Certification of Expenditure Governance Arrangements – Consultation/Compliance			
LTP	Head of IA assurance. Periodic report and claim review and certification. Systems and procedures to control the allocation of payments and provide evidence of eligible expenditure.	10	8	Substantial Assurance
English National Concessions Travel Scheme (ENCTS)	Data handling and protection requirements, access rights to ENCTS database, agreements with the third parties concerning the handling and maintenance of ENCTS data. Validation rules for applicants to provide evidence of identity, residency. System is secure and backed up at frequent intervals with limited access rights. Awareness and communication of requirements of Concessionary Bus Travel Act.	20	20	Well Controlled
QUARTER 1		155	114	
Tendered Subsidised Contracts	Tendering arrangements, batches, de minimis contracts, insurance, operator's licences, lost mileage, payment calculations and processes. Arrangements support and provide contract compliance. Public and education services.	15	12	Controlled
Business Growth Programme	Project management controls, authorisation of expenditure, review of business processes. WYCA expenditure - over £110k	20		

	Compliance with SLA for schemes administered by LCC – less than £100k Administration of loans – overage agreements			
Resource Efficiency Fund including ESIF + LGF	Processes & procedures, assessment of grant applications Compliance with funding agreements	10		
Apprenticeship Grant	Processes & procedures, assessment of grant applications Compliance with funding agreements	10	18	Requires Improvement
Central Heating Fund	Processes & procedures, assessment of grant applications Compliance with funding agreements – provided through 3 rd party	10		
Better Bus Area Fund	Head of IA assurance. Periodic report and claim review and certification.	3		
Smartcard Enabling Gateline Huddersfield	Head of IA assurance. Periodic report and claim review and certification.	3		
Interreg Carbon Responsible Transport Strategies (SHARE NORTH)	Head of IA assurance. Periodic report and claim review and certification.	3	3	Substantial Assurance

Interreg HORIZON project	Head of IA assurance. Periodic report and claim review and certification.	3		
Growing Places Fund	Administration of loans, evaluation criteria and monitoring procedures.	10	8	In Progress
Access to Capital Grants Programme	Project management controls, authorisation of expenditure, review of business processes	10		
Housing & Regeneration Projects	Provision of funding including administration of loans for; - Barnsley Town Centre - Brownfield, Leeds - Kirklees Housing Sites - Northgate House - Redhall	35		
Contract Monitoring - CDM	Compliance with The Construction (Design and Management) Regulations 2015	25		
QUARTER 2		157	41	
Prepaid Tickets & Concessionary Travel	Arrangements for accounting for stocks, cash, Haven system controls and reporting, calculations of prepaid ticket pool and distribution, concessionary fares reimbursements. Controls for smartcard transactions and use of smart	25		

	data/provision of service monitoring information. Payzone sales system.			
Transport Fund	Scheme evaluation – NTEM forecasts, compliance with WEBTAG Review of operation of Strategic assurance framework	30	5	Scoping
Procurement	Review of the operation of key controls including tendering, ordering, commitments, compliance with Standing Orders and Financial Regulations, e- procurement, purchasing cards.	12	2	Scoping
Business Contingency/Disaster Recovery	Review of plan to be implemented in the event of incident(s) which impact on WYCA being able to operate.	10		
Data Hosting	To provide assurance on the delivery of robust service in line with contract and ensure adequate management controls exist relating to operations and the security of data including recovery if necessary.	15	2	Scoping
Data Security/ Protection	System penetration testing -arrangements to protect WYCA ICT systems from attack	15	2	Scoping
Fraud Awareness	Maintaining employees' awareness of WYCA's counter- fraud arrangements.	2	2	Not Applicable
Smart Card & Information Programme (SCIP)	Provision of independent, 3 line of defence programme assurance. (Smart transactions Web Customer Hubs and Service Experience (CHASE))	15		

Bus Services Operator Grant	Head of IA assurance.	3		
Payroll & HR Records	Review of the operation of key controls including arrangements for starters, leavers, pay points, member's allowances, expenses & deductions.	12	10	Controlled
QUARTER 3		139	23	
Energy Accelerator Projects including European Investment Bank funding (ELENA)	Processes & procedures, loans provided through EIB Eligibility criteria Compliance with funding agreements	10		
Employment Ownership Pilot (Skills Service)	Processes & procedures, assessment of grant applications Compliance with funding agreements	10		
Metro Travel Centre Operations	Ticket sales, stock, cash collection/handling security. Fraud prevention controls and associated back-office operations.	15		
Main Accounting – General Ledger	Review of the operation of key controls including System user rights, review, control, adequacy and timeliness, budgetary control, systems interface – education, Haven, and payroll. VAT.	8		
Creditors	Review of the operation of key controls including segregation, authorisation, reconciliation of supplier statements, BACS controls, and sub-contractors records.	8		

