

GOVERNANCE AND AUDIT COMMITTEE

**MEETING TO BE HELD AT 2.30 PM ON THURSDAY, 12 OCTOBER 2017
IN COMMITTEE ROOM A, WELLINGTON HOUSE
40-50 WELLINGTON STREET, LEEDS**

A G E N D A

- 1. APOLOGIES FOR ABSENCE**
- 2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS**
- 3. EXCLUSION OF THE PRESS AND PUBLIC**
To identify items where resolutions may be moved to exclude the press and public.
- 4. MINUTES OF THE MEETINGS OF THE GOVERNANCE AND AUDIT COMMITTEE HELD ON**
 - (a) 6 APRIL 2017**
Copy attached.
(Pages 1 - 4)
 - (b) 3 AUGUST 2017**
Copy attached.
(Pages 5 - 8)
- 5. APPOINTMENT OF DEPUTY CHAIR**
(Pages 9 - 10)
- 6. TERMS OF REFERENCE AND FORWARD PLAN OF WORK**
(Pages 11 - 14)
- 7. INTERNAL AUDIT PROGRESS REPORT**
(Pages 15 - 44)
- 8. INTERNAL AUDIT MID-YEAR REVIEW**
(Pages 45 - 50)

9. EXTERNAL AUDIT REPORT

(Pages 51 - 64)

10. INTERNAL CONTROLS & FINANCIAL MONITORING

(Pages 65 - 68)

11. DRAFT RISK MANAGEMENT STRATEGY

(Pages 69 - 86)

Signed:

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

WYCA Managing Director



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

Present:

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

In attendance:

Steve Appleton	Mazars Auditors
Mark Kirkham	Mazars Auditors
Russell Gott	WYCA
Angela Taylor	WYCA
Ruth Chaplin	WYCA

27. Chair's Comments

The Chair welcomed Councillor Swift to his first meeting.

28. Apologies for Absence

There were no apologies for absence.

29. Declarations of Disclosable Pecuniary Interests

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

30. Exclusion of the Press and Public

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

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

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

32. External Audit Matters

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

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

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

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

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

Resolved:

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

33. Internal Audit Progress Report

The Committee considered a report of the Internal Audit Manager on work undertaken by the Internal Audit Section from 1 December 2016 to 31 March 2017.

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

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

Resolved: That the report be noted.

34. Internal Audit Plan 2017/18

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

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

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

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

Resolved:

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

35. Internal Controls & Financial Monitoring

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

Internal Controls

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

Key Indicators

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

Financial Monitoring – Revenue Budgets

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

Financial Monitoring – Capital Budgets

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

Risk Management

Members noted that there had been no significant changes to risk management arrangements since the last meeting of the Committee. It was reported that work on the corporate plan for 2017/18 included a review of the strategic risks and a report would be prepared for a future meeting of the Committee.

Resolved: That the report be noted.



**MINUTES OF THE MEETING OF THE
GOVERNANCE AND AUDIT COMMITTEE
HELD ON THURSDAY, 3 AUGUST 2017 AT COMMITTEE ROOM B -
WELLINGTON HOUSE, LEEDS**

Present:

Professor Bob Cryan CBE (Chair)	University of Huddersfield (to minute 7)
Councillor Tim Swift	Calderdale Council (to minute 7)
Andy Clayton	Department for Work and Pensions

In attendance:

Steve Appleton	Mazars Auditors
Mark Kirkham	Mazars Auditors
Angela Taylor	WYCA
Russell Gott	WYCA
Ruth Chaplin	WYCA

1. Appointment of Chair

In the absence of Roger Marsh it was agreed that Professor Bob Cryan chair the meeting.

2. Apologies for Absence

Apologies for absence were received from Roger Marsh and Councillors Andrew Carter and David Sheard.

3. Declarations of Disclosable Pecuniary Interests

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

4. Exclusion of the Press and Public

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

5. Approval of Annual Accounts 2016-17

The Committee considered the Annual Accounts for 2016/17 for the West Yorkshire Combined Authority (WYCA).

It was reported that WYCA's external auditors, Mazars, have completed their audit work on the Annual Accounts 2016/17 which were attached at Appendix 1. Their conclusions were set out in the Audit Completion Report which was attached at Appendix 3.

Members considered the information and Mark Kirkham and Steve Appleton of Mazars provided an overview of the work involved in their audit of the accounts, together with a summary of key findings. They advised members that they would be issuing an unqualified audit opinion on the financial statements and on the value for money conclusion.

The unadjusted misstatement set out in Appendix A of Mazars' report was considered and it was agreed by all to accept the misstatement. This has no effect on the remits for the year and the auditors confirmed the audit opinion would remain unqualified.

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 Mazars' report and it was noted that the Director, Resources would provide a signed copy of this to them.

It was noted that Mazars would issue an audit completion notice by the statutory date of 30 September 2017 following completion of the Whole of Government Accounts.

The Committee considered the Treasury Management Statement in Appendix 2 of the report and noted that there were no changes proposed to the treasury management arrangements at this stage.

Resolved:

- (i) That the Treasury Management Statement in Appendix 2 be recommended for approval.
- (ii) That Mazars' audit completion report be noted.
- (iii) That the Annual Accounts for the year ended 31 March 2017 be approved.

6. Review of Internal Control and Effectiveness of Internal Audit

The Committee considered a report on the outcome of a review of internal control and the effectiveness of internal audit.

It was reported that there was a requirement for the Authority to review the effectiveness of its internal audit function at least once a year and that the findings of the review must be considered as part of the system of internal control.

The Committee was advised that the Director, Resources had undertaken a review of Internal Audit, using the Public Sector Internal Audit Standards (PSIAS) checklist and the information in the Internal Audit Report. The overall conclusion was that the internal audit function complied with the necessary standards and had worked to an adequate standard throughout the year.

Resolved: That the outcome of the review of internal control and the effectiveness of internal audit be approved.

7. Annual Internal Audit Report and Opinion

The Committee considered a report which provided notice of the Annual Internal Audit Report and Opinion of the risk management, governance and control environment in operation during 2016/17.

A copy of the Annual Internal Audit Report and Opinion for 2016/17 was attached at Appendix 1. This listed all the internal audit assignments undertaken during the year and it was noted that whilst a number were classified as 'requires improvement', this had not precluded a positive overall opinion on the operating environment.

Members discussed ways in which internal audit reports could be mapped against strategic risks to understand how they contributed to the overall audit opinion for the year.

Members also discussed risk management and areas where improvements could be made. In noting the Annual Internal Audit Report and Opinion it was agreed that risk management arrangements would be considered in more detail at the next meeting.

Resolved:

- (i) That the Annual Internal Audit Report and Opinion be noted.
- (ii) That a report on risk management arrangements be brought to the next meeting.

The meeting was closed due to becoming inquorate. The following items were therefore deferred to the next scheduled meeting.

8. Minutes of the Meeting of the Governance and Audit Committee held on 6 April 2017

Item deferred to the next meeting.

9. Appointment of Deputy Chair

Item deferred to the next meeting.

10. Terms of Reference and Forward Plan of Work 2017-18

Item deferred to the next meeting.

11. Internal Audit Progress Report

Item deferred to the next meeting.

12. External Audit Update

Item deferred to the next meeting.

13. Internal Controls & Financial Monitoring

Item deferred to the next meeting.

Director and author: Angela Taylor,
Director of Resources



Report to: Governance and Audit Committee

Date: 12 October 2017

Subject: Appointment of Deputy Chair

1 Purpose

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

2 Information

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

3 Financial Implications

3.1 None arising.

4 Legal Implications

4.1 The Committee may appoint a Deputy Chair.

5 Staffing Implications

5.1 None arising

6 External Consultees

6.1 None.

7 Recommendations

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

8 Background Documents

8.1 None.

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Director and author: Angela Taylor,
Director of Resources



Report to: Governance and Audit Committee

Date: 12 October 2017

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

1 Purpose

- 1.1 To set out the terms of reference for the Governance and Audit Committee.
- 1.2 To set out the programme of work for the Governance and Audit Committee for 2017-18.

