

GOVERNANCE AND AUDIT COMMITTEE

**MEETING TO BE HELD AT 11.00 AM ON THURSDAY, 31 OCTOBER
2019 IN COMMITTEE ROOM B, 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**
- 4. MINUTES OF THE MEETING OF THE GOVERNANCE AND
AUDIT COMMITTEE HELD ON 23 JULY**
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- 5. TREASURY MANAGEMENT**
(Pages 7 - 8)
- 6. INTERNAL AUDIT PROGRESS REPORT**
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- 7. ACTIONS FROM THE EXTERNAL QUALITY ASSESSMENT OF
INTERNAL AUDIT**
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- 9. GDPR COMPLIANCE REPORT**
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Signed:



**Managing Director
West Yorkshire Combined Authority**



**MINUTES OF THE MEETING OF THE
GOVERNANCE AND AUDIT COMMITTEE
HELD ON TUESDAY, 23 JULY 2019 AT COMMITTEE ROOM B,
WELLINGTON HOUSE, 40-50 WELLINGTON STREET, LEEDS**

Present:

Andy Clayton (Chair)	Department for Work and Pensions
Councillor Geraldine Carter (Substitute)	Calderdale Council
Councillor Susan Hinchcliffe	Bradford Council
Councillor Tim Swift MBE	Calderdale Council

In attendance:

Mark Dalton	Mazars Auditors
Julie Winham	Independent Auditor
Angela Taylor	West Yorkshire Combined Authority
Jonathan Sheard	West Yorkshire Combined Authority
Ben Kearns	West Yorkshire Combined Authority

1. Apologies for Absence

Apologies for absence were received from Councillor Pandor and Councillor Hall.

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 which required the exemption of the press and public.

4. Minutes of the Meeting of the Governance and Audit Committee held on 21 March

Resolved: That the minutes of the last Governance and Audit Committee be approved.

5. Governance Arrangements and Forward Plan

Members considered a report which outlined the governance arrangements as well as the amended terms of reference for the Governance and Audit Committee as recently approved by the Combined Authority. A proposed work

plan for the forthcoming year was also included.

The Committee noted that a recruitment process was underway to appoint a second independent member and members were invited to be involved in the recruitment process.

Resolved:

- (i) That the governance arrangements approved by the Combined Authority at the Annual Meeting on 27 June be noted.
- (ii) That the proposed work programme attached at Appendix 2 be considered.

6. External Audit Progress Report

The Committee considered a report which provided an update on external audit matters since the last meeting. The Committee was informed that the PSAA had published the fee scale for the audit of the 2019/20 accounts and that the audit fee for the 2019/20 accounts remained unchanged.

Members discussed the audit fee and noted that it represented good value for money. Mark Dalton from Mazars was in attendance and re-confirmed Mazars commitment to a high quality service.

Resolved: That the outcome of the 2019/20 fee consultation and the fee letter from Mazars be noted.

7. Internal Audit - External Quality Assessment

The Committee considered a report which presented the findings of the internal audit external quality assessment.

The Committee noted the findings of the report which was attached at Appendix 1 of the submitted report. This report concluded that the Combined Authority's internal audit section 'generally conforms with the definition of Internal Auditing, the Code of Ethics and the Public Sector Internal Audit Standards' which was the highest rating that could be provided.

Julie Winham was in attendance and drew members' attention to Appendix B which outlined her findings and the areas of partial or non-compliance.

Members were introduced to Bronwyn Baker, the new Head of Internal Audit, and discussed the future role of internal audit. Members considered the scope for internal audit to move away from cyclical auditing and better align it with the organisations strategic risks / priorities.

Members noted that the report included a number of actions that had been agreed by the previous Internal Audit Manager. It was agreed that the new Head of Internal Audit consider the timings of the recommendations and report back to the next meeting of the Governance and Audit Committee on her plans to implement them.

Resolved: That the report and the proposed actions be noted.

8. Review of Internal Control and Effectiveness of Internal Audit

The Committee considered a report which presented the outcome of the review of the system of internal control and the effectiveness of internal audit.

The Committee noted the conclusion of the review which found that the internal audit function met the required Public Sector Internal Auditing Standards.

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

9. Annual Internal Audit Report and Opinion

The Committee considered a report which presented the annual internal audit report 2018/2019 which was attached at Appendix 1.