Debtors	Test arrangements for write offs, requisitioning, reporting, review of accounts, debt age monitoring and reporting.	6		
Treasury Management	Review of the operation of key controls including treasury management, segregation, review, authorisation, third part services and assurances, prudential code.	15	9	Well Controlled
On-line Payments	Review of controls for the processing of on-line payments and credit/debit card payments received.	8		
Risk Management	Effectiveness of risk management processes, risk management guidance and support, Identification of risk, risk evaluation, risk mitigation and control, monitoring risks, reporting the status of key risks and controls, recording the management of risks, including the effectiveness of the controls and other responses to them, risk awareness and training.	15		
Cycle City Grant	Head of IA assurance. Periodic report and claim review and certification.	3		
Growth Deal - WY+Transport Fund	Head of IA assurance.	10	5	
Interreg Carbon Responsible Transport Strategies (SHARE NORTH)	Head of IA assurance. Periodic report and claim review and certification.	2		

Interreg HORIZON project	Head of IA assurance. Periodic report and claim review and certification.	2		
Green Deal Communities Fund	Head of IA assurance. Periodic report and claim review and compliance with MOU with LCC.	3	3	Substantial Assurance
Health & Safety	Health & Safety Policy meets legal requirements as provided in the Health & Safety at Work Act and other relevant Acts. Workplaces and welfare requirements, recording accidents, illness and first aid, use and maintenance of work equipment, control of exposure to hazardous substances, electrical equipment, noise and radiation, (RIDDOR).	15		
Follow up	Follow up on implementation of key audit recommendations.	20		
QUARTER 4		150	17	
Fraud Investigations	Contingency for fraud investigation.	20		
Audit Plan Contingency	Contingency for any requirement for additional audit assurance and for other unplanned audit work identified in year.	30	12	
Total		651	207	

Forecast Outturn @ 16 November 2016

Audit Resource available to 31 March 2017	212	
Bought – in	140	
Fixed – Term	<u>70</u>	418
Required to complete the plan		<u>(444)</u>
Projected Shortfall		(22)

Appendix B

Overdue High Priority Audit Recommendations



Report Type: Actions Report

Report Author: Russell Gott

Generated on: 17 November 2016

Code & Title	Due Date	Progress	Latest Note	Last Modified Date
M/SD/P29/AR272 Payzone - Automatic Alerts	31-Mar-2016	0%	Escalated to the Director of Transport Services to resolve and consider in context of future service support arrangements	22-Jul-2016
M/SD/P29/AR308 Risk Management - Strategic Risks	30-Sep-2016	0%	WYCA is currently undergoing significant organisation change. Business objectives have been identified relating to the Strategic Economic Plan. However, further organisational development and business planning is being undertaken. It is felt prudent to develop and align strategic risks once these processes have advanced.	08-Nov-2016
M/SD/P29/AR313 Yorcard ICT - Data Sharing Agreement	31-Oct-2016	0%	Escalated to the Director of Transport Services to resolve and consider in context of future service support arrangements.	31-Oct-2016
M/SD/P29/AR317 Yorcard ICT - Disaster Recovery	08-Jul-2016	0%	Escalated to the Director of Transport Services to resolve and consider in context of future service support arrangements.	23-Sep-2016
M/SD/P29/AR319 Yorcard ICT - network administrator privileges.	31-Jul-2016	0%	Escalated to the Director of Transport Services to resolve and consider in context of future service support arrangements.	23-Sep-2016
M/SD/P29/AR320 Yorcard ICT - disable forced password change	31-Jul-2016	0%	Escalated to the Director of Transport Services to resolve and consider in context of future service support arrangements.	23-Sep-2016
M/SD/P29/AR322 Yorcard ICT - Access codes	31-Aug-2016	0%	Escalated to the Director of Transport Services to resolve and consider in context of future service support arrangements.	31-Aug-2016
M/SD/P29/AR327 Yorcard ICT - Back - up & Recovery	31-Jul-2016	0%	Escalated to the Director of Transport Services to resolve and consider in context of future service support arrangements.	31-Jul-2016
M/SD/P29/AR328 Yorcard ICT - Enhance Back up	30-Sep-2016	0%	Escalated to the Director of Transport Services to resolve and consider in context of future service support arrangements.	30-Sep-2016
M/SD/P29/AR332 Yorcard ICT - Capacity Performance	31-Jul-2016	0%	Escalated to the Director of Transport Services to resolve and consider in context of future service support arrangements.	31-Jul-2016
M/SD/P29/AR396 AGE -Data Security	31-Oct-2016	0%	A Data Governance Officer has now been appointed. This issue will now be a priority for this post holder.	31-Oct-2016