2 Information

- 2.1 The terms of reference for this Committee are set out in **Appendix 1**. These were reviewed and re-approved at the annual meeting of WYCA in June. No changes have been made to them.
- 2.2 In line with good practice it is intended that this Committee should meet quarterly. At each meeting there will be an update on the work of internal audit for the preceding quarter. In addition there will be a paper on any changes to the internal control environment, an update on the revenue budget position and any significant changes to risk. The external auditors of the Authority, Mazars, are invited to attend each meeting and audit matters will be tabled as required.
- 2.3 At the July/August meeting the Committee will receive the annual accounts and Mazars, the external auditors, will present their report on the accounts to inform the Committee's decision to approve the accounts. A treasury management update will also be provided with the accounts.
- 2.4 The Committee will also receive the internal audit annual report and the review of internal control. These in turn feed into the Annual Governance Statement that forms part of the annual accounts under consideration.
- 2.5 At the October meeting the Committee will receive confirmation that all required external audit work is complete (including grant returns and submission of whole of government accounts). It is also proposed that risk management arrangements are considered in some detail at this meeting, following requests from Committee members.

- 2.6 At the January meeting the Committee will consider the internal audit strategy, provide early input to the internal audit plan for the following year, and review any changes required to treasury arrangements for the coming year.
- 2.7 At the March meeting the Committee will receive the audit fee letter, early planning from the external auditors with regard to the year-end audit and approve the internal audit plan for 2018/19.
- 2.8 Other items will be brought to the Committee as and when they occur, for example in connection with the appointment of external auditors and the consultation on their fees. Any issues arising in connection with the Members' Code of Conduct would also be referred to this Committee.
- 2.9 It should also be noted that one of the consequences of the abolition of the Audit Commission is that the responsibility to appoint auditors will pass to authorities who will need to have new appointments in place by 31 December 2017. The Committee has already recommended to, and had approved by, WYCA that Public Sector Audit Appointments Ltd (PSAA) be used to manage this process. Further information on this matter is set out under agenda item 9.

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 External Consultees

- 6.1 None.

7 Recommendations

- 7.1 That the Committee note the work programme for the year and suggest any amendments or additions.

8 Background Documents

- 8.1 None.

Terms of Reference

Governance and Audit Committee¹

The Governance and Audit Committee is authorised:

1. To review and scrutinise the Authority's financial affairs.
2. To review and assess the Authority's risk management, internal control and corporate governance arrangements.
3. To review and assess the economy, efficiency and effectiveness with which resources have been used in discharging the Authority's functions.
4. To make reports and recommendations to the Authority in relation to reviews conducted under paragraphs 1, 2 and 3 above.
5. To consider the findings of a review of the effectiveness of the system of internal control and approve the annual governance statement².
6. To consider and approve the statement of accounts.
7. To consider external audit arrangements and reports, and consider any audit letter from the local auditor following an audit.
8. To promote and maintain high standards of conduct by Members and co-opted Members of the Authority.³
9. To advise the Authority in relation to:
 - adopting, revising or replacing its Members' Code of Conduct⁴;
 - appointing at least one independent person⁵;
 - arrangements for investigating and making decisions about allegations of failing to comply with the Members' Code of Conduct.

¹ Appointed in accordance with Schedule 5A paragraph 4 of the Local Democracy, Economic Development and Construction Act 2009.

² Regulation 6 of the Accounts and Audit Regulations 2015.

³ This function does not extend to adopting, revising or replacing the Members' Code of Conduct.

⁴ The Code applies to members and voting co-opted members of the Authority, and includes provision about registering and disclosing interests.

⁵ In accordance with Section 28(7) Localism Act 2011.

10. To consider and determine any allegation of failing to comply with the Members' Code of Conduct⁶.
11. To advise the Authority in relation to the LCR assurance framework.
12. To consider and determine any matter within the delegated authority of a Director⁷, which is referred to the Committee by that Director.

⁶ In accordance with arrangements made by the Authority.

⁷ A Director, in this context, is any officer to whom functions are directly delegated by the Authority, under the Officer Delegation Scheme.

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



Report to: Governance and Audit Committee

Date: 12 October 2017

Subject: Internal Audit Progress Report

1 Purpose

1.1 To inform the West Yorkshire Combined Authority, WYCA, of the work undertaken by the Internal Audit Section.

2 Information

2.1 In accordance with the Accounts & Audit (England) Regulations 2015, WYCA must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the 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 July 2017 to 1 September 2017 and provides progress in delivering the 2017/18 audit plan, audit opinions on reviews completed, summaries of any significant issues identified and the status of high priority recommendations which have not been implemented within agreed timescales.

2.3 Information concerning the results of internal audits performed in the period from 1 April 2017 to 30 June 2017 was produced for the August meeting of the Committee. However, the meeting was not quorate for this item and therefore it is presented again in appendix 2 for consideration.

2.4 The Internal Audit Section has undertaken work contained within WYCA's audit plan through the performance and release of the following audit reports;

- Gifts & Hospitality – Well Controlled
- Code of Corporate Governance - Controlled
- Local Transport Plan Programme Management – Controlled
- HR Data Protection

HR Data Protection

2.5 The review of HR Data Protection compliance was not identified in the original audit plan and was conducted in response to a management request. This work has been resourced through the audit plan contingency allowance and was undertaken in collaboration with WYCA's Data Protection Officer and Solicitor. Our overall

conclusion was that this was poorly controlled. The primary recommendations included the restriction of staff access to sensitive and personal information through the reassignment of Carval HR system administrator rights, formalisation of requests and approval for changes of system access user rights, review of access to network system HR files, and the provision of specific Data Protection training with particular reference to the ICO Employment Practices Code.

- 2.6 There were no significant deficiencies identified as a result of the work undertaken in respect of Gifts & Hospitality, Code of Corporate Governance and Local Transport Plan Programme Management.
- 2.7 Information concerning audit reviews performed, opinions provided, indication of the movement in control assessments and a reconciliation of the forecast of the resourcing required to deliver the plan is provided in the dashboard table attached to this report (appendix 1).

Work in Progress

- 2.8 In addition to the completion of scheduled audit reviews provided in section 2.4 of this report, a number of audit reviews are currently in progress and include;
- Resource Efficiency Fund
 - Treasury Management
 - English National Concessions Travel Scheme
 - Metro Travel Centres
 - Smart Card Information Programme
 - Tendered Subsidised Bus Contracts

3 Financial Implications

- 3.1 The costs of the audit team are included in WYCA's approved budget for 2017/18.

4 Legal Implications

- 4.1 The Accounts & Audit Regulations (2015) require the Authority to maintain an adequate and effective internal audit function.

5 Staffing Implications

- 5.1 The performance of some elements of the audit plan require the buying-in of third-party specialist services.

6 External Consultees

- 6.1 None.

7 Recommendations

7.1 That this report is noted.

8 Background Documents

8.1 None.

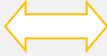
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Internal Audit Dashboard September 2017

Audit	Overview of Assurance	Resource Requirement 2017/18	Actual Resource	Assurance	Direction of Travel	Status
Period 1 19		115 Days	66			
City Cycle Ambition Grant ¹	Consideration of procurement arrangements and officer appointments	12	6	Controlled	↔	Completed
LTP Capital Programme Management	Assessment of the extent of compliance with WYCA's assurance framework including arrangements to identify, monitor, control and report on the Capital Programme.	12	11	Controlled	↓	Completed
Data Sharing	Assessment of the arrangements for the secure transfer and sharing of data.	10				Contractor
C.A. Members Code of Conduct	Review of compliance with the requirements of the code of conduct including declarations of interest	6	4	Controlled	↔	Completed

¹ Request from CA –Governance & Audit Committee

Code of Corporate Governance	Assessment to ensure compliance with applicable standards and assessment against SOLACE/CIPFA principles framework including appropriate arrangements for the safeguarding and accountability of public funds, clear and effective communication with WYCA's stakeholders, clearly defined roles and responsibilities at the head of the organisation.	8	7	Controlled		Completed
Annual Governance Statement	Financial reporting including compliance with relevant standards and codes of corporate governance. The establishment, monitoring and reporting on the systems of internal control.	5	3	N/A	N/A	Completed
Gifts, Hospitality & Interests 20	Assessment of arrangements in place for officers' declarations of gifts, hospitality and interests. Independent examination of records.	8	8	Well Controlled		Completed
Pro –Active Anti- Fraud Exercise	Statistical analysis for duplicate payments, data matching for creditor payments into staff inappropriate bank accounts. Sample review of changes to bank payment master records.	6				
Anti-Fraud, Corruption & Bribery.	Review of policy and supporting guidance and processes	6	6			Drafted
Money Laundering	Development of WYCA's policy in respect of Money Laundering Regulations.	8	6			Drafted

BSOG	Head of IA assurance. Periodic report and claim review and certification	3				
Growth Deal Fund	Head of IA assurance. Periodic report and claim review and certification	8	6	Controlled		Completed
Growth Hub Grant	Head of IA assurance. Periodic report and claim review and certification	3	3	Controlled		Completed
Data Hosting Arrangements	To provide assurance on the delivery of robust service in line with contract and ensure adequate management controls exist relating to operations and the security of data including recovery if necessary.	12				Contractor
21 Resource Efficiency Fund	Head of IA assurance. Periodic report and claim review and certification	8	6	Controlled		Completed
Period 2		111 Days	48			
Sector Skills Initiative	Operation of controls in respect of Digital, Manufacturing and construction initiatives	12				Defer p4
Resource Efficiency Fund	Governance framework, operation & application of assurance framework, programme management, monitoring & reporting, cost control, risk management.	12	15			Drafted
SCIP Programme	Provision of independent, 3rd line of defence programme assurance in respect of Smart transactions Web and development of on-line payment facilities.	12	4			In Progress

Growing Places Fund	Evaluation of expressions of interest, business case, due diligence, loan agreements, drawdown arrangements, monitoring of loans. Administration of loans, evaluation criteria and monitoring procedures.	16				
Cashbook/Treasury Management	Review of the operation of key controls including treasury management, segregation, review, authorisation, third part services and assurances.	12	12	Controlled		Drafted
Data Security/ Protection	System penetration testing -arrangements to protect WYCA ICT systems from attack	15				Contractor
22 Local Transport Plan	Head of IA assurance. Periodic report and claim review and certification Systems and procedures to control the allocation of payments and provide evidence of eligible expenditure.	8	10	Controlled		Completed
Interreg SHARE NORTH	Head of IA assurance. Periodic report and claim review and certification	4	4	Controlled		Completed
Cycle City Grant	Head of IA assurance. Periodic report and claim review and certification	3				
L- CREATE – ERDF & ESIF	Head of IA assurance. Periodic report and claim review and certification	4	3	Controlled		Completed
Green Deal Communities Fund	Head of IA assurance. Periodic report and claim review and certification	3				
Housing & Regeneration	Healthcheck.	10				

Projects ²	Publicity & promotion, outline business case appraisal, full basis case evaluation, due diligence, loan agreements, drawdown, programme monitoring, cost management.					
Period 3		136 Days	24			
Human Resources	Assessment of employee engagement, recruitment & selection, performance management, training & development and compliance with employment law.	15				
Metro Travel Centre Operations 23	To review the adequacy of Ticket sales, stock, cash handling security, reconciliations & reviews performed Cash collected is administered and properly controlled to reduce the risk of loss or fraud. Associated back-office operations	15	8			In Progress
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. To include "gross cost" contracts.	20	10			In Progress
English National Concessions Travel Scheme	Validation rules for applicants, disabled and blind person applications are processed in liaison with district social services departments, robust processes and validation requirements for issuing replacements and	12	6			In Progress

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

	renewals. Awareness and communication of requirements of Concessionary Bus Travel Act					
Skills Service & Skills Fund	Processes & procedures, assessment of grant applications Compliance with funding agreements	12				
West Yorkshire + York Broadband	Processes & procedures, Certification of expenditure, Compliance with funding agreements and compliance with partnership agreements/claw back provisions.	20				
Payroll 24	Review of the operation of key controls including arrangements for starters, leavers, pay points, member's allowances, expenses & deductions	12				
Health & Safety ³	Health & Safety Policy meets legal requirements as provided in the Health & Safety at Work Act and other relevant Acts. Workplaces and welfare requirements, recording accidents, illness and first aid, use and maintenance of work equipment, control of exposure to hazardous substances, electrical equipment, noise and radiation. Provision of protective clothing or equipment, Reporting of injuries, diseases and dangerous occurrences to the enforcing authority	10				

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

	(RIDDOR). The control and management of asbestos, management of contractors, smoke free legislation, alcohol and substance abuse.					
Business Growth Programme/ Access to Capital Grants Programme	Appraisal of applications & due diligence, grant claims and payment processes, project monitoring/reporting, compliance with SLA, cost monitoring control. WYCA expenditure - over £100k Compliance with SLA for schemes administered by LCC – less than £100k.	20				
Period 4 25		145 Days				
Prepaid Tickets & Concessionary Travel	Calculations of prepaid ticket pool and distribution, concessionary fares reimbursements, on account payments and quarterly adjustments, Haven system controls and reporting. Arrangements for accounting for stocks, cash. Consider controls for smartcard transactions. Payzone sales processing system.	25				
Business Continuity ⁴	Assessment of the plan to be implemented in the event of incident(s) which impact on WYCA being able to operate.	8				

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

CDM Compliance ⁵	Compliance with The Construction (Design and Management) Regulations 2015	8				
Growth Deal	Independent assessment of the extent of compliance with WYCA's assurance framework for a selection of specific schemes including governance, programme management – scheme evaluation, risk, cost, progress/delivery.	40				
Main Accounting – General Ledger	Review of the operation of key controls including System user rights, review, control, adequacy and timeliness, budgetary control, systems interface – education, bleep, and payroll. VAT.	10				
Creditors	Review of the operation of key controls including segregation, authorisation, reconciliation of statements, BACS controls	10				
Debtors	Test arrangements for write offs, requisitioning, reporting, review of accounts, debt age monitoring and reporting	8				
Procurement	Review of the operation of key controls including tendering, ordering, commitments, compliance with SOFRs, e- procurement, purchasing cards. Examination of the procurement of consultants services including an independent assessment of vfm and management arrangements	16				

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

Risk Management	Effectiveness of risk management processes, risk management guidance and support, Identification of risk, risk evaluation, risk mitigation and control, monitoring risks, reporting the status of key risks and controls, recording the management of risks, including the effectiveness of the controls and other responses to them, risk awareness and training	20				
Fraud Investigations	Contingency for any required investigations in response to allegations of fraud, bribery or corruption	20 Days				
Audit Plan Contingency 27	Contingency for any requirement for additional audit assurance and for other unplanned audit work identified in year.	25 Days	6	Poorly Controlled		HR data protection
Total		552	144			

Audit Plan as at 1 September 2017

Required audit days to complete the Plan	408
Specialist contractors	<u>(37)</u>
	371

Internal audit establishment (4 FTE from Nov, then 3 FTE from Jan)

Number of days available Team	452
Holidays/admin	<u>(116)</u>
	336

Shortfall 35

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



Report to: Governance and Audit Committee

Date: 3 August 2017

Subject: Internal Audit Progress Report

1. Purpose

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

2. Information

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

2.2 This report provides details of activities undertaken by the Internal Audit Section in the period from 1 April 2017 to 30 June 2017 and provides progress in delivering the 2017/18 audit plan, audit opinions on reviews completed, summaries of significant issues identified and the status of any high priority recommendations which have not been implemented within the agreed timescales.

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

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

- Resource Efficiency Fund
- Procurement

3. How control is assessed

3.1 There are three elements to each internal audit review. Firstly, the objectives and key risks associated with the audit entity are identified. Secondly, controls which internal audit would expect to be present to mitigate risk are determined and finally an audit programme is developed to review the existence and operation of those controls through a combination of substantive and compliance testing.

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

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

	<p>Key controls are absent or not operating.</p> <p>The operation of the system is currently providing an unacceptable risk.</p> <p>Recommendations made are high risk concerning the operation of key controls.</p>
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4. Audit Resource

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

5. Summary of Audit Reviews Undertaken

5.1 Growing Places Fund.

Opinion

Requires Improvement

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

Objectives

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

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

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

Principal Observations

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

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

5.2 Business Growth Fund

Opinion

Requires Improvement

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

Objectives

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

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

Principal Observations

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

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

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

5.3 CDM Compliance

Opinion

Requires Improvement

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

Objectives

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

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

Principal Observations

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

5.4 Growth Deal

Opinion

Requires Improvement

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

Objectives

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

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

Principal Observations

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

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

5.5 Debtors Processing Systems

Opinion

Requires Improvement

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

Objectives

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

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

Principal Observations

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

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

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

5.6 Procurement

Opinion

Requires Improvement.

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

Objectives

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

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

Principal Observation

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

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

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

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

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

5.7 Risk Management

Opinion

Requires Improvement

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

Objectives

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

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

Principal Observations

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

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

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

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

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

5.8 Business Continuity

Opinion

Requires Improvement

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

Objectives

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

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

Principal Observations

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

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

5.9 Superfast Broadband Programme

Opinion

Requires Improvement

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

Objectives

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

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

Principal Observations

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

5.10 Prepaid Tickets & Concessionary Fares

Opinion

Controlled.

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

Objectives

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

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

Principal Observation

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

5.11 Main Accounting System

Opinion

Well Controlled

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

Objectives

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

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

Principal Observations

There were no significant issues identified.

5.12 Housing & Regeneration Projects

Opinion

Controlled

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

Objectives

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

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

Principal Observation

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

5.13 Creditors Payments

Opinion

Controlled

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

Objectives

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

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

Principal Observations

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

5.14 Health & Safety

Opinion

Controlled

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

Objectives

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

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

Principal Observations

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

5.15 City Cycle Ambition Grant

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

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

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

6. Audit Recommendations

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

7. Work in Progress

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

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

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

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

8. Financial Implications

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

9. Legal Implications

- 9.1 None relating directly to the Internal Audit function.

10. Staffing Implications

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

11. External Consultees

None.

12. Recommendations

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

13. Background Documents

None.

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



Report to: Governance and Audit Committee

Date: 12 October 2017

Subject: Internal Audit Mid-Year Review

1 Purpose

- 1.1 To report the outcome of a mid-year review of the Internal Audit Plan 2017/18 and progress made by WYCA in addressing key control weaknesses identified as a result of audit work undertaken.

2 Information

- 2.1 The Internal Audit Plan was approved by the Governance & Audit Committee in April 2017. The Plan is designed to deliver work on the core financial systems, data systems and reactive and proactive counter-fraud and probity audits. This seeks to provide a level of assurance that the basic governance and control arrangements continue to operate effectively, minimising the risk of misappropriation, loss and error. The Plan does not include any provision for value added activities such as VFM reviews or any significant allowance for consultation.
- 2.2 The Plan identified a resource requirement which was slightly in excess of that which could be provided by the in-house team at the time of its development. However, it was anticipated that this position could be managed if the levels of contingencies within the plan were not fully required.
- 2.3 This report provides details of progress made to date in completing reviews within the Plan, considers the impact of changes to resourcing within the internal audit team, provides a forecast of the level of assurance which can be provided to WYCA in 2017/18 and evaluates progress made by management in response to key control weaknesses identified as a result of work performed.

Current Resourcing

- 2.4 WYCA's internal audit team consists of an internal audit manager, responsible for the delivery of the function along with statutory responsibilities of the Authority's Chief Audit Executive; two internal auditors employed on a full time basis and one internal auditor on a fixed-term contract due to end in December 2017. The internal audit manager has made representations through WYCA's organisational development programme to secure all three internal auditor positions as permanent posts. However, at the time of writing this report, this structure has not been approved.

- 2.5 At the beginning of August 2017, one of the full time internal auditor posts became vacant, leaving the section with just one full time and one fixed-term internal auditor. WYCA have indicated that as an interim measure this could be filled with another fixed-term appointment. It is anticipated that this would provide a level of resource to ensure that a sufficient body of audit work can be undertaken on which to base internal audit's opinion of WYCA's control environment, risk management and governance arrangements in operation throughout 2017/18.
- 2.6 The feasibility of partnership working with other Local Authority internal audit suppliers has been considered however, WYCA's team is too small to participate in any reciprocal arrangements and therefore even if spare capacity can be identified by district partners, services would be supplied on a contract/cost basis. In addition, given the nature of relationships between WYCA and the District Authorities in relation to funding and the delivery of schemes and other related services, there are potential issues of competing priorities and problems concerning conflicting accountabilities and reporting responsibilities.

Mid-point review of the internal audit plan 2017/18

- 2.7 A review of the assignments contained within the plan has indicated that there is an opportunity to defer work into 2018/19. This is because there have been a lower than anticipated level of activity through the sector skills funding stream, thus reducing exposure to materiality risk in 2017/18. It is estimated that deferment of this review could generate a saving of 12 days.
- 2.8 It has been necessary for internal audit to undertake work which was not originally included within the approved plan. This has been delivered through the utilisation of part of the general resource contingency.
- 2.9 Further information concerning progress made, significant issues arising and a forecast of resource required to complete the plan is provided in the internal audit progress report, agenda item 7, appendix 2 of these papers.

Progress in implementing key internal audit recommendations resulting from work undertaken in 2016/17

- 2.10 A number of audit assignments performed in 2016/17 resulted in an audit opinion of "requires improvement". A review has highlighted that whilst sufficient progress has been made by management to address these control weaknesses, there are a small number of issues which remain outstanding at the time of writing this report. These weaknesses are provided in the table below along with an assessment of the risk to WYCA.

Audit Review	Recommendation	Risk	Progress
Yorcard	Disaster Recovery. WYCA should, as a key stakeholder, review and sign-off documentation regarding disaster recovery/business continuity arrangements in place for services provided to WYCA by Yorcard.	Disaster recovery arrangements are not sufficiently adequate to protect WYCA's interests leading to service interruption, data loss and negative publicity.	Due Date: 8/7/16 Completion: 0% Note: Yorcard have verbally provided details of their business contingency arrangements. However, this now needs to be formally reviewed and signed-off by WYCA.
Health & Safety	Emergency Evacuation Procedures. That emergency evacuation procedures are designed and tested regularly to ensure they are appropriate for each site. These procedures to be readily available at each site and centrally on the network drive.	Emergency evacuation procedures are not appropriate and are not accessible.	Due Date: 30/6/17 Completion: 25% Work is underway to update procedures to ensure they reflect latest advice on bomb and fire evacuations from the bus stations. Current procedures are stored locally on site.
Risk Management	Strategic Corporate Risks. A corporate risk register must be produced to reflect the key strategic risks to the Authority. The corporate risk register should be regularly reviewed and reported to the Governance & Audit Committee.	Failure to adequately demonstrate strategic risk management activity.	Due Date: 31/7/17 Completion: 75% Note: This is the subject of agenda item 11 of these papers.
Business Growth Programme	Evolutionary System User Access Rights.	Risk of breach of data protection requirements and	Due Date: 30/6/17

	That appropriate user access privileges are enforced and that controls are applied to detect changes to data held and to maintain the integrity of data held. That user system access rights be formally recorded.	risk of fraud or error.	Completion: 0%
Procurement	Reconciliation of tender award values with orders/invoices received	Expenditure is not consistent with approved tender award values. Negative financial impact, challenge from unsuccessful tenderers and damage to reputation.	Due Date; 30/8/17 Completion: 0% Note; management now requesting deferment to November 2017
Skills Capital	WYCA Document Retention. WYCA should develop and communicate a corporate document retention policy	WYCA fails to comply with statutory requirements for the retention of documentation.	Due Date 31/1/17 Completion 75% Retention guidelines drafted.

3 Financial Implications

- 3.1 Revenue funding is secured in 2017/18 in respect of the Internal Audit Manager, two full time Internal Auditors and one Internal Auditor on a fixed-term contract to 31/12/2017.

4 Legal Implications

- 4.1 The Accounts & Audit Regulations (2015) require the Authority to maintain an adequate and effective internal audit function.

4.2 Public Sector Internal Audit Standard, PSIAS, 2030 requires the Chief Audit Executive to ensure that internal audit resources are appropriate, sufficient and effectively deployed.

5 Staffing Implications

5.1 The Audit Plan requires a resourcing input of 552 audit days. The approved staffing establishment for WYCA's internal audit function is 3 full time posts plus 1 fixed term contract to 31 December 2017.

6 External Consultees

6.1 None.

7 Recommendations

7.1 That the Governance & Audit Committee note the level of resource required to complete the Audit Plan in 2017/18.

7.2 That the risks associated with weaknesses identified in section 2.10 of this report are considered and that WYCA's management be required to now complete measures to mitigate these matters.

8 Background Documents

8.1 None.

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Director and author: Angela Taylor,
Director of Resources



Report to: Governance and Audit Committee

Date: 12 October 2017

Subject: External Audit Report

1 Purpose

1.1 This report sets out information on external audit matters.

2 Information

- 2.1 The external auditors Mazars have completed their audit work on the annual accounts. At the last meeting Members approved the annual accounts for 2016/17 and noted that work was still required to complete the Whole of Government Accounts before the audit certificate could be issued. This work has now been completed and signed off and Mazars have provided the final certification required. This, along with the final approved annual accounts, has been published on the WYCA website in accordance with the required legislation and within the deadline of 30 September. Mazars have provided their annual audit letter, attached as appendix 1 that summarises and concludes the audit work for the year.
- 2.2 Members will recall that they recommended, and WYCA approved, the use of Public Sector Audit Appointments Ltd (PSAA) to appoint auditors in future years. PSAA confirmed that 484 of 493 eligible local authorities have elected to appoint through PSAA.
- 2.3. Since the last meeting of this Committee PSAA has completed the major procurement process to identify the firms which will carry out audits under contract to PSAA. The successful tenderers are Grant Thornton, EY, Mazars, BDO, Deloitte and a consortium of Moore Stephens/Scott-Moncrieff. These contracts will cover a five year period commencing with the audit of accounts for 2018/19. PSAA has an option to extend the contracts for a further two year period, to a total of seven years, if it chooses to do so.
- 2.4 PSAA commenced a consultation process on the specific appointment for each authority in early August which concluded on 22 September. The timing of this did not coincide with the meetings of this Committee. The proposed appointment is that of Mazars, the current auditors, who have developed a good working relationship with the Authority and this Committee. The Director, Resources, circulated this information to all members of this Committee, setting out the opportunity to respond to this proposal either positively or negatively. All Members responded and

were supportive of the re-appointment. This has been reported back to PSAA who have now confirmed the appointment.

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

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

3 Financial Implications

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

4 Legal Implications

4.1 None arising directly from this report.

5 Staffing Implications

5.1 None arising directly from this report.

6 External Consultees

6.1 None.

7 Recommendations

7.1 That the Governance and Audit Committee note the re-appointment of Mazars for the five year period starting 2018/19.

8 Background Documents

8.1 None.

Annual Audit Letter

West Yorkshire Combined Authority



For the year ended 31 March 2017



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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' 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 Combined Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

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

Executive summary

Purpose of this report

Our Annual Audit Letter summarises the work we have undertaken as the auditor for West Yorkshire Combined Authority ('the Combined Authority'] for the year ended 31 March 2017. Although this letter is addressed to the Combined Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 ('the 2014 Act') and the Code of Audit Practice issued by the National Audit Office ('the NAO'). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of work	Summary
Financial statements opinion	<p>On 29 August 2017 we issued our opinion that:</p> <ul style="list-style-type: none"> the financial statements give a true and fair view of the Combined Authority's financial position as at 31 March 2017 and of its financial performance for the year then ended.
Opinions on other matters	<p>On 29 August 2017 we issued our opinion that:</p> <ul style="list-style-type: none"> the Narrative Report published with the financial statements, is consistent with those financial statements.
Value for Money conclusion	<p>On 29 August 2017 we issued our conclusion that the Combined Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.</p>
Whole of Government Accounts	<p>In line with instructions issued by the NAO, on 28 September 2017 we issued our assurance certificate which reported that the Council's consolidation pack was consistent with the audited financial statements.</p>
Matters that we report by exception	<p>We have not identified any matters to report in relation to:</p> <ul style="list-style-type: none"> whether the Annual Governance Statement is in line with our understanding of the Combined Authority and the requirements of the Delivering Good Governance in Local Government Framework 2016; reports in the public interest or written recommendations made under s24 of the 2014 Act; exercise of other audit powers under the 2014 Act.

As we have discharged all of our responsibilities under the 2014 Act for the 2016/17 audit, we certified the closure of the audit on 28 September 2017.

Audit of the financial statements

Financial statements opinion

Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Combined Authority and whether they give a true and fair view of the Combined Authority's financial position as at 31 March 2017 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing for the UK and Ireland (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Combined Authority's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Governance and Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2017:

Financial statement materiality	£5.354 million
Specific materiality	We have applied a lower level of materiality to the following items of account: <ul style="list-style-type: none">• Senior officer remuneration• Members' allowances• Exit packages
Trivial threshold	£0.161 million

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Combined Authority's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Governance and Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

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

<p>Pension estimation (IAS19)</p> <p>The financial statements contain material pension entries in respect of retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.</p>	<p>We discussed with key contacts any significant changes to the pension estimates prior to the preparation of the financial statements. In addition to our standard programme of work in this area, we:</p> <ul style="list-style-type: none"> evaluated the management controls you have in place to assess the reasonableness of the figures provided by the actuary; and considered the reasonableness of the actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office. 	<p>Our audit work provided the assurance we sought and did not identify any material issues to bring to your attention. We found no indication of material estimation error in respect of pensions.</p>
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Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following deficiencies in internal control as part of our audit.

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

Value for Money conclusion

Value for Money conclusion

Unqualified

Summary of our work

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

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

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

The following table provides commentary of our findings in respect of each of the sub-criteria and an indication as to whether proper arrangements are in place.

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

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

Significant Value for Money risks

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

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

Other reporting responsibilities

Exercise of statutory reporting powers	No matters to report
Annual Governance Statement	No matters to report
Whole of Government Accounts consistency with the financial statements	Consistent
Other information published alongside the financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Combined Authority's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2014 Act provides us with specific reporting powers where matters come to our attention that require reporting to parties other than the Combined Authority. We have the power to:

- report in the public interest; and
- make statutory recommendations to the Combined Authority, which must be responded to publicly.

In addition we must respond to any objections or questions on items contained within the accounts raised by a local government elector. We did not receive any such objections or questions.

We are also required to report if, in our opinion, the Annual Governance Statement does not comply with the guidance issued by CIPFA in 'Delivering Good Governance in Local Government; Framework 2016' or is inconsistent with our knowledge and understanding of the Combined Authority.

We did not exercise any of our reporting powers during our 2016/17 audit and had no matters to report to the Combined Authority in relation to the Annual Governance Statement.

Reporting to the NAO in respect of Whole of Government Accounts

The NAO requires us to report to them whether consolidation data that the Combined Authority has submitted is consistent with the audited financial statements, and to undertake specified procedures on that data. We have concluded and reported that the consolidation data is consistent with the audited financial statements.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Combined Authority. In our opinion, the information in the Narrative Report is consistent with the audited financial statements.

Our fees

Fees for work as the Combined Authority's appointed auditor

We reported our proposed fees for our audit work in our Audit Strategy Memorandum presented to the Governance and Audit Committee in April 2017. We confirm that these fees are in line with the scale fee set by Public Sector Audit Appointments.

Having completed our work for the 2016/17 financial year, we can confirm that our final fees are as follows:

Area of work	2016/17 proposed fee	2016/17 final fee
Core audit work required by the NAO's Code of Audit Practice	£33,720	£33,720
Other non-Code work	£2,000	£2,000

Non-Code work relates to assurance work certifying grants for which fees were agreed separately with officers.

Future challenges

Financial outlook

The Combined Authority has made good progress in addressing its challenges to date and has a proven track record of budget management and delivering planned budget reductions. 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 mainly from the transport levy (£95 million) on 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 continue to impact on future levy levels. The Combined Authority's scope for savings is constrained by the high proportion of non-discretionary expenditure such as £43 million from the transport levy spent on the statutory English National Concessionary Scheme.

The budget for 2017/18 includes funding from government and other agencies for business and skills activities although much of the funding is non-recurrent and is currently expected to reduce significantly for 2018/19 unless further funds can be secured. Overall the Combined Authority faces a funding gap of £4 million as it develops its budget for 2018/19 and there is little scope to use reserves to close this gap. The Combined Authority is working hard on a range of options to make further savings and improve efficiency.

Operational 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 continuing to implement its 'One Organisation' initiative to streamline its approach and to ensure closer alignment between strategy, policy and delivery.

Director and author: Angela Taylor,
Director of Resources



Report to: Governance and Audit Committee

Date: 12 October 2017

Subject: Internal controls and financial monitoring

1 Purpose

- 1.1 To provide the Committee with information on the operation of, and changes to, internal controls since the last meeting of the Committee.
- 1.2 To provide information on the current financial position.

2 Information

- 2.1 This paper is provided to each meeting of the Governance and Audit Committee to provide information and assurance on governance issues.

Internal control environment

- 2.2 Key controls within the Finance and the Concessions and Integrated Ticketing teams are monitored monthly given the significant flow of money through these teams. Controls are confirmed to be operating correctly and monthly reconciliations are up to date.
- 2.3 Regular review of the investments and treasury management arrangements continue, with quarterly meetings held with Leeds City Council who carry out many of the day to day operations under a Service Level Agreement. Prudential indicators remain within tolerance other than the indicator relating to proportion of fixed term debt. Due to high cash balances and low short term borrowing this indicator remains out of tolerance but the reasons for this are understood and no corrective action is required.
- 2.4 The Committee has requested to be kept informed of any reportable accidents to the Health and Safety Executive (RIDDORs). There have been none in the period 1 January to 30 September 2017.
- 2.5 HMRC has undertaken an inspection of VAT processes and accounting and has found nothing untoward to report.
- 2.6 No frauds, alleged frauds or breaches of internal control have been reported since the last meeting of this Committee.

Financial monitoring

- 2.7 The annual accounts for 2016/17 were approved by this Committee at its last meeting. The closing position for the year was a lower than forecast use of reserves (£2.7m against a budgeted £4.1m) which leaves opening reserves at 1 April 2017 at just over £7m.
- 2.8 Work has now commenced on business and budget planning for 2018/19. There are significant challenges in closing the funding gap in 2018/19, due to a number of pressures, including scale and timing of Enterprise Zone receipts, inflation on bus tendered services, ongoing use of reserves and pension changes.
- 2.9 A report setting out the planning process is being considered by WYCA at its meeting on 6 October and further work will continue over the autumn to enable a balanced budget to be set at the meeting of 1 February 2018.
- 2.10 Forecast expenditure for 2017/18 remains in line with the budget set in February and relies, as agreed, on a use of reserves and a number of savings and efficiencies to be achieved. Good progress is being made on the latter with savings identified both in bus tendered services and passenger services more generally. However there continues to be pressure on the bus tendered services budget as inflation continues to climb (bus contracts are subject to annual RPI increases) and an increase in the base following higher than expected costs in 2016/17.
- 2.11 Progress on capital budgets is being monitored through the Investment Committee which receives regular reports on expenditure forecasts. Recent reports show expenditure to be on course to achieve targets.

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 External Consultees

- 6.1 None.

7 Recommendations

- 7.1 That the Committee note the report.

8 Background Documents

8.1 None

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Director: Angela Taylor, Director of Resources
Author: Louise Porter



Report to: Governance and Audit Committee

Date: 12 October 2017

Subject: Draft Risk Management Strategy

1 Purpose

- 1.1. This report provides an update on the work that is currently underway to review and enhance existing risk management arrangements for the West Yorkshire Combined Authority, in order that Members of the Governance and Audit committee can provide input to this.

2 Information

- 2.1 Work is currently taking place to review and update WYCA's existing risk management arrangements. Routine consideration of the risk management approach is vital to ensure that the organisation remains proactive in identifying risks and managing these in a timely manner.
- 2.2 In addition the current review is also addressing a number of recommendations made by the Internal Audit team following their audit of risk management arrangements which took place earlier this year.
- 2.3 The objective of the audit was to assess the reliability of risk management systems and to make sure that the systems in place are properly administrated, authorised and recorded. As reported to the Governance and Audit Committee in April 2017, the resulting audit opinion noted that some improvements were required in existing risk management systems. The audit also concluded that while elements of an effective risk management framework were found to be present, these weren't necessarily consistently applied. This is reflective of an organisation undergoing significant change and the current review offers a timely opportunity to ensure updated risk management arrangements are embedded in new teams and new ways of working.
- 2.4 The current review of risk management arrangements is therefore seeking to ensure that the arrangements are appropriate for the new organisation, focussing on delivering greater consistency in risk management activities throughout the organisation and in doing so ensure the specific audit recommendations are addressed.
- 2.5 The organisation currently has a Risk Manual in place which sets out both the strategy for risk management and the detailed guidance associated with the current risk systems in operation. The internal audit review highlighted that the strategy and guidance elements of the Risk Manual should however be separated out in order to

better reinforce roles, responsibilities and expectations. As such a draft Risk Management Strategy has been prepared to more clearly set out the key organisational principles and processes by which risk management activities will be governed.

- 2.6 A copy of the draft risk management strategy is attached at Appendix 1. The key areas covered by this document can be summarised as follows:
- Policy statement on WYCA’s approach to risk management;
 - WYCA Risk Appetite Statement;
 - Risk management approach (including risk recording procedures, assessment of risks, and risk response categories);
 - Risk management roles and responsibilities; and
 - Risk Reporting and Escalation Process
- 2.7 In parallel to the development of the draft Risk Management Strategy, the organisation’s Corporate Risk Register is also currently under review. The Corporate Risk Register contains the main on-going or long term risks to WYCA on an organisation wide basis. These risks are owned and managed by the Leadership Team.
- 2.8 A summary of the headline risks currently contained within the Corporate Risk Register is provided below (the scoring has been updated to reflect the risk assessment criteria as set out in Section 4.3 of the draft Risk Management Strategy)

Risk description	Probability	Impact	Risk score	Mitigation Summary
Failure to deliver WYCA objectives and outcomes	2	3	6	One Organisation programme is delivering structure and process changes designed to deliver key organisational objectives
Failure to secure enhanced funding and devolved powers	3	4	12	Devolution discussions continuing as a key organisational priority. Recent developments in South Yorkshire to be taken into account
Failure to have in place the capacity and resources to deliver the increased workload	2	3	6	One Organisation Change programme has identified new organisational structures to address this and these are now largely implemented. Recruitment still however underway
Failure to properly communicate the purpose of WYCA to internal and external stakeholders	2	3	6	New Communications team established and brand/identity project in progress to address this.
Failure to develop appropriate working arrangements with the districts	2	3	6	Work to strengthen key partnerships being led by policy teams. Assurance process implemented and contributing towards more consistent working arrangements on the

				delivery of projects and programmes with Districts
Failure to demonstrate that WYCA is making a difference	2	3	6	Continuing to monitor performance against corporate plan objectives. Mid-year KPI review shows majority are on track but with some 'amber' items
NEW: Failure to meet the provisions of the General Data Protection Regulations upon their introduction in May 2018	3	3	9	Information Governance project identified in Phase 2 One Organisation programme. Action plan developed and being implemented

2.9 Throughout October detailed discussions will take place with each Directorate to determine their business objectives and budget requirements for 2018/19, as part of the annual business planning process. It is intended that these discussions will also include the consideration of key risks for each Directorate, in order that Directorate level risks registers can be updated and these can then inform a more detailed review of the Corporate Risk Register in November.

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 External Consultees

6.1 None.

7 Recommendations

7.1 That Governance and Audit Committee note the draft Risk Management Strategy and provide any feedback on this including feedback on the Risk Appetite Statement (which is presented at section 3 of the strategy.)

7.2 That Governance and Audit Committee note the summary of headline corporate risks at 2.8 of this report and provide feedback on these.

8 Background Documents

8.1 None.

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Risk Management Strategy



2017/18 v1.0

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Document History

Version	Comments
1.0	First draft for approval

1. WYCA Risk Management Policy Statement

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

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

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

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

2. Introduction

The aim of this document is to set out WYCA's strategy for managing risks and to provide guidance on both the purpose and process of risk management at WYCA. Where appropriate the document will link to a series of more detailed guidance documents to assist risk owners in day to day risk management activities.

2.1. Risk and Risk Management definition

"Risk is most commonly held to mean "hazard" and something to be avoided. But it has another face - that of opportunity. Improving public services requires innovation - seizing new opportunities and managing the risks involved. In this context risk is defined as uncertainty of outcome, whether positive opportunity or negative threat, of actions and events. It is the combination of likelihood and impact, including perceived importance.

Risk management covers all the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress. Good risk management helps reduce hazard, and builds confidence to innovate."

-HM Treasury

2.2. Background

Taking risks is an inevitable part of most organisations' day to day work, however attention needs to be focused on routinely managing the risks to which the organisation is exposed.

High performing organisations consistently demonstrate strengths in leadership, financial management, performance management and risk management.

Risk Management can be defined as the culture, processes and structures that are key to the effective management of potential opportunities or threats to an organisation in achieving its objectives and delivering services. Risk management is not about being risk averse. It is about understanding and evaluating risks whether they are an opportunity or a threat and making informed decisions about how those threats are then managed in order to maximise the efficiency of its services.

The benefits gained in managing risk are improved strategic, operational and financial management, continuity of knowledge and information management processes, improved compliance and most importantly improved customer service delivery.

2.3. Risk Management at WYCA

WYCA strives for excellent management of risk in order to maintain good governance, meet its audit requirements and to sufficiently protect itself against the risks that arise in carrying out its functions. WYCA's operations mean it is exposed to risks concerning health and safety, loss of money or funding, reputational risks in relation to delivery of projects and objectives and potential legal action.

WYCA strives to reflect industry best practice in its approach to risk management and this Risk Management Strategy has therefore been informed by the principles set out in ISO 31000 'Risk Management Principles and Guidelines'.

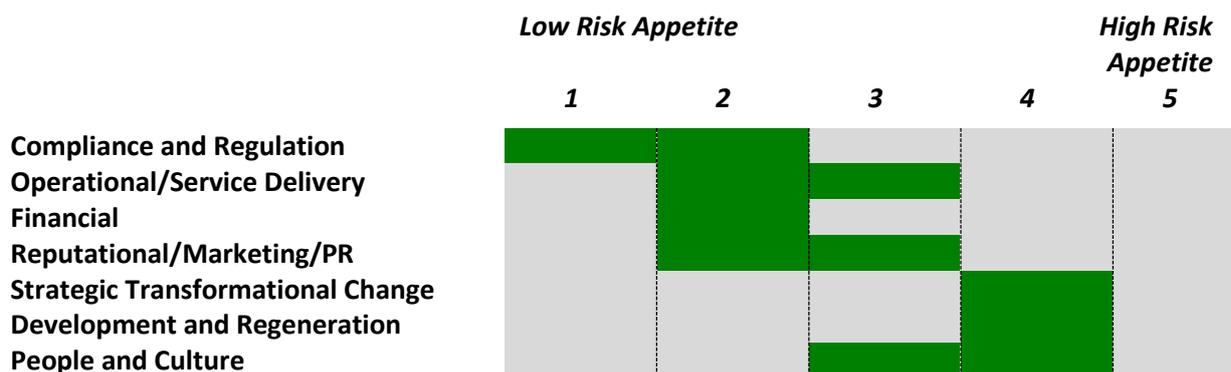
3. Risk Appetite Statement

Risk appetite is the level of risk WYCA is prepared to tolerate or accept in the pursuit of our strategic objectives. Our aim is to consider all options to respond to risk appropriately and make informed decisions that are most likely to result in successful delivery whilst also providing an acceptable level of value for money.

The acceptance of risk is subject to ensuring that all potential benefits and risks are fully understood and that appropriate measures to mitigate risk are established before decisions are made.

We recognise that the appetite for risk will vary according to the activity undertaken and hence different appetites and tolerances to risk apply. Our approach is to minimise exposure to compliance and reputational risk, whilst accepting and encouraging an increased degree of risk in other areas in pursuit of our strategic objectives as illustrated in the figure 1 below.

Figure 1: Risk Appetite Tolerances



Compliance & Regulation – WYCA recognises the need to place high importance on compliance, regulation and public protection and has no appetite for breaches in statute, regulation, professional standards, ethics, bribery or fraud.

Operational/Service Delivery – WYCA accepts a moderate level of risk arising from the nature of the Authority’s business operations and service delivery to deliver an appropriate level of service at value for money, whilst minimising any negative reputational impact.

Financial – WYCA aims to maintain its long term financial viability and its overall financial strength whilst aiming to achieve its strategic and financial objectives subject to the following minimum criteria:

- WYCA requires to set a balanced overall revenue budget by February every year and Directors must then contain net expenditure within approved service totals;
- An appropriate level of unallocated general reserves, calculated in accordance with the approved risk based reserves strategy; and
- Working within a set of Treasury management principles that seek to protect funds rather than maximise returns.

Reputational – It is regarded as essential that WYCA preserves a high reputation and hence it has set a low appetite for risk in the conduct of any of its activities to avoid damage to that reputation through adverse publicity.

Strategic Transformational Change – The environment WYCA works in is continually changing through both its internal operations and the services it provides. Change projects provide WYCA with an opportunity to be the leading force in the Region and also to establish benefits for the longer term. WYCA recognises that this may require increased levels of risk and is comfortable accepting the risk subject to always ensuring that risks are appropriately managed.

Development and Regeneration – WYCA has a continuing obligation to invest in the development and regeneration of the Region. To continue to be progressive and innovative in the work performed WYCA is willing to accept a higher risk appetite whilst ensuring that benefits are assessed and risks are fully scrutinised and appropriately mitigated before developments are authorised.

People and Culture – WYCA recognises that its staff are critical to achieving its objectives and therefore the support and development of staff is key to making WYCA a fulfilling and supportive place to work. It has moderate to high appetite for decisions that involve staffing or culture to support transformational change and ensure WYCA is continually improving.

Where circumstances are more complex and two or more different elements of the risk appetite statement apply, our experience is that it is often possible to use an approach to risk management that combines minimising risk where there is a lower appetite while still exploiting the opportunities that can accompany areas of greater appetite.

The levels of risk appetite set out in the diagram above have been arrived at through consultation with and combining the views of the Audit and Risk Management Group of Officers, the Health and Safety Committee, the Leadership Team and the Organisational Management Team, and the Members’ Governance and Audit Committee. WYCA’s risk appetite statement is reviewed annually by these groups.

4. WYCA Risk Management Approach

4.1. Risk Management Overview

WYCA follows a four-step approach to managing the risk it is exposed to as demonstrated by Figure 2 below:

Figure 2: Risk Approach



Firstly it **identifies** the risk related to the appropriate department, service or project etc. Then the risk is **assessed** in terms of the likelihood of the event actually occurring and the impact that such an event would have on WYCA achieving its objectives.

Steps then must be taken to mitigate this risk- what can actually be done to stop this risk occurring or limiting the impact of the risk. This **treatment** needs then to be **monitored** and periodically **reviewed**. This process is repeated as the risks changes over time.

4.2. Risk recording

WYCA collates risks into the following categories or registers. These can be summarised as follows:

- **Corporate Risk Register** – contains the main on-going or long term risks to WYCA on an organisation wide basis. These risks are owned and managed by the Leadership Team
- **Directorate Risk Registers** – contains risks specific to the processes and actions for each directorate. These risks are managed by WYCA or a specific project. These risks should be managed by Directors and their Heads of Service. Risks within Directorate Risk Registers can be escalated to the Corporate Risk Register with agreement from OMT and Leadership Team.
- **Service, Project and Programme Risk Registers** – contain specific risks related to individual services, projects and programmes and are owned by service managers, project and programme managers with oversight from the relevant Head of Service. Risks within these registers can be escalated to Directorate Risk Registers with agreement from the relevant Director and their management team.

WYCA currently uses the 'Pentana' management system to record and monitor risks. This system allows risks to be recorded, scoring to be allocated, ownership to be clearly defined and mitigation actions to be monitored. WYCA is currently in the process of reviewing a number of corporate ICT applications to ensure that these systems work effectively together and as such a review of the most appropriate means of recording corporate risks in the longer term will be considered as part of this.

Each department is recommended to have a manageable set of risks typically containing no more than ten (and ideally less than five) risks at any one time. This allows the Directors and Heads of Service to maintain a focus on the top risks

4.3. Assessment of Risks

Once risks have been identified they are then assessed by considering both the probability of the risk occurring and the impact that would be expected should the risk be realised. Through combining the scores awarded for probability and impact, an overall risk rating will be obtained and this is then used as a basis on which to prioritise risks.

Guidance about how to score each of these factors for both corporate Level Risks and Directorate level risks is provided below. It is envisaged that service and project level risks will require a scoring approach which is tailored to their own specific circumstances.

Probability (likelihood of occurrence)

The assessment of probability for risks contained within the Corporate Risk Register and Directorate Risk Registers will be undertaken according to the analysis below shown in figure 3:

Figure 3: Risk Probability Scoring Matrix

	Score	Description	Min	Likely	Max
Very High	5	Almost certain	70%	85%	100%
High	4	Likely	50%	60%	70%
Medium	3	Possible	30%	40%	50%
Low	2	Unlikely	10%	20%	30%
Very Low	1	Remote	0%	5%	10%

Impact

The impact assessment should consider the effect of the risk should it occur in terms of cost, time and quality. Wherever possible, the assumptions underwriting the perceived impacts should be entered into the risk register. Figure 4 below shows the risk impact scoring that will be used

Figure 4: Risk Impact Scoring Matrix

	Score	Impact Description	Cost £		Time		Quality
			Lowest	Highest	Lowest	Highest	
Very High	5	Severe	1,000,000	>1,000,000	1 year	> 1 year	Very high impact on quality
High	4	Major	500,000	1,000,000	6 months	1 year	High impact on quality
Medium	3	Moderate	100,000	500,000	3 months	6 months	Medium/moderate impact on quality
Low	2	Minor	25,000	100,000	1 month	3 months	Minor/minimal impact on quality
Very Low	1	Negligible	0	25,000	0	1 month	Little or no impact on quality

Probability/Impact Scores

Once each risk has been assessed for probability and impact, the score ratings are multiplied together to create the overall risk impact rating. This rating score allows each risk to be graded into a red, amber or green category as shown below in Figure 5.

Figure 5: Risk Probability/Impact Scoring Matrix

		IMPACT				
		1	2	3	4	5
PROBABILITY	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5

4.4. Risk Response

Different strategies are appropriate for managing different risks and the appropriate response will need to be selected for each individual risk recorded in the risk register. Further details will then be recorded to set out the proposed mitigation measures and to allocate an owner for pursuing these mitigation actions. The responses to corporate and directorate risks will be selected from one of the categories shown in figure 6 below:

Figure 6: Risk Response Categories

Risk Response	Possible Actions
AVOID	<ul style="list-style-type: none"> Clarify the project requirements or objectives Obtain information or expertise Undertake research or trials Modify the approach to minimise/eliminate uncertainty Adopt a different approach to planning/execution The fall back plan to Avoid is Transfer
TRANSFER/SHARE	<ul style="list-style-type: none"> Share the exposure, either totally or in part with a partner, contractor or through insurance Monitor any partnership closely The fall back plan to Transfer is Mitigate
MITIGATE/REDUCE	<ul style="list-style-type: none"> Take mitigating actions to reduce the likelihood or consequence of the risk (agree an action plan) Risk reduction actions must give a cost benefit i.e. the cost of the risk reduction must be less than the expected cost of the risk The fall back plan to Mitigate is Accept

ACCEPT	<ul style="list-style-type: none"> • Accept the risk and add to project contingency • Don't ignore accepted risks – monitor and review
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Wherever possible, risks should be designed out of the process or removed, however this is not always possible and so it may be necessary to share or transfer the risk to another party. Where removal or transferral is not possible, steps should be undertaken to reduce the likelihood or consequence of the risk by using an agreed action plan. Where all other strategies have been exhausted, the risk must be accepted and reviewed as appropriate.

5. Roles and Responsibilities

In order to embed a culture of proactive risk management all staff must have responsibility for identifying and responding to risk in their areas of work. There are however some key groups who have specific responsibilities with regard to risk management activities and these are summarised in Figure 7.

Figure 7: Summary of roles and Responsibilities in Risk Management

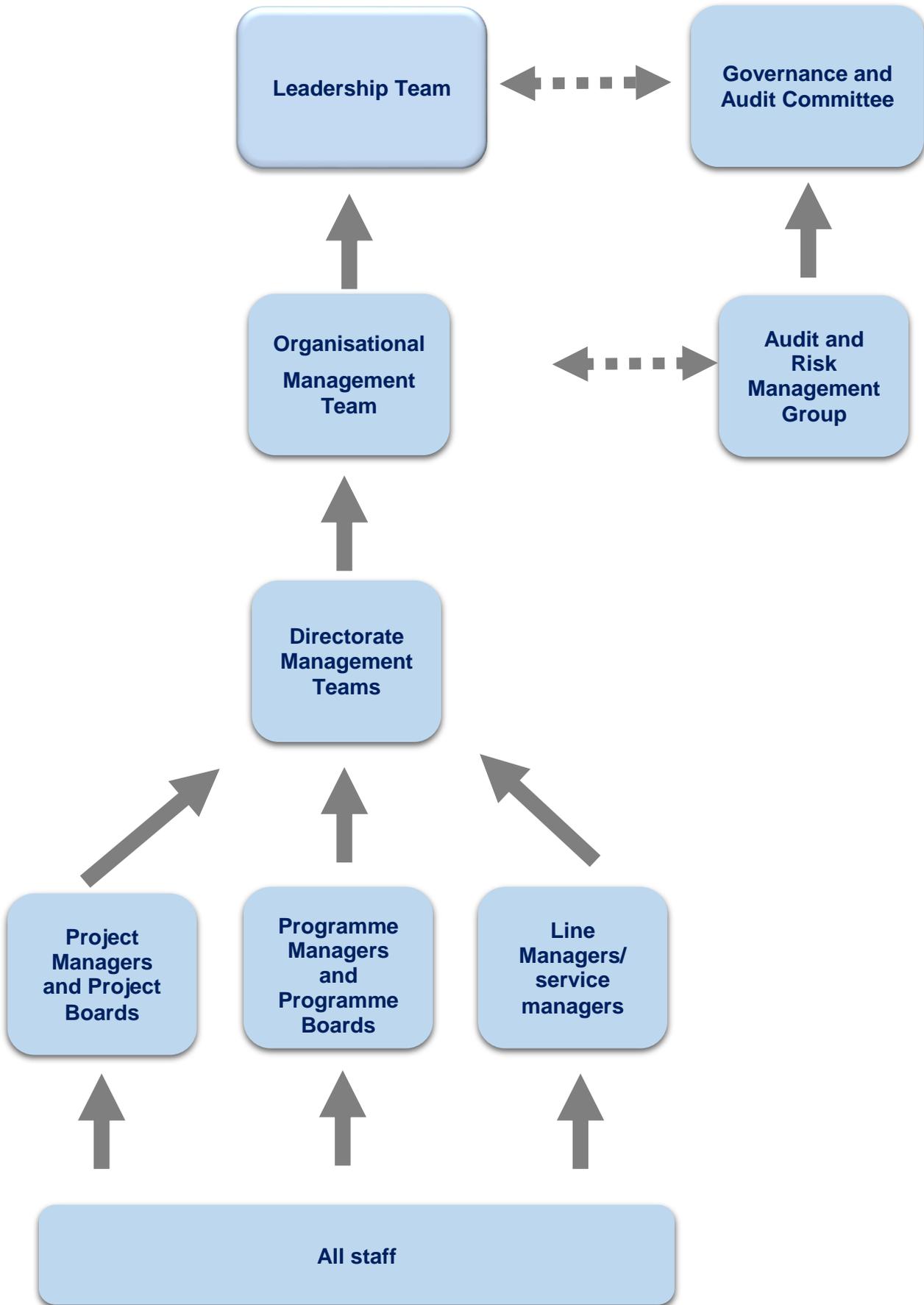
Group	Responsibilities
Governance and Audit Committee	<ul style="list-style-type: none"> • Provides a Member overview of the audit and risk arrangements in place. • Reviews and assesses the Risk Management Strategy annually and Corporate Risk Register quarterly
Leadership Team	<ul style="list-style-type: none"> • Approves the Risk Management Strategy • Reviews the Risk Management Strategy annually • Sets the risk appetite statement and reviews this quarterly • Owns the Corporate Risk Register and reviews this quarterly • Reviews any changes to corporate risk as these are escalated
Audit and Risk Management Group	<ul style="list-style-type: none"> • Reviews risk management arrangements and the Corporate Risk Register bi-monthly • Considers new areas of risk to which WYCA is exposed, the management of these risks, training in risks and awareness of risks across the organisation. • Reviews progress on the internal audit plan, ensuring any emerging risk issues are appropriately addressed in the plan • Escalates risk issues to Leadership Team and Governance and Audit Committee
Health and Safety Committee	<ul style="list-style-type: none"> • Identifies and Reviews Health and Safety risks which need to be escalated to the Corporate Risk Register

OMT	<ul style="list-style-type: none"> • Reviews the Corporate Risk Register and any changes to risk Monthly • Escalates risk issues to Leadership Team
Directorate Management Teams	<ul style="list-style-type: none"> • Owns the Directorate Risk Register • Reviews Directorate Risk Register monthly Escalates corporate risk issues to OMT
Project, Programme and Service Managers	<ul style="list-style-type: none"> • Develop and monitor individual project, programme and service risk registers • Project, Programme, Service risk registers owned by relevant Director or Head of Service • Escalates risks to Directorate Management Teams
Corporate Planning & Performance Team	<ul style="list-style-type: none"> • Updates and administers the Risk Management Strategy and the Corporate Risk Register • Prepares risk and performance reports for OMT, Leadership Team • Reports to Audit and Risk Management Group and Governance and Audit Committee on risk matters

6. Risk Reporting and Escalation Process

A formal route for reporting on and escalating risk matters is provided through various corporate groups as demonstrated below.

Figure 8: Summary of Reporting and Escalation Method



The formal route for reporting on risks is further summarised in Figure 9 below, along with further details regarding alternative escalation arrangements in-between formal reports.

Figure 9: Summary of Reporting and Escalation roles

Group	Reporting arrangements	Alternative Escalation Arrangements
Leadership Team	Quarterly risk report to include quarterly review of corporate risk register	Significant changes to corporate risk to be reported through weekly meetings
Organisational Management Team	Monthly performance snapshot – to include changes to corporate risk Quarterly review of Corporate Risk Register	Significant changes to corporate risk to be raised with individual Directors to report to Leadership Team
Directorate Management Teams	Monthly review of Directorate Risk Register	Significant changes to Directorate risk to be raised with relevant Director/Heads of Service
Project/ Programme Boards	Regular project board/programme board meetings	Significant changes to project/programme risk to be raised with relevant SRO
All staff	Regular team meetings and staff 1 to 1's	Risk issues to be raised with line manager/team leader

Preparation of formal risk reports and snapshot performance reports will be undertaken by the Corporate Planning and Performance Team. Directors are responsible for ensuring regular risk reporting takes place as part of their Directorate Management Teams and also via Project Boards, Programme Boards and via service managers in their Directorates as appropriate.

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