Members discussed the Audit plan 2018/19 and identified Tendered Subsidised Bus Services as well as GDPR as possible areas of concern given that they had been awarded a limited audit opinion. The Committee was reassured that the issues which had been raised during the audit process had been addressed. A brief paper setting out the actions taken and any still to be taken with regard to GDPR compliance was requested for the next meeting.

Members discussed concessionary fares and queried how the business satisfied itself with regard to the reliability of the external information on which the budget line was based. Officers suggested that they would bring an item to a future meeting explaining the controls in place in this area.

Members also discussed the way in which the information was presented and questioned whether it could be presented in a clearer, more condensed form, with a sharper focus on the conclusions reached and how the work undertaken in the year addressed the strategic risks.

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

10. Internal Audit Progress Report

The Committee considered a report which informed members of the work undertaken by the internal audit section.

It was noted that the new Head of Internal Audit would take the opportunity to review the current audit plan and consult with members to establish a revised plan over the summer. This would consider how best to use the resource available.

The Committee noted that most of the outstanding audit recommendations made in the 2018/19 year had been implemented while the timescales for any

remaining recommendations would be agreed and reported to the next meeting of the Governance and Audit Committee.

Resolved: That the report be noted.

11. Annual Accounts 2018/19

Members considered a report which presented the 2018/2019 annual accounts for approval. The report also included a treasury management statement for approval at appendix 2.

Members noted the financial position and requested more information on the financial forecasts. In particular members were interested in measuring the accuracy of the financial forecasts compared to the finalised accounts.

Mark Dalton, from Mazars, was in attendance and presented their Annual Completion Report which was attached at Appendix 3. The report outlined the significant audit risks identified at the planning stage and included a management response. Mazars confirmed that the audit work had progressed smoothly and that they were intending to issue an unqualified audit opinion as well as an unqualified value for money conclusion.

Resolved:

- (i) That the Treasury Management statement in Appendix 2 be recommended for approval.
- (ii) That Mazars audit completion report be considered.
- (iii) That the annual accounts for the year ended 31 March 2019 be approved.

12. Compliance and Monitoring

The Committee considered a report which set out any changes to the internal control since the last meeting of the Committee and the current financial position.

Resolved: That the report be noted.

13. Annual Accountability Reporting

The Committee considered a report which provided an update on any complaints or concerns have been raised about the Leeds City Region Local Enterprise Partnership. Members noted that no complaints or concerns had been raised.

The report also updated the Governance and Audit Committee regarding the new Conflict of Interest protocol.

Resolved:

- (i) That the Governance and Audit Committee notes that no complaints or concerns raised this year about the LEP (or any member of the LEP board) under the LEP's complaints procedures, the Combined Authority's complaints policy and the LEP's whistleblowing policy.
- (ii) That the Governance and Audit Committee notes
 - The conflicts of interest protocol and policy attached at Appendices 1 and 2 to this report, and
 - The summary set out in Appendix 3 to this report, relating to grant applications considered under conflict of interest arrangements in place 2018-2019.

14. Committee on Standards in Public Life Publication

Members considered a report from the Committee on Standards in Public Life on local government ethical standards.

The Committee was informed that the Combined Authority was already in line with the majority of recommendations and any minor gaps were set out in appendix 1 to the submitted report which set out the identified best practice and the Combined Authority's position.

Resolved:

- (i) That the Committee considered the report on local government ethical standards issued by the Committee on Standards in Public Life and its recommendations.
- (ii) That the Committee reviewed the Combined Authority's arrangements for promoting ethical standards against the best practice recommendations of the Committee, as set out in appendix 1 to the submitted report, noting
 - The amendments made to date by the Combined Authority and the LEP, and
 - The proposals put forward by the Head of Legal and Governance Services.
- (iii) That no further actions were proposed following the review of the Combined Authority's arrangements for promoting ethical standards generally.

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Report to: Governance and Audit Committee

Date: 31 October 2019

Subject: **Treasury Management**

Director(s): Angela Taylor, Director, Resources

Author(s): Angela Taylor

1 Purpose of this report

- 1.1 To provide members with information on the treasury management arrangements in place for the West Yorkshire Combined Authority.