Code & Title	Due Date	Progress	Latest Note	Last Modified Date
M/SD/P29/AR398 AGE - Data Protection Guidance	31-Oct-2016	0%	It is requested that the timescale for the implementation of this recommendation be revised to 31 January 2017	31-Oct-2016
M/SD/P29/AR400 AGE - Project Management	31-Oct-2016	0%	It is requested that the timescale for the implementation of this recommendation be revised to 31 January 2017	11-Nov-2016

Originator: Angela Taylor
Director, Resources



ITEM 9

Report to: Governance and Audit Committee

Date: 1 December 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.
- 2.3. Regular governance meetings continue to be held with Leeds City Council (LCC) to consider and review the transactions relating to investments, treasury management being carried out jointly with LCC. The Service Level Agreement (SLA) that regulates this arrangement has recently been fully updated and signed off by both organisations. A presentation on the practical application of these arrangements forms a separate item on this agenda.

Key indicators

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

- 2.5. There has been only one reportable (RIDDOR) accident in the period 1 April to 31 October 2016 relating to a fall at a bus station. There is no indication of any defect that contributed to this fall.
- 2.6. Key indicators are monitored in relation to the suite of financial controls undertaken monthly in both the finance and the concessions and integrated ticketing team. These are both up to date as at the time of writing this report.

Financial monitoring – revenue budgets

- 2.7. The table overleaf shows the revised forecast for 2016/17 and the proposed draft budget for 2017/18. The presentation of the budget lines has been revised to align with the revised Directorate structures agreed as part of the One Organisation Programme. A more detailed report on the budget position has been provided to the meeting of the Combined Authority that immediately precedes this. The paper sets out that the closing position for 2016/17 is likely to be in line with the approved budget for the year and then sets out the challenges in setting a balanced budget for 2017/18 given the difficult local government funding position and the increasing demands on WYCA.
- 2.8. The WYCA budget report presents the uncertainties with regard to the timing of business rates income from the Enterprise Zone, the challenges arising from the pressures on the non-discretionary English National Concessionary Travel Scheme reimbursement and bus tendered services and the desire from the local authorities to see a reduction in the transport levy. A verbal update can be provided to the meeting. The full budget report setting out capital and revenue requirements will be presented to the Combined Authority on 2 February for consideration and approval.

CA revenue requirement			
All £000's		Forecast	Forecast
	Budget		
	2016/17	2016/17	2017/18
Transport Services:			
Concessionary Fares	57,003	55,994	55,994
- <i>English National Concessionary Scheme</i>	46,205	45,455	45,366
- <i>rail</i>	662	662	708
- <i>young people</i>	10,136	10,136	9,920
Subsidised Bus Services	18,999	18,999	18,885
Passenger Services	8,216	8,515	8,540
Rail - franchise costs	904	932	920
Economic Services			
Business, Skills and Employment	##	8,742	8,742
Trade and Inward Investment	1,778	1,163	1,163
Policy, Strategy and Communications	2,552	3,217	3,467
<i>Delivery - funded through capital</i>	0	0	0
Resources			
Pensions	1,394	1,274	1,274
Financing Charges	6,160	5,785	6,256
Corporate inc one organisation	6,049	6,330	6,018
Strategic priorities	350	0	0
Savings/cuts			-2,000
	103,405	110,951	109,259
Funded by:			
Special Rail Grant	904	920	920
LEP General Funding	1,407	1,407	1,407
Growing Places Fund Interest	300	592	169
Enterprise Zone Receipts	500	311	669
Transport levy applied	96,198	96,198	95,198
Business Service Funding	##	8,620	8,650
Net use of reserves	4,096	2,903	2,246
	103,405	110,951	109,259
Closing Reserves	4,270	6,928	4,682

this line was not separately identified in the original budget for 2016/17.

Financial monitoring – capital budgets

- 2.9. 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.
- 2.10. 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. Work is underway to update programme delivery profiles with a report due to the next meeting of the Investment Committee setting out revised forecasts for this year using a dashboard approach.

Risk management

- 2.11. 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 on the corporate plan for 2017/18 includes a review of the strategic risks facing the organisation and the mitigations in place to manage these – the outcome of this work will be brought to this Committee for consideration.
- 2.12. At its last meeting the Committee discussed specific risks relating to treasury management and cyber attacks. There is a separate item on this agenda dealing with the former. With regard to ICT risks the Authority has in place a detailed ICT risk register. The mitigations in place against these risks include a suite of ICT policies ensuring passwords, back ups, access arrangements to systems, controls on internet usage etc are fully set out, applied and understood by employees. Firewalls, web filtering and malware support are all in place and following a ransomware attack earlier in the year these have been further reviewed and enhanced to ensure arrangements are as tight as possible. A number of other ICT projects are currently underway to improve and enhance the infrastructure and services available – upon completion of these a full review of ICT security arrangements will be undertaken and a report can then be brought back to this 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.