

GOVERNANCE AND AUDIT COMMITTEE

**MEETING TO BE HELD AT 11.00 AM ON THURSDAY, 1 NOVEMBER
2018 IN COMMITTEE ROOM A, WELLINGTON HOUSE, 40-50
WELLINGTON STREET, LEEDS**

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Signed:

A handwritten signature in black ink that reads "A Taylor". The signature is written in a cursive style with a large initial 'A' and a trailing dot.

**Director of Resources
West Yorkshire Combined Authority**



**MINUTES OF THE MEETING OF THE
GOVERNANCE AND AUDIT COMMITTEE
HELD ON MONDAY, 30 JULY 2018 AT COMMITTEE ROOM A,
WELLINGTON HOUSE, 40-50 WELLINGTON STREET, LEEDS**

Present:

Andy Clayton (Chair)	Department for Work and Pensions
Councillor David Hall	Kirklees Council
Councillor Susan Hinchcliffe	Bradford Council (from minute 9)
Councillor Barry Collins (Substitute)	Calderdale Council (to minute 7)

In attendance:

Mark Kirkham	Mazars Auditors
Mark Dalton	Mazars Auditors
Angela Taylor	West Yorkshire Combined Authority
Russell Gott	West Yorkshire Combined Authority
Ruth Chaplin	West Yorkshire Combined Authority

1. Apologies for Absence

Apologies for absence were received from Councillors S Pandor and T Swift.

2. Declarations of Disclosable Pecuniary Interests

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

3. Exclusion of the Press and Public

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

4. Minutes of the Meeting of the Governance and Audit Committee held on 29 March 2018

Resolved: That the minutes of the meeting held on 29 March 2018 be approved.

5. Annual Accounts 2017/18

The Committee considered the Annual Accounts for 2017/18 for the West Yorkshire Combined Authority (Combined Authority).

It was reported that the Combined Authority's external auditors, Mazars, have completed their audit work on the Annual Accounts 2017/18 which were attached at Appendix 1.

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

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

Mazars' conclusions were set out in the Audit Completion Report which was attached at Appendix 3 and it was noted that they would issue an audit completion notice by 31 July 2018.

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 2018 be approved.

6. Appointment of Deputy Chair

The Committee considered a report on the appointment of a Deputy Chair to the Governance and Audit Committee.

Members agreed not to appoint a Deputy Chair of the Governance and Audit Committee as this was not a statutory requirement. It was considered that the Committee would elect a member to chair a meeting should the need arise.

Resolved: That no appointment be made to the position of Deputy Chair of the Governance and Audit Committee for the municipal year 2018/19.

Councillor Collins left and the meeting was inquorate for the following two items which were noted.

7. Terms of Reference and Forward Plan of Work 2018-19

The Committee noted a report which set out the terms of reference for the Governance and Audit Committee and the programme of work for 2018/19.

The Committee would meet quarterly and Mazars, the external auditors for the Combined Authority, would be invited to attend. The proposed forward

plan of work for the coming year was noted and other items will be brought as and when they occur and any issues arising in connection with the Members' Code of Conduct would also be referred to the Committee.

8. Annual Report on Complaints and Concerns About the LEP

The Committee noted an annual report in respect of any complaints and concerns raised about the Leeds City Region Local Enterprise Partnership (the LEP) and/or members of the LEP Board.

The report provided details of how members of the public or a third party could report concerns about the LEP and it was noted that the Monitoring Officer had not received any complaints about the LEP or any member of the LEP Board received over the last municipal year.

Councillor Hinchcliffe was in attendance from the following item and the meeting was now quorate.

9. Annual Internal Audit Report and Opinion

The Committee considered a report in respect of the annual Internal Audit report and opinion of the risk management, governance and control environment in operation during 2017/18.

Members discussed the Internal Audit Annual Report and Opinion 2017/18 which was attached at Appendix 1. It was noted that the annual report had been produced in accordance with auditing standards and the opinion for the Combined Authority is that the framework of governance and control had operated adequately. The report highlighted that some residual work was required on risk management and this was considered under a separate item on the agenda.

In noting the Audit Plan 2017/18, it was suggested that it would be useful to have commentary to accompany the 'Direction of Travel' column and for a comparison of internal audits at other Combined Authorities in respect of good/bad practice, capacity and capability to be provided at a future meeting.

It was reported that General Data Protection Regulation (GDPR) had been considered by the Combined Authority on 10 May 2018 and an update would be provided at the next meeting.

Resolved: That the contents of the annual Internal Audit report & opinion be noted.

10. Internal Audit Progress Report

The Committee considered a report on the work undertaken by the Internal Audit Section.

Members discussed the three reviews where a 'requires improvement' opinion was provided and also the overdue outstanding audit actions which

were detailed in the submitted report. They asked that timescales for completion of future audit recommendations should, if possible, be within six months of issuing the report. If these timescales are not met in respect of high priority recommendations then officers responsible for the implementation of these actions will be requested to provide the reasons to the Governance and Audit Committee.

Information relating to work currently underway in respect of the 2018/19 Strategic Audit Plan was provided in the dashboard attached at Appendix 1 and it was suggested that this could be presented as a pie chart/graph in future reports.

Resolved: That the report be noted.

11. 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 the Director, Resources has undertaken a review of internal audit, using the Public Sector Internal Audit Standards (PSIAS) checklist and the information in the Internal Audit annual report which sets out the work undertaken in the year. The overall conclusion is that the internal audit function complies with the necessary standards and has worked to an adequate standard during the year.

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

12. Delivery of the Internal Audit Function

The Committee considered a report on the delivery of the internal audit function which provided information concerning a soft market testing exercise conducted for the provision of internal audit to the Combined Authority.

It was reported that following discussions at the last meeting, work had been undertaken to identify a preferred model for the future delivery of the internal audit function. Members noted the outcome of the exercise and discussed the detail of the proposed model which was outlined in the submitted report. Further information was requested in respect of costs and role profiles and this would be shared with members via email, with a report on the final structure to be brought to the next meeting.

Resolved:

- (i) That the outcomes of the market testing exercise be noted.
- (ii) That work be progressed on the preferred model and a report on the final structure be brought to the next meeting.

13. Internal Controls and Financial Monitoring

The Committee considered a report which set out any changes to the arrangements for internal control in the West Yorkshire Combined Authority and provided information on the current financial position.

It was reported that there had been no significant changes to internal controls in the period and monthly reconciliations were up to date. Members were advised that there had been two reportable (RIDDOR) accidents since the last meeting and these were detailed in the submitted report. No further actions were identified as arising from this.

In respect of financial monitoring, summaries of the final outturn for 2017/18 and the budget for 2018/19 were attached at Appendices 1 and 2.

Resolved: That the report be noted.

14. Risk Management Update

The Committee considered a report which:

- Provided an update on corporate risk management issues and on progress against the internal audit recommendations.
- Sought approval of the updated Corporate Risk Management Strategy.

It was noted that work had been undertaken to update the Corporate Risk Management Strategy and also to address the recommendations made by the Internal Audit review into risk management arrangements.

The current risk appetite statement was noted and the Committee discussed and endorsed the final draft of the Corporate Risk Management Strategy which was attached at Appendix 1 to the submitted report. The strategy would be formally agreed by the Leadership Team and rolled out across the organisation. It was reported that the strategy and corporate risk register, which was attached at Appendix 2, would be monitored by the existing officer Audit and Risk Management Group which was being revised as part of the overall set of governance arrangements to have more responsibility for the development and operation of a risk management system. Updates would continue to be provided to the Committee with a focus on reporting by exception, and as part of the corporate performance report presented at each meeting of the Combined Authority.

Resolved:

- (i) That the Corporate Risk Management Strategy be endorsed.
- (ii) That the current corporate risk register be noted.

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Report to: Governance and Audit Committee

Date: 1 November 2018

Subject: **External audit update**

Director(s): Angela Taylor, Director, Resources.

Author(s): Angela Taylor

1. Purpose of this report

1.1 To present the annual audit letter to the Committee.

2. Information

2.1 The annual audit letter is produced by the external auditors Mazars at the completion of their annual audit work. The letter is attached at **Appendix 1** for consideration.

2.2 The letter provides an executive summary of the outcome of the work programme this year and confirms the conclusion of the audit, including the work undertaken on risks and the value for money opinion. It provides information with regard to other reporting responsibilities and confirms the fee for the year as being unchanged. The final section provides a forward look that will assist in shaping the focus of audit work next year.

2.3 Section 2 confirms the three control recommendations made at the time the annual accounts were considered. The recommendation due for completion by 31 October has been actioned.

3. Financial Implications

3.1 As set out in the report.

4. Legal Implications

4.1 There are no legal implications directly arising from this report.

5. Staffing Implications

5.1 There are no staffing implications directly arising from this report.

6. External Consultees

6.1 No external consultations have been undertaken.

7. Recommendations

7.1 That the Committee note the annual audit letter for 2017/18.

8. Background Documents

None.

9. Appendices

Appendix 1 – Annual audit letter 2017/18

Annual Audit Letter

West Yorkshire Combined Authority
Year ending 31 March 2018





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2. Audit of the financial statements
3. Value for money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

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 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.

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for West Yorkshire Combined Authority (the Authority) for the year ended 31 March 2018. Although this letter is addressed to the 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 responsibility	Summary
Audit of the financial statements	<p>Our report, issued on the 31 July 2018, included our opinion that the financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the Authority's financial position as at 31 March 2018 and of its expenditure and income for the year then ended; and• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
Other information published alongside the audited financial statements	<p>Our report issued on 31 July 2018 included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.</p>
Value for Money conclusion	<p>Our report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.</p>
Reporting to the group auditor	<p>We reported to the group auditor in line with the requirements applicable to the Authority's WGA return.</p>
Statutory reporting	<p>Our report confirmed that we did not use our powers under section 24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.</p> <p>The report also confirmed that we did not exercise any other special powers of the auditor under sections 28, 29 or 31 of the 2014 Act.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

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 Authority and whether they give a true and fair view of the Authority's financial position as at 31 March 2018 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 (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the 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 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 for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality is based on 1.75% of gross revenue expenditure.	£5m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£150k

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the 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.

Identified significant risk	Our response	Our findings and conclusions
<p>Management override of controls In all entities, management at various levels within an organisation 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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.</p>	<p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> • accounting estimates impacting on amounts included in the financial statements; • consideration of identified significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements. 	<p>Our audit work provided the assurance we sought and did not highlight any indication of management override of controls.</p>
<p>Revenue recognition – fees and charges 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. ISA 240 allows the presumption to be rebutted but, given the Authority's range of revenue sources, we concluded that there are insufficient grounds for rebuttal in 2017/18. We identified income from fees and charges as the key areas of audit testing. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.</p>	<p>We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition we undertook a range of substantive procedures including:</p> <ul style="list-style-type: none"> • testing receipts in March, April and May 2018 to ensure they were recognised in the right year; • testing material year end receivables; • testing adjustment journals; and • obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger. 	<p>Our audit work provided the assurance we sought and did not identify any indication of revenue being recognised in the wrong year.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p>Property, plant and equipment (PPE) valuation</p> <p>The financial statements contain material entries on the Balance Sheet as well as material disclosure notes. The Authority employs an external valuation expert, Lambert Smith and Hampton, to provide information on valuations. As with many other bodies, there remains a high degree of estimation uncertainty associated with the valuation of PPE due to the significant judgements and number of variables involved in providing valuations. We therefore identified the valuation of PPE to be an area of audit risk.</p>	<p>We evaluated the design and implementation of controls to mitigate the risk. We reviewed the scope and terms of the engagement with the Authority's valuer and how management used the valuers report to value land and buildings in the financial statements. We also</p> <ul style="list-style-type: none"> assessed the competence, skills and experience of the Authority's valuer; considered regional valuation trends (provided by our valuation expert) to assess the reasonableness of the movement in valuations; and where necessary performed further audit procedures on individual assets to ensure that the basis and level of valuation is appropriate. 	<p>There were no significant findings arising from our work on the valuation of PPE.</p>
<p>Defined benefit liability valuation</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 NAO. 	<p>Our audit work provided the assurance we sought and did not identify any indication of material estimation error in respect of the defined benefit liability valuation.</p>

2. AUDIT OF THE FINANCIAL STATEMENTS

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.

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	None
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	Two
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	One

Deficiencies in internal control – Level 2

Description of deficiency	IT user access testing for leavers identified that for a sample of 14 leavers, 1 had not had system access terminated on departure. Testing was extended to cover all leavers in year. Of the additional sample of 55, 1 had not had system access terminated. Additional procedures were also carried out to check the last log on date. All accounts had not been accessed since the employee had left.
Potential effects	Leavers are not deactivated in a timely manner, meaning that inappropriate access to business critical systems would be possible.
Recommendation	In order to avoid unauthorised access to the Authority's network and programs, the Authority should ensure that formal access disabling requests are issued for all leavers before their leaving date.
Management response	A revised leavers procedure for the ICT service desk will be in place by 20 July 2018. This will confirm the requirements for leaving dates to be notified to the ICT Service Desk to ensure that from the following day the leaver will not have access to the system or their data. A revised ICT security policy is being drafted. It will include specific reference to leavers and the revised policy will be in place by 31 October 2018.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations (continued)

Deficiencies in internal control – Level 2

Description of deficiency	The Authority's Information and Communications Technology (ICT) Accounts and Password Policy requires administrative privileges to be set up and assigned via an administration account. Administrative privileges are currently set up and assigned on users main accounts.
Potential effects	Appropriate segregation of duties may not be maintained when making administrative changes to systems. There is a risk that administrative privileges are not subject to adequate control.
Recommendation	The Authority should ensure ICT policies in relation to administrative accounts and privileges are adhered to.
Management response	Accepted. This will be completed no later than May 2019 as part of the Corporate Technology Programme through the Active Directory redesign workstream.

Deficiencies in internal control – Level 3

Description of deficiency	There are opportunities to improve the Authority's ICT Change Management procedure to ensure that it provides more comprehensive guidance to users.
Potential effects	Users may not follow best practice in relation to change management.
Recommendation	The Change Management procedure should be reviewed and updated to ensure that it includes comprehensive guidance with regards to change management procedures.
Management response	ICT Services have had a Change Management process for the last three years. The process is being updated, re-communicated to all staff and will be implemented next week. Test environments are in place for six key systems (five of which are business critical). Although other systems do not have a test environment, the Change Management process means that roll back plans are submitted and approval by a manager is needed before changes are implemented. The balance of risk is considered low for systems without a test environment. Every test environment incurs licence costs and staff time to keep it updated.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion

Unqualified

Our audit approach

We are required to consider whether the Authority has 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 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;
- working with partners and other third parties.

Our auditor's report, issued to the Authority on 31 July 2018, stated that, in all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 has continued 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. Clear and measurable targets and outcomes for key priorities have been identified and included in the Corporate Plan with key performance targets being measured regularly. 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> <p>Over the last year, Leeds City Region Enterprise Partnership (LEP) panels (with their public and private sector representation) have been integrated within the Authority's decision-making structure as advisory committees, 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>The Authority continues to develop and refine its project management framework to ensure that there is greater accountability and improved governance with regard to the management and delivery of projects.</p> <p>The system of internal control is subject to Internal Audit and for 2017/18, the Authority's internal auditors, provided an overall opinion of reasonable assurance.</p>	Yes

(continued overleaf)



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Informed decision making (continued)	A Governance and Audit Committee is in place to oversee the governance framework including the work of internal audit and approval of the Authority's financial statements. In accordance with changes in legislation and to strengthen arrangements an independent member was appointed to the Committee during 2017/18.	Yes
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 2017/18 £1.6 million better than originally planned. This reflects additional operational savings mainly attributable to the managed staff vacancy and recruitment position in the second half of the year.</p> <p>A balanced budget has been set for 2018/19 with the use of £1.4m of reserves consistent with the three year Medium Term Financial Strategy covering the years 2018/19 to 2020/21.</p> <p>The Combined Authority has also recognised the significant financial challenge facing the districts and has agreed to ongoing 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 plays an important and active role in providing the vehicle for closer partnership working between the local authorities of West Yorkshire and York and the LEP in order to ensure improved economic outcomes for local people. It focuses on the areas that make the most sense to deliver at the city region level.</p> <p>The Authority has clearly defined its ambitions to work with its partners across the region to effect economic growth in the Leeds City Region and these ambitions are set out in the Strategic Economic Plan (SEP). The SEP is kept under review to ensure it continues to align with the region's needs and recognises relationships with new and emerging strategies such as the Industrial Strategy for example. The SEP provides 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 works with 'Transport for the North' on a range of transport related matters. It responds to and leads on transport consultations for the region for example with stakeholders through the District Consultation Sub-Committees and Operator Groups. Consultation events have taken place during the year on the Strategic Economic Plan, the Single Transport Plan, major schemes and the bus area network reviews which have successfully sought to contain costs but retain accessibility for bus users. In addition the Authority is building in youth engagement as it develops its bus and transport strategy.</p> <p>Up to date procurement arrangements are in place to secure cost effective purchasing.</p>	Yes

3. VALUE FOR MONEY CONCLUSION

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our 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 Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk. The work we carried out in relation to this risk is outlined below.

Risk	Work undertaken	Conclusion
<p>Sustainable resource deployment</p> <p>Our audit work in previous years has concluded that the Authority has appropriate arrangements in place for Medium Term Financial Planning. The Authority continues to face financial pressures including a reduction in the transport levy by £1m for 2017/18 and by £2m for 2018/19 to 2019/20. A reduction of £1m equates to a circa 2% saving requirement in discretionary expenditure. The Authority has recently updated its medium term financial strategy (MTFS).</p> <p>We needed to ensure our knowledge of the Authority's MTFS arrangements and its monitoring of the planned delivery of a balanced budget and related savings, remains up to date in order to ensure we give the correct conclusion.</p>	<p>Building on our work in previous years, our work included reviewing:</p> <ul style="list-style-type: none"> the Authority's updated 2018 MTFS to ensure it reflects the latest income projections and funding position from the transport levy; and the arrangements the Authority has in place to monitor progress in delivering a balanced budget and related savings plans. 	<p>The Authority has revised its MTFS for 2018/19 to 2020/21 to provide a longer term view of the financial challenges it faces. This is based on appropriate income, funding, pay and non-pay assumptions and recognises the risks associated with these assumptions.</p> <p>A balanced budget has been set for 2018/19 with the use of £1.4m of reserves consistent with the three year MTFS.</p> <p>The MTFS and balanced budget for 2018/19 have been subject to appropriate scrutiny and challenge via established governance and reporting arrangements within the Combined Authority.</p> <p>Arrangements for monitoring progress in delivering a balanced budget and related savings plans have been enhanced in year. Including for example the extension of regular and routine financial reporting to the Overview and Scrutiny Committee (since May 2017), to the Combined Authority (from December 2017) and to senior management team meetings.</p> <p>It is noted that the Authority has a good track record of achieving its financial plans and the required savings. For 2016/17 and 2017/18 the Authority secured the planned savings plus additional savings of £1.4m and £1.6m respectively.</p> <p>There are no matters which give rise to reporting issues for 2017/18.</p>

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Completion of group audit reporting requirements	Below testing threshold
Other information published alongside the audited financial statements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the 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 powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 31 July 2018.

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 Authority. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Governance and Audit Committee in February 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£33,720	£33,720

Fees for other work

We confirm that we have not undertaken any non-audit services for the Authority in the year.

6. FORWARD LOOK

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 2018/19 includes funding from government and other agencies for business and skills activities although much of the funding is non-recurrent and there is no certainty that further funds will be secured for 2019/20 and beyond. Overall the Combined Authority faces a funding gap of £1.2 million as it develops its budget for 2019/20 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

An important focus of the Combined Authority's work over the next year and beyond will be to ensure it prioritises the right issues to enable the region to meet the opportunities and challenges of the coming years head-on. This includes:

- boosting business productivity, innovation and growth, creating thousands more skilled jobs;
- being a leader in promoting inclusive economic growth that benefits everyone;
- delivering 21st Century transport through major transport schemes such as HS2, Northern Powerhouse Rail and improvements to the Trans-Pennine and East Coast main lines benefiting all parts of the region;
- continuing to support local politicians' efforts to secure a devolution deal that enables the region to continue to invest in those issues that make peoples lives better;
- continuing to deliver the £1bn growth deal and £1bn Transport Fund, ensuring the right projects are delivered on time and on budget; and
- continuing to modernise the organisation, ensuring it is in the best possible place to respond to the opportunity of devolution and save money through innovative new approaches to delivering services.

Next year's audit and how we will work with the Authority

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to support the Authority by:

- continued liaison with the Authority's Internal Auditors to minimise duplication of work;
- attending Governance and Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet with the Authority to identify any learning from the 2017/18 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Authority has taken a positive and constructive approach to our audit and we wish to thank the Combined Authority, Governance and Audit Committee, and Authority staff for their support and co-operation during our audit in the past year.

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

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Report to: Governance and Audit Committee

Date: 1 November 2018

Subject: **Delivery of Internal Audit Function**

Director(s): Angela Taylor, Director, Resources

Author(s): Russell Gott

1. Purpose of this report

- 1.1 To provide the Combined Authority with an update of the progress made in implementing the preferred option for the provision of Internal Audit services.

2. Information

- 2.1 A report was provided to the July 2018 meeting of the Committee which included information relating to the outcome of a market testing exercise conducted for the provision of internal audit. This report also identified a preferred model for the delivery of the service and subsequent requirements for the development of the internal team structure. The Committee requested that work be progressed on the preferred model and a report on the final structure be brought to the next meeting, subject to the processes and requirements of the Combined Authority's organisational development programme.
- 2.2 Since this meeting a business case has been completed and role profiles developed for posts within the new structure. There is still a requirement for these role profiles to be evaluated by a grading panel and this is scheduled for November 2018. Once this is complete, a report will be provided to the Combined Authority's Leadership Team Board requesting the implementation of the new structure and commencement of the management of change process.
- 2.3 A fully costed structure will be provided to the January 2019 meeting of this committee for final consideration and approval. At this stage it is envisaged that the structure will consist of the Head of Internal Audit, a principal auditor, two auditors and an allowance for buying in specialist advice.
- 2.4 It is anticipated that the new delivery model will be operational before the commencement of the 2019/20 Audit Plan.

3. Financial Implications

- 3.1 There are no financial implications directly arising from this report. The costs of the revised structure will be identified following the evaluation of the posts and will be factored into the 2019/20 budget.

4. Legal Implications

- 4.1 There are no legal implications directly arising from this report.

5. Staffing Implications

- 5.1 The revised structure will be implemented following the management of change procedure. Consultation will take place with the recognised trade unions and staff affected.

6. External Consultees

- 6.1 No external consultations have been undertaken.

7. Recommendations

- 7.1 That this report be noted.

8. Background Documents

- 8.1 None.

9. Appendices

- 9.1 None

Report to: Governance and Audit Committee

Date: 1 November 2018

Subject: Scope of independent review of internal audit compliance

Director(s): Angela Taylor, Director, Resources.

Author(s): Russell Gott

1. Purpose of this report

1.1 To set out the terms of reference for the external review of Internal Audit.

2. Information

Terms of Reference

2.1 The external review of the Internal Audit function once every five years is a requirement of the Public Sector Internal Audit Standards (PSIAS) which are mandatory for the Internal Audit function within West Yorkshire Combined Authority. The review focuses heavily on compliance with these standards and as such the format is largely prescribed.

2.2 The review will be based on the completion of a self-assessment checklist by the Internal Audit Manager in advance of the external quality assessment, EQA. Details of the expected works to be undertaken at each phase of the EQA are:

Pre-Assessment phase

2.3 Obtain background information to gain an understanding of the function. This will include a review of the Internal Audit Charter including references to independence, scope, authority, purpose and the relationship with the Governance and Audit Committee and senior management.

2.4 Gather details of responsibilities, resources, structure and activity.

2.5 Obtain evidence to support the completed self-assessment.

2.6 Consider evidence to support how quality is maintained and how performance is measured and reported.

Assessment phase

- 2.7 Validation and review of documentation to support the completed self-assessment and compliance with standards.
- 2.8 Examination of a sample of audit engagements to consider the extent of compliance with PSIAS and operational procedures.
- 2.9 Undertake interviews with key stakeholders to assess current performance and identify possible areas for improvement.

Post assessment phase

- 2.10 The EQA will conclude with a report providing an assessment of conformance to the Standards highlighting any non or partial conformances and recommendations for development.
- 2.11 The reporting phase will include:
 - Close out meeting with the Internal Audit Manager to discuss initial findings and refine proposals.
 - Discussion of the draft report with key contacts.
 - Issue of final report and agreed actions.

3. Financial Implications

- 3.1 Quotes have been sought for this work in accordance with contract standing orders. The expected cost of this work is £4k and is included in current budgets.

4. Legal Implications

- 4.1 There are no legal implications directly arising from this report.

5. Staffing Implications

- 5.1 There are no staffing implications directly arising from this report.

6. External Consultees

- 6.1 No external consultations have been undertaken.

7. Recommendations

- 7.1 That the Committee approve the terms of reference for the external review of Internal Audit.

8. Background Documents

None.

9. Appendices

None

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Report to: Governance and Audit Committee

Date: 1 November 2018

Subject: **Internal Audit Assurance Opinions and Recommendation Ratings**

Director(s): Angela Taylor, Director, Resources.

Author(s): Russell Gott

1. Purpose of this report

- 1.1 To present proposals for the introduction of new assurance opinion and recommendation ratings for Internal Audit reports.

2. Information

- 2.1 Public Sector Internal Audit Standards require Chief Audit Executives to deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. In determining the annual opinion, the assurance opinions produced for each audit assignment are considered.
- 2.2 The assurance opinions applied to each audit are based on the auditor's view of the effectiveness of the control framework in place to mitigate risks.
- 2.3 The current assurance opinions used by the Internal Audit team have been used for several years and require a refresh. The existing opinions are control focused whereas the revised opinions consider the level of assurance which can be provided.
- 2.4 The revised audit opinions proposed are attached at **Appendix 1**. This is supported by guidance to auditors to determine which category should be applied based on the level and number of recommendations made.
- 2.5 The level or priority of individual recommendations made has been developed based on the existing three - high, medium and low, to provide more guidance and to reflect their organisational significance. This is provided in **Appendix 2**.
- 2.6 If the revised opinion categories and supporting guidance are approved, it is proposed that they will be introduced to audit reports completed in the remainder of 2018/19. Reporting of audits which result in a limited or minimal opinion will

continue to be provided to the Governance and Audit Committee on a quarterly basis.

3. Financial Implications

3.1 There are no financial implications directly arising from this report.

4. Legal Implications

4.1 There are no legal implications directly arising from this report.

5. Staffing Implications

5.1 There are no staffing implications directly arising from this report.

6. External Consultees

6.1 No external consultations have been undertaken.

7. Recommendations

7.1 That the Committee approve the proposals to develop the audit opinion categories, priority ratings and supporting guidance.

8. Background Documents

None.

9. Appendices

Appendix 1 - Opinion categories

Appendix 2 - Priority ratings

Assurance Opinions

August 2018

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Assurance Opinions

Rating	Definition	Guidance
Substantial	<p>There is a sound framework of control in place and the controls are being consistently applied to ensure risks are managed effectively.</p> <p>Some minor action may be required to improve controls.</p>	No more than 3 low priority recommendations.
Reasonable	<p>There is a good framework of control in place and the majority of controls are being consistently applied to ensure risks are effectively managed.</p> <p>Some action may be required to improve controls.</p>	No more than 3 medium priority recommendations with some low priority recommendations.
Limited	<p>There is an adequate framework of control in place but the controls are not being consistently applied to ensure the risks are managed effectively.</p> <p>Action is required to improve controls.</p>	No more than 2 high priority recommendations with some medium priority recommendations.
Minimal	<p>There is a weak framework of control in place and/or the controls are not being consistently applied to ensure the risks are managed effectively.</p> <p>Urgent action is required to improve controls.</p>	3 or more high priority recommendations with some medium .

**Whilst guidance has been provided for each rating, professional judgement of the Auditor should be used when determining ratings.*

Recommendation Ratings

August 2018

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Recommendation Ratings

Rating	Definition
High	Action that is considered essential to ensure that the organisation is not exposed to unacceptably high level of risk. If not addressed there will be a major adverse impact on achievement of organisational objectives.
Medium	Action that is considered necessary to avoid exposing the organisation to significant risk. If not addressed there will be significant impact on achievement of organisational objectives.
Low	Action that is required to enhance control. If not addressed it may impact on the ability of a system or unit to achieve its objectives.

**Whilst guidance has been provided for each rating, professional judgement of the Auditor should be used when determining ratings.*

Report to: Governance and Audit Committee

Date: 1 November 2018

Subject: **Internal Audit Progress Report**

Director(s): Angela Taylor, Director, Resources

Author(s): Russell Gott

1 Purpose of this report

- 1.1 To inform the Combined Authority of the work undertaken by the Internal Audit section.

2 Information

- 2.1 In accordance with the Accounts & Audit (England) Regulations 2015, the Combined Authority 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 2018 to 31 October 2018 and provides progress in delivering the 2018/19 audit plan, including the audit opinion on reviews completed, summary of any significant issues identified and the status of any high priority audit recommendations which have not been implemented within the agreed timescales.
- 2.3 A summary of the work undertaken by Internal Audit is provided at **Appendix 1**, whilst details of outstanding audit recommendations are attached at **Appendix 2**.

3 Financial Implications

- 3.1 There are no financial implications directly arising from this report.

4 Legal Implications

- 4.1 There are no legal implications directly arising from this report.

5 Staffing Implications

- 5.1 The performance of some elements of the audit plan require the buying-in of audit specialisms.

6 External Consultees

- 6.1 No external consultations have been undertaken.

7 Recommendations

- 7.1 That this report be noted.

8 Background Documents

None.

9 Appendices

Appendix 1 - Internal Audit progress summary

Appendix 2 – Outstanding Audit recommendations

Appendix 1

Internal Audit Progress Summary - November 2018

Key Message Points

There were weaknesses identified in the internal control environment in respect of the operation of preventative controls with regard to the processing of Skills Capital Grant payments. Two issues were identified as high priority. Management actions have been agreed and are in progress to address these weaknesses.

No significant control weaknesses identified within the remainder of the internal audit reports issued in the period.

It should also be noted that there is a large amount of work currently in progress. The majority of these reviews are completed to draft report stage or nearing the culmination of audit testing.

Summary of Completed Reviews (April 2018 – November 2018)

Review	Risk/Category	Opinion	Direction of Travel
• Gifts & Hospitality	Compliance	Reasonable	Declining
• Transparency Code	Compliance	Reasonable	Unchanged
• Metro Travel Centre Operations	Operational	Reasonable	Unchanged
• Annual Governance Statement	Governance	Reasonable	Unchanged
• FOI Processing	Information	Substantial	First Review
• Skills Capital	Delivery	Limited	Unchanged
• Access Innovation Fund	Certification	Substantial	Unchanged
• Growth Deal Fund	Certification	Substantial	Unchanged
• Growth Hub Grant	Certification	Substantial	Unchanged
• Resource Efficiency Fund	Certification	Substantial	Unchanged
• Local Transport Fund	Certification	Substantial	Unchanged
• INTERREG SHARE NORTH	Certification	Substantial	Unchanged
• L-CREATE, ERDF & ESIF	Certification	Substantial	Unchanged
• Strategic Business Growth Fund	Certification	Substantial	Unchanged

Work in Progress

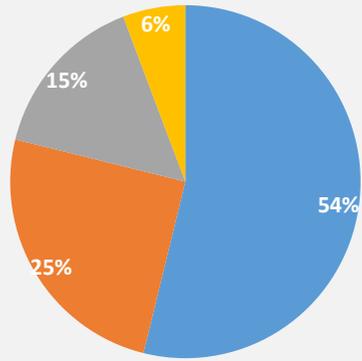
- Treasury Management
- GDPR Compliance
- Payroll
- Feasibility & Assurance Function
- Engagement of Consultants
- Tendered Subsidised Bus Services
- Local Transport Fund Programme Management
- CDM Compliance
- Business Contingency (Follow up)
- ICT Network Access (Follow up)
- Flood Resilience Fund

Performance

Allocated Audit Days (April 2018 – March 2019)	465
Actual Audit Days Applied	126
Forecast Resource Requirement (November 2018 – March 2019)	339
Resource Available Internal	297
Buy-in	<u>25</u> 322
Projected Variance	17

AUDIT PLAN 2018/19

■ Remaining Identified ■ Issued ■ Work in Progress ■ Draft



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Appendix 2

Overdue High Priority Audit Recommendations



Code & Title	Description	Assigned To	Due Date	Progress	Latest Note
AR 1039 Risk Management - Embedding Risk – Guidance 43	Risk Management Systems require several levels of understanding. A policy statement alone will not be sufficient to ensure that they are embedded within organisations. Across the Combined Authority Risk Appetites and indicators will vary and risk treatments will differ: Several different approaches will be required to ensure the maximum level of understanding by all. Priority: High	Corporate Planning & Performance Manager	31-Aug-2018	90%	Guidance in development and escalation and reporting arrangements to be agreed by the new Regulatory and Compliance Board when it meets in November
AR 1042 Risk Management - Risk Strategy Escalations	Consideration should be given to reporting and escalation arrangements and thresholds. Priority: High	Corporate Planning & Performance Manager	31-May-2018	95%	Further work undertaken to map out escalation arrangements in advance of first Regulatory and Compliance Board in November
AR 1044 Risk Management - Register System Development.	To maintain a consistent and effective Risk Management System will require the consistent use of a common Risk Register Template and its maintenance on a system in a way that is easily accessible and allows the production of management and monitoring reports for a variety of stakeholder groups. It would also be desirable if they were retained in a way that would allow future development of the Risk Management system. Developmental effort is required to consider what will be required of the system that replaces Covalent. Every effort must be made to ensure that it is easy to operate, works well and provides all the information required by its various stakeholders. Priority: High	Corporate Planning & Performance Manager	31-May-2018	90%	Work ongoing on the possible replacement of pentana - Power BI dashboards being considered as an alternative and example reports in development.

Code & Title	Description	Assigned To	Due Date	Progress	Latest Note
AR 1045 Risk Management - Additional Guidance	<p>All components of Risk Management should be included within guidance documentation. The areas in which help may be required is the identification of risks and their treatment. The building of a risk aware culture will require a broad range of understanding both of the meanings of risk and its treatment. As well as written guidance a programme of education will help to introduce and develop risk management within the Authority. Perhaps the Risk Management Strategy could become a policy document augmented by additional guidance.</p> <p>Priority: High</p>	Corporate Planning & Performance Manager	31-May-2018	90%	Formal guidance on risk management, reporting, escalation arrangements being prepared and to be considered by new Regulatory and Compliance Board before roll out
M/SD/P29/AR226 ICT - Written Procedures	<p>It is recommended that written procedures should be developed for business critical systems to comply with ISO27001001 guidelines. That these procedures include all application projects being developed and 'live system applications.</p> <p>Priority: High</p>	Head of ICT	30-Dec-2017	30%	Written procedures will be fully updated as part of the delivery of the Corporate Technology Programme.

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Report to: Governance and Audit Committee

Date: 1 November 2018

Subject: **Internal Controls and Financial Monitoring**

Director(s): Angela Taylor, Director, Resources

Author(s): Jonathan Sheard

1. Purpose of this report

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

2. Information

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

Internal controls

- 2.2 There have been no significant changes to internal controls in the period and monthly reconciliations are up to date.
- 2.3 Further to the information provided to the Combined Authority meeting of 2 August progress has been made in enhancing the internal governance arrangements in place for risk management and compliance with decision making. This is in line with the proposals outlined at the last Committee meeting which showed a new Regulatory and Compliance Board at officer level that will start to meet later in November and which will provide information as required to this Committee and the Combined Authority.
- 2.4 Changes are planned to the governance arrangements in place for the LEP following the publication of 'Strengthening Local Enterprise Partnerships' by the Ministry of Housing, Communities and Local Government in July. A paper to the LEP Board on 22 November will set out the changes required to the current LEP by April 2019 with regard to the appointment process for the

Chair and Deputy Chair and changes needed for 2020 to the LEP Board representation and its constitution.

- 2.5 Regular governance meetings continue to be held with Leeds City Council to consider and review the transactions relating to investments and treasury management being carried out jointly with Leeds City Council. At the most recent meeting in August the high level of cash balances was considered and the challenges this presents with regard to placing funds with approved counterparties. The need to make changes to the treasury management arrangements in place was also discussed and full proposals on this will be brought to the next meeting of this Committee. The changes arise as a result of the revised CIPFA Code of Practice on Treasury Management and subsequent guidance issued by MHCLG which require the new Code to be implemented for the 2019/20 financial year.

Key indicators

- 2.6 The Committee has requested regular information via key indicators, specifically with regard to accidents reportable to the Health and Safety Executive and with regard to key controls.
- 2.7 There have been no further reportable (RIDDOR) accidents reported since the previous meeting, leaving the total for the year at two.
- 2.8 Key indicators are monitored in relation to the suite of financial controls undertaken monthly in both the finance and the concessions and integrated ticketing team. These are both up to date as at the time of writing this report.

Financial monitoring – revenue budgets

- 2.9 A summary of the 2018/19 current spend to budget as at August 2018 is attached at **Appendix 1**. A RAG rating has been included to identify budgets that need further review. There are no 'red' areas of concern to report.
- 2.10 The approved annual budget included a £1.4m deficit to be funded from general reserves. Latest draft forecasts suggest that actual expenditure is being managed within this figure and the use of general reserves is forecast to be reduced to £1.2 million, with the increased saving arising as a result of temporary staffing savings. The variances are still being reviewed as part of the work to establish an updated forecast for the year and 2019/20 draft budget.
- 2.11 Progress on capital budgets is being monitored through the Investment Committee which receives regular reports on expenditure forecasts and information on this is available via the papers on the website.

Risk management

- 2.12 An update on risk management arrangements, including progress with the implementation of GDPR is covered under agenda item 12.

3. Financial Implications

3.1 As set out in the report.

4. Legal Implications

4.1 There are no legal implications directly arising from this report.

5. Staffing Implications

5.1 There are no staffing implications directly arising from this report.

6. External Consultees

6.1 No external consultations have been undertaken.

7. Recommendations

7.1 That the Committee note the information contained in this report.

8. Background Documents

None.

9. Appendices

Appendix 1 - West Yorkshire Combined Authority - Summary 2018/19 as at 31 August 2018

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Report to: Governance and Audit Committee

Date: 1 November 2018

Subject: **Risk Management Update**

Director(s): Angela Taylor, Director, Resources

Author(s): Louise Porter

1 Purpose of this report

- 1.1 To provide an update on corporate risk management issues and a progress update on actions related to data protection.

2 Information

- 2.1 Following endorsement of the Corporate Risk Management Strategy at the July meeting of the Governance and Audit Committee, work has continued on the implementation of measures to further embed risk monitoring and reporting arrangements across the organisation.

Corporate Risk Register

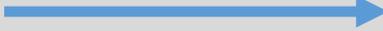
- 2.2 As part of this work each Directorate has undertaken a detailed review of their directorate level risk registers. In light of these updates the corporate risk register for the organisation has also subsequently been updated. A summary of the updated corporate risk register is attached at **Appendix 1**. This includes a summary of the actions being taken to manage each risk and any resulting change in the overall evaluation of them.
- 2.3 As a result of the recent review a number of risks have been escalated to the corporate risk register. This includes one new 'very high' rated risk and six new risks assessed as 'high.'
- 2.4 The additional 'very high' risk relates to the possibility of corporate priorities not being met as a result of outdated organisational infrastructure and processes. While the assessment of this risk has resulted in a 'very high' rating being awarded at present, the projects which have been approved and are now underway as part of the transformation programme and the corporate technology programme are specifically designed to address this risk. The rating of 'very high' is therefore mitigated by the delivery of these critical organisational change programmes that are now moving forward at pace.

2.5 Six additional ‘high’ risks have been added to the corporate risk register. These include items relating to third party suppliers being unable to deliver against contracts, failure to secure sufficient revenue funding to deliver key services and risks associated with changing external conditions which are outside of the control of the Combined Authority.

Risk Appetite Statement

2.6 As a result of the directorate level risk reviews, feedback has also recently been received on the current Risk Appetite Statement resulting in a proposal that the level of financial risk appetite be reduced. This is not related to any specific change in financial circumstances, but instead reflects feedback that the previous assessment of financial risk appetite was on reflection not considered to fully reflect the current position.

2.7 It is therefore proposed to update the Risk Appetite Statement to show the level of financial risk appetite moving from level 3 down to level 2. This would result in the updated Risk Appetite Statement being presented as follows:

Current Risk Appetite:	<i>Low Risk Appetite</i>  <i>High Risk Appetite</i>				
	1	2	3	4	5
Compliance and Regulation					
Operational/Service Delivery					
Financial					
Reputational/Marketing/PR					
Strategic Transformational Change					
Development and Regeneration					
People and Culture					

2.8 The Governance and Audit Committee is requested to provide feedback on this proposed change and also more generally on the current assessment of risk appetite across all categories as presented above.

Regulatory and Compliance Board

2.9 As part of the ongoing internal governance review for the Combined Authority it is proposed to establish a new officer led Regulatory and Compliance Board to provide strategic direction on all regulatory and compliance matters.

2.10 It is intended that this Board will be chaired by the Director, Resources and will cover all areas of regulation including:

- Information governance and data protection;
- Health and safety;
- Internal and external audit; and

- Financial and other key controls
- 2.11 This Board will undertake a vital role in ensuring corporate oversight of all risks relating to regulatory and compliance issues and will be responsible for ensuring that appropriate mitigation measures are in place and that risks are escalated appropriately.
- 2.12 The Regulatory and Compliance Board will also become the formal Board for the escalation of issues relating to data protection/GDPR.

GDPR

- 2.13 The report provided to Governance and Audit Committee on 29 March 2018 gave an update on the work already taken by officers in preparation for GDPR and a subsequent report was provided to the meeting of the Combined Authority on 10 May.
- 2.14 Significant progress has since been made implementing and embedding GDPR throughout the organisation. Key actions taken include:
- The roll out of GDPR e-learning for all staff;
 - Procurement of advanced GDPR training for Information Asset Owners;
 - Approval of a new Data Protection Policy;
 - The provision of 1 minute topic specific guidance documents for staff;
 - The provision of guidance for Members;
 - The creation of a new Information Asset Register and guidance to staff on updating the Register;
 - The drafting of new corporate and project specific privacy notices;
 - The creation of a Data Protection Impact Assessment Procedure and Toolkit;
 - Monitoring and reporting of data breaches via the new Data and Systems Security Incident Policy and Procedure;
 - The variation of all contracts to include GDPR compliant terms and conditions;
 - The destruction of all records beyond retention period previously held in the Halifax record store;
 - The transfer to the West Yorkshire Archives of all records of historical value;
 - The appointment of a Specialist Records Management Officer;
 - The arrangement of a cyber security audit by the Combined Authority's insurers;
 - The creation of an Information Governance Risk Register to feed into the Corporate Risk Register.
- 2.15 The ICT risks identified in the previous report are being addressed initially by way of a free cyber security audit being carried by the Combined Authority's insurers alongside an internal compliance review of the Combined Authority's business applications. Over the coming year the Corporate Technology Programme will address the redesign of network folders, introduce improved data management and information rights management infrastructure, and implement new and refreshed corporate systems. This will address many of

the challenges facing the Combined Authority in the use of current data storage methods.

- 2.16 The records management risks identified in the previous report are being addressed through the appointment of a specialist Records Management Officer whose role from 7 November will be to implement a records management strategy across the organisation.
- 2.17 It is also proposed that the Combined Authority's compliance with GDPR will be monitored via a programme of internal audit over the next 7 months.

3 Financial Implications

- 3.1 There are no financial implications arising from this report.

4 Legal Implications

- 4.1 There are no legal implications arising from this report.

5 Staffing Implications

- 5.1 There are no staffing implications arising from this report.

6 External Consultees

- 6.1 No external consultations have been undertaken.

7 Recommendations

- 7.1 That members of the Governance and Audit Committee note the update provided in this report and provide feedback on the Corporate Risk Register at **Appendix 1** and the Risk Appetite Statement as presented at 2.7.

8 Background Documents

None.

9 Appendices

Appendix 1 – Corporate Risk Register

APPENDIX 1: CORPORATE RISK REGISTER SUMMARY

Current 'Very High' risks before mitigation:		Current Risk Assessment		Mitigation summary	Residual Risk Assessment		
		Probability	Impact		Probability	Impact	RAG
Very High x4	Failure to secure enhanced funding and devolved powers	Possible	Highly significant	Devolution discussions continuing	Possible	Highly significant	Very High
	Failure to deliver Growth Deal/other capital funding programmes within timescales/ costs	Possible	Highly significant	Significant controls in place through PMO	Possible	Highly significant	Very High
	Failure to have in place the capacity, skills and resource needed to deliver increased workload	Probable	Major disruption	New one organisation structures largely implemented	Unlikely	Major disruption	High
	Failure to have the supporting infrastructure and processes in place to deliver against corporate priorities	Probable	Major disruption	Transformation programme & corporate technology programme in place to address this	Unlikely	Major disruption	High

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Current 'High' risks before mitigation:		Current Risk Assessment		Mitigation summary	Residual Risk Assessment		
		Probability	Impact		Probability	Impact	RAG
High x14	Failure to deliver CA objectives and outcomes to demonstrate that CA/LEP is making a difference	Possible	Highly significant	Continuing to embed remaining elements of change programme	Unlikely	Highly significant	High
	Failure to secure continued funding for key services (e.g. economic services, skills capital)	Possible	Major disruption	Ongoing review of funding opportunities/bids	Possible	Major disruption	High
	Failure to deliver appropriate working arrangements with District partners	Possible	Major disruption	Continuing to strengthen key partnerships	Rare	Major disruption	High
	Risk of legal proceedings/financial penalty of not being compliant with GDPR	Possible	Major Disruption	Information asset register/data policies continually reviewed	Unlikely	Major disruption	High
	Risk that national terrorism threat level is raised to 'imminent' resulting in the need for unanticipated operational changes/costs	Possible	Major Disruption	Continued review of national trends and potential mitigation measures	Possible	Major Disruption	High
	Insufficient national & local investment in the inclusive industrial strategy to make the transformational change needed	Possible	Moderate	Ongoing dialogue with Government	Unlikely	Moderate	Medium
	Risk of legal challenge as a result of not being compliant with regard to HR, Financial, procurement and Governance Legislation	Possible	Moderate	Policies/procedures in place and subject to ongoing review	Unlikely	Moderate	Medium

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Current 'High' risks before mitigation:		Current Risk Assessment		Mitigation summary	Residual Risk Assessment		
		Probability	Impact		Probability	Impact	RAG
56	Failure to properly communicate the purpose of the organisation to stakeholders	Possible	Moderate	Continuing brand/Identity work led by communications team	Unlikely	Moderate	Medium
	Failure to secure sufficient revenue funding to run current services	Possible	Moderate	Annual budget development in progress	Unlikely	Moderate	Medium
	Financial failure of a major contractor/supplier to the CA or a recipient of funding from the CA	Possible	Moderate	Contract management processes and regular financial checks in place	Unlikely	Moderate	Medium
	Failure of 3 rd part contractor to deliver within timescales/within expected level of benefits for CA funded projects	Possible	Moderate	Contractual KPI's and robust escalation route in place	Unlikely	Moderate	Medium
	Risk of significant bus service disruption if bus companies do not make adjustments in time for introduction of Leeds clean air zone	Possible	Moderate	Continuing dialogue with operators and LCC to understand impacts	Unlikely	Moderate	Medium
	Major unanticipated change in national policy resulting in operation of the organisation/organisational objectives	Unlikely	Highly significant	Ongoing dialogue with Government. Monitoring of national policy trends	Rare	Highly significant	High
	Risk of Major incident at CA facility, accident /injury to vulnerable person(s)	Unlikely	Highly significant	Policies/procedures/training in place and continually reviewed	Rare	Highly significant	High

Risk Assessment Criteria

Impact	Highly Sig.	High	High	Very High	Very High	Very High
	Major	High	High	High	Very High	Very High
	Moderate	Medium	Medium	High	High	High
	Minor	Low	Low	Medium	Medium	Medium
	Insignificant	Low	Low	Low	Low	Low
		Rare	Unlikely	Possible	Probable	Almost certain
		Probability				