2 Information

- 2.1 At a previous meeting of this Committee members requested another presentation on the treasury management arrangements in place. The Combined Authority undertakes its treasury arrangements in conjunction with Leeds City Council, with responsibilities set out in a service level agreement.
- 2.2 A presentation will be given at the meeting setting out the treasury management framework, the responsibilities of Governance and Audit Committee members in that regard, and the treasury management strategy in place. Officers from Leeds City Council will be in attendance – Bhupinder Chana, Head of Finance, Technical and David Brown, Senior Treasury Manager.

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 note the presentation and consider what further information it wishes to receive on treasury management.

8 Background Documents

None.

9 Appendices

None.

Report to: Governance and Audit Committee

Date: 31 October 2019

Subject: **Internal Audit Progress Report**

Director(s): Angela Taylor, Director, Corporate Services

Author(s): Bron Baker, Head of Internal Audit

1. Purpose of this report

- 1.1. To update the Committee on Internal Audit work including changes to audit methodology and current status of the organisational design programme underway in the team
- 1.2. To ask members to consider the contents of the report.

2. Information

2.1 Audit Methodology

The internal audit team are adopting the agile audit methodology (a practice based on agile project management). The intent is to work as a team on reviews, make audits more interactive, more responsive to changing risks and to ensure that reporting is shorter, quicker and more focused. This will also impact on the way audits are planned and scheduled with those items posing higher risks moving forward on the plan. It requires better communication between the audit team and the business to ensure that audits move at pace, there are interim progress updates and reports and that any misconceptions/inaccuracies are picked up earlier in the process thus reducing the length of final quality review and clearance. The first completed agile review is the report on risk management, a second agile review looking at how to strengthen fraud controls for grant funding streams is about to conclude.

2.2 Audit Plan for 2019/20

The reviews planned for the next two quarters are focused around assessing compliance in directorates against core corporate policies and providing feedback to the policy owners on potential improvements/good practice identified during the reviews. The intention is to build a baseline so that each director has an evidenced understanding of how controls and governance are operating in their part of the business. This will ultimately feed into the overall governance statement for the Combined Authority giving a clear audit trail to

support annual reporting. The first review concentrated on risk management and the team is now moving on to other corporate policies such as procurement, contract management, HR etc.

2.3 Completed reviews to date

The following reviews have been completed so far in 19/20:

- Gifts & Hospitality follow up – progress against previous recommendations has been good (they are all now completed) and that concludes this work
- Corporate Governance – Reasonable Assurance
- Creditors – Reasonable Assurance
- Employee Expenses – Reasonable Assurance
- GDPR – Reasonable Assurance
- Risk Management – Limited Assurance
- English National Concessionary Travel Scheme – Reasonable Assurance

Appendix 1 provides summaries of the work completed to date.

A total of six grant certifications have also been completed (Access Innovation Fund, Innovate UK, Interreg SHARE North, Investment Readiness, Resource Efficiency Fund, Strategic Business Growth).

2.4 Customer Feedback and Recommendations Implemented

Internal Audit have updated the feedback form in use to include an overall satisfaction score and have set initial Key Performance Indicators as follows:

- 70% of forms to be returned
- 80% overall satisfaction rate

Appendix 2 provides confirmation of performance to date. It also provides an update on how many agreed audit recommendations have been implemented and to what timescales.

2.5 Internal Audit Organisational Design (OD)

The OD for internal audit has been underway for some time now, and progress to date includes the appointment of a new Head of Internal Audit, agreement on a proposed new structure that will see the number of auditors reduced from three to two, but with a new Principal Auditor role being brought in. This role is currently out for recruitment and aims to facilitate the changes to audit methodology and to ensure that audit improves its strategic emphasis and contribution to improvements to risk management, internal control and governance.

2.6 Fraud/Whistleblowing/Money Laundering

There have been no whistleblowing reports or money laundering incidents to investigate so far this year. The team has followed up on one fraud issue that was identified through the bi-annual National Fraud Initiative. This related to

the potential misuse of concessionary travel permits for deceased individuals. While some misuse was indicated as a result of our investigation, the potential monetary loss was neither significant nor material and some recommendations have been made to tighten processes to reduce this risk further in the future.

3. Financial implications

3.1 None.

4. Legal implications

4.1 None.

5 Staffing implications

5.1 As noted in the report.

6. External Consultees

6.1 No external consultations have been undertaken.

7. Recommendations

7.1 That the Committee consider the internal audit progress to date.

8. Background Documents

None.

9. Appendices

Appendix 1 – Summary of completed audit reports to date

Appendix 2 – Customer feedback and implementation of recommendations

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Summary of completed audit reports to date

Employee Expenses

The objective and scope of the review of Employee Expenses was to assess the arrangements to mitigate significant risks associated with the operation of the function. The review considered the presence and the operation of the following key controls:

- Appropriate forms used to record and authorise expenses;
- The accuracy of expense calculations;
- The appropriate authorisation of expenses;
- Processing and payment of expenses;
- Fraudulent expense claims from employees;
- Procedures;
- Security arrangements for storing of paper documentation, retention and disposal;
- Controls for uploading and processing information onto the system.

Main observations and recommendations:

The controls currently in place are adequate and the rating for the review is **REASONABLE**, however, there is a need to update and revise the travel and expenses policy to ensure better compliance.

Action by: end of December 2019.

Creditors

The extent and nature of tests performed were determined through the identification of significant inherent risks associated with compliance with Creditors procedures. The review considered the presence and the operation of the following key controls:

- Mechanisms and policies to ensure the timely payment of creditors
- Checks to ensure that payments are adequately supported in terms of documentary evidence
- Independent reconciliation of orders to related bids and price comparisons
- Special treatment for the independent scrutiny of PANI's
- Controls to ensure the completeness and integrity of payment runs (BACS etc.)
- Effective validation of authorities for corporate commitments
- A sound invoice 'match and pass' process
- Documented procedures for the control and operation of creditor processes
- Management review of aged balances
- Safe custody and control of cheques stocks
- Prompt cancellation of outstanding order records which are no longer valid
- Monitoring, verification and authorisation of supplier standing data additions and changes, with special reference to bank details

Main observations and recommendations:

The controls currently in place are adequate and the rating for the review is **REASONABLE**, however processes need to be strengthened in respect of changes and additions to creditor master file data, specimen authorising signatures, scrutiny of higher value purchase orders by Procurement, verification of supplier banking details and on-line access controls

Action by: end of December 2019

GDPR (Stage 3)

The objectives and scope of the combined review of GDPR and Freedom of Information, were to assess the arrangements to ensure compliance with the EU General Data Protection Regulation of 2018 and the Freedom of Information Act of 2000; both are addressed within the ongoing Information Governance Project, led by the Combined Authority's Data Protection Officer.

The specific areas covered in this phase of the review were as follows:

- The Data Protection and Confidentiality Policy of April 2019, which defines the Combined Authority's overall Data Protection regime, and encapsulates a variety of detailed subsidiary processes
- The Subject Access Request and Data Subject Rights Requests Procedure of June 2019
- The Freedom Information / Environmental Information Regulations & Transparency Policy of February 2019

Main observations and recommendations:

The policies and procedures reviewed by Audit were found to provide **REASONABLE** assurance that if properly applied, would ensure the Authority's compliance with both legal compliance and procedural best practice in the areas addressed. The sole area of non-compliance, related to the requirement for a compliance checking regime, whose form had yet to be determined.

Action by: end of November 2019

Corporate Governance

The objectives of the review were to assess, in relation to the topics addressed, the policies and procedures in place to establish an effective Corporate Governance framework, which is compliant with best practice, relevant legislation and regulations. The areas covered relate to Combined Authority and Transport processes; those specific to Delivery and Economic Services will be addressed in a future year's programme.

The specific areas addressed were as follows:

- The formulation of corporate policy
- Member and Leadership development programmes
- Committee processes, constitutions and structures
- Transparency and Freedom of Information requests

Main observations and recommendations:

The ongoing Governance Revision Project was well advanced at the time of the review, and Audit formed the view that this should result in significant improvements in the areas covered, given these changes favoured by the Revision Project, we arrived at the opinion that the relevant controls and procedures would deliver **REASONABLE** assurance of compliance with good practice and the applicable legal regulations. No specific recommendations were made, as Audit believe that actions already in train or in business plans should address the areas noted in the review and Audit plans to monitor progress of the project to confirm actions.

English National Concessionary Travel Scheme

The objectives of the review were to assess the policies and procedures in place to establish an effective internal control framework for the Combined Authority's participation in the English National Concessionary Travel Scheme (ENCTS). ENCTS is a national scheme defined by legislation, which provides free of charge travel to senior citizens and the disabled.

Specific areas addressed were as follows:

- Compliance with the Transport, Act 2000, the Concessionary Bus Travel Act 2007, and the various guidelines and directives issued by the Dept. of Transport
- The CHASE on-line application process
- Management information and performance management
- Complaints handling and recording
- CHASE system access controls

Main observations and recommendations:

The review of controls and processes in place, delivered **REASONABLE** assurance of their ability to provide an effective internal control framework, however, audit highlighted the need for a review of the overall complaints handling policy.

Action by: end of November 2019

Risk Management

The purpose of this audit was to assess how well embedded risk management is within the Combined Authority as a whole. It was also to feedback to the corporate policy team, responsible for the risk management strategy, areas where improvements could be made through a series of recommendations.

Main Observations and Recommendations:

As a result of the interviews and documentary review undertaken for this audit which included various layers of management in all the directorates, our opinion provides **LIMITED** assurance that risk management is embedded throughout the organisation. However, we do recognise that significant work has been done to develop a strategy and processes to support the implementation of risk management across the business, but there is still more to do to ensure that it is widely and consistently used throughout the Combined Authority.

In terms of recommendations, we would particularly emphasise that without a considered and well thought through awareness raising and training plan, progress will be difficult. It is also essential that the senior leaders in the organisation regularly role model effective risk management approaches in their work as a team and within their directorates to raise the profile and shared understanding of what risk management means within the Combined Authority. A number of specific recommendations have been made with regard to updating the current risk management strategy, further raising awareness and developing a training plan. These are for action by the end of November 2019.

Customer Feedback

No of forms sent out	No of forms returned	Target % returned	Actual % returned
6	4	70%	67%

Overall satisfaction target	Overall satisfaction achieved
80%	75%

Narrative Feedback:

Audit is currently revising the customer feedback form to include a narrative comment for reporting to the Governance and Audit Committee. This will be available for next Committee meeting.

Implementation of Recommendations by due date

Breakdown of recommendations by due date completion

Total no of recommendations made 19/20 to date (including any carryover of recommendations not completed by the end of 18/19)	Total number not yet due for completion	Total number completed by the due date	Total number completed past the due date
82	24 (29%)	33 (40%)	25 (31%)

Breakdown of degree of delay in completed recommendations past due date

Total number past due date	Up to one month delay	Up to two months delay	Up to three months delay	Up to six months delay	Over six months delay
25	5	5	3	7	5

Future reporting of this information will enable a trend to be identified which will give the Committee oversight on whether recommendations are being implemented in a more timely fashion.

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Report to: Governance and Audit Committee

Date: 31 October 2019

Subject: Actions from External Quality Assessment of Internal Audit

Director(s): Angela Taylor, Director, Corporate Services

Author(s): Bron Baker, Head of Internal Audit

1. Purpose of this report

- 1.1. To update the Committee on progress against the actions arising from the External Quality Assessment (EQA) of Internal Audit.
- 1.2. To ask members to note the contents of the report

2. Information

- 2.1 At the Governance and Audit Committee meeting on the 23 July 2019, the EQA was presented to the Committee and the discussion confirmed that there were a number of areas that Internal Audit needed to address. These actions, given that they are an assessment against the Public Sector Internal Audit Standards (PSIAS) to which Internal Audit must conform, have been taken as the starting point for the current Quality Assurance and Improvement Action Plan (QAIP).
- 2.2 While the previous Internal Audit Manager had undertaken to deliver a number of these actions against specified deadlines, it was agreed at the last meeting that it was appropriate for these to be reviewed by the incoming Head of Internal Audit. She has now undertaken a full review of all the recommendations. A number have been implemented and new deadlines have been set for others to allow for a thorough overhaul of current audit practice and procedures. This will include the production of a revised audit manual and audit charter, to be in place for the new financial year.
- 2.3 A full updated plan is included at Appendix 1.

3. Financial implications

- 3.1 None.

4. Legal implications

- 4.1 None.

5 Staffing implications

5.1 None.

6. External Consultees

6.1 No external consultations have been undertaken.

7. Recommendations

7.1 That the Committee note the progress made on addressing the actions in the External Quality Assessment of internal audit.

8. Background Documents

None.

9. Appendices

Appendix 1 – External Quality Assurance and Improvement Plan

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
	CODE OF ETHICS			
1.	Standards of Public Life			
1.1 21	<p>The standards require Internal Auditors to have regards to the Standards of Public Life's Seven Principles of Public Life.</p> <p>The Internal Audit Manager has stated that Internal Auditors understand the principles, however, details of these requirements should be included within the Internal Audit Manual in order to help enhance understanding and obligations.</p>	<p>The Internal Audit Manual should be revised to include details of the Standards of Public Life's Seven Principles of Public Life in order to outline how they impact upon the conduct of Internal Audit staff.</p> <p>Priority: Low</p>	<p>Response Agreed, to form part of the annual review of the Internal Audit Manual.</p> <p>Responsibility HOIA</p> <p>Timescale Sept 2019</p>	<p>The annual review of the manual will now be undertaken in the final quarter of the reporting year to allow the new audit methodology to be captured.</p> <p>March 2020</p>
	ATTRIBUTE STANDARDS			
2.	Purpose, Authority and Responsibility (Standard 1000)			
2.1	<p>The professional standards require that the Internal Audit Charter includes the following:</p> <ul style="list-style-type: none"> • Defines the role of internal audit in any fraud-related work; • The arrangements for avoiding conflicts of interest if internal audit undertakes non-audit activities. <p>At West Yorkshire Combined Authority,</p>	<p>In order to provide for effective transparency and clarity regarding the role of the Internal Audit Manager, the Charter should be amended to include reference to the additional roles of the Internal Audit Manager i.e. Money Laundering Officer, Whistleblowing Officer and the development of fraud related policies.</p> <p>In addition, the Charter should include</p>	<p>Response To be updated once the Combined Authority (SLT) have approved the Counter-Fraud Policy.</p> <p>Responsibility HOIA</p> <p>Timescale Sept 2019</p>	<p>Internal Audit Charter to be updated in final quarter of the year in line with changes to Audit Manual.</p> <p>March 2020</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
22	<p>the Internal Audit Manager is the designated Money Laundering Officer, Whistleblowing Officer and is responsible for developing the Fraud Response Plan. (Yet to be approved by SLT).</p> <p>It was noted that the Internal Audit Charter does not include details of the aforementioned non-audit roles of the Internal Audit Manager along with the arrangements for avoiding any potential conflicts of interest.</p> <p>Without clarity / visibility of the Internal Audit Manager's role the potential exists that the independence of the role may be compromised.</p>	<p>the arrangements for avoiding any potential conflicts of interest. For example, review and oversight of such audit work could be undertaken by the Director of Resources.</p> <p>Priority: High</p>		
2.2	<p>The standards require that the Charter recognises that Internal Audit's remit extends to the entire control environment of the organisation.</p> <p>It was noted that this requirement has not been addressed within the Charter to help demonstrate the value of what Internal Audit may bring to whole of the organisation's business activities in terms of risk management, governance and controls.</p>	<p>For the purpose of clarity and transparency, the Charter should be revised to recognise that Internal Audit's remit extends to the entire control environment of the organisation.</p> <p>Priority: Low</p>	<p>Response Audit Charter to be reviewed and updated.</p> <p>Responsibility HOIA</p> <p>Timescale Sept 2019</p>	<p>As above</p> <p>March 2020</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
23	<p>2.3 The Internal Audit Charter refers to the role of the Chief Audit Executive (CAE) being undertaken by the Head of Internal Audit. However, the role is performed by the Internal Audit Manager.</p> <p>The aforementioned issue gives rise to the risk that the Charter could be perceived as misleading.</p>	<p>For the purpose of clarity and transparency, the Charter should be revised to include the correct title of the designated officer performing the role of the CAE.</p> <p>During the course of this review the structure of the Service was under review and role profiles were being defined. Consequently, the Charter should be amended following approval of the updated role profiles, as appropriate.</p> <p>Priority: Medium</p>	<p>Response Audit Charter to be reviewed and updated.</p> <p>Responsibility HOIA</p> <p>Timescale Sept 2019</p>	<p>As above</p> <p>March 2020</p>
	<p>2.4 The Charter refers to the authority of the Governance and Audit Committee which specifies that the Internal Audit budget is approved by the Governance and Audit Committee.</p> <p>This statement is inaccurate in that the budget is currently approved by the Combined Authority with no consultation to allow appropriate input by the Governance and Audit Committee.</p> <p>In addition, the Internal Audit Manager is not responsible for the day to day management of the Internal Audit Service budget. Director of Corporate</p>	<p>The authority regarding approval of the budget should be reviewed. The Combined Authority should consider whether the authority and accountability of the Internal Audit activity would be enhanced by the following:</p> <ul style="list-style-type: none"> • Ensuring the Governance and Audit Committee have an appropriate level of input and engagement regarding the derivation of the Internal Audit budget prior to approval by the Combined Authority. • Devolving the control and 	<p>Response Technically the budget is approved by the Combined Authority. However, it is accepted that G and A should input to the budget before it goes to the CA and that day to day responsibility be assigned to the HoIA.</p> <p>Responsibility Director, Corporate Services</p> <p>Timescale May 2019</p>	<p>Completed, IA will have a separate budget for the new financial year.</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
	<p>Services.</p> <p>The aforementioned issues may adversely impact upon the authority and independence of the Internal Audit activity.</p>	<p>ownership of the Internal Audit Budget to the Internal Audit Manager. This may also help ensure that appropriate authority is assigned commensurate with inherent responsibility of the role.</p> <p>Priority: Medium</p>		
2.5 24	<p>The Audit Charter has not been revised to incorporate the changes to the professional standards which were introduced from the 1st April 2017 e.g., to reflect the Core Principles for the Professional Practice of Internal Auditing along with the Mission of Internal Audit.</p>	<p>The Internal Audit Charter should be revised to reflect the changes to the professional standards.</p> <p>This would be led by the CAE with consultation as necessary over the more strategic aspects with SLT and the Governance and Audit Committee.</p> <p>Priority: Low</p>	<p>Response Audit Charter to be reviewed and updated.</p> <p>Responsibility HOIA</p> <p>Timescale Sept 2019</p>	<p>As above</p> <p>March 2020</p>
3.	<p>Independence and Objectivity (Standard 1100)</p>			
3.1	<p>The professional standards require that any threats to objectivity are identified and managed at the Internal Auditor, engagement, functional and organisational levels.</p> <p>Although Internal Auditors are reminded</p>	<p>In order to enhance the objectivity of Internal Auditors it would be useful to extend the assignment planning checklist in order to prompt the Auditor to consider whether undertaking the audit would give rise to any real or perceived conflicts of</p>	<p>Response Agreed</p> <p>Responsibility HOIA</p> <p>Timescale</p>	<p>Audit planning document updated as proposed</p> <p>Completed</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
	<p>annually to consider and disclose any perceived or real conflicts of interest, the assignment planning process does not include any prompt to consider whether completion of the audit may give rise to a potential conflict of business interest.</p> <p>Consequently, there is an increased risk that objectivity at auditor level may be compromised.</p>	<p>interest.</p> <p>Priority: Low</p>	<p>April 2019</p>	
<p>4. 25</p>	<p>Organisational Independence (Standard 1110)</p>			
<p>4.1</p>	<p>The professional standards require that the Chief Audit Executive's (CAE) position within the organisational structure is sufficiently senior and independent to be able to provide credibly constructive challenge to senior management.</p> <p>The existing structure of the Internal Audit team does not appear to contain sufficient Senior Management resource to enable the Internal Audit Manager to engage and influence at a more strategic level e.g. attendance at Board level meetings such as the Regulatory & Compliance Board and the Scrutiny Committee.</p>	<p>The corporate review of the Internal Audit Service should consider the CAE's position within the organisational structure in terms of how Internal Audit discharges and fulfils its role at a senior level.</p> <p>This should also consider the reporting lines with other assurance functions such as the Risk and Compliance / Scrutiny Board, Board meeting attendance and authority levels.</p> <p>Priority: Medium</p>	<p>Response The recent review of the function seeks to allow capacity for the post of Head of Internal Audit to focus more on the strategic element of the role. This will be further developed over the coming year.</p> <p>Responsibility Director Corporate Services</p> <p>Timescale September 2019</p>	<p>Ongoing</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
	It is acknowledged that suggested changes to the Internal Audit engagement process have been outlined within a recent business case.			
5.	Proficiency (Standard 1210)			
5.1 26	<p>The standards require that the designated CAE should hold a professional qualification such as CMIIA/CCAB or equivalent.</p> <p>Although the Internal Audit Manager has a wealth of audit experience and applied for CMIIA status through the Institute's chartered by experience route, he does not currently hold the full CMIIA qualification.</p>	<p>The designated CAE should hold a professional qualification such as CMIIA or CCAB.</p> <p>This should help to provide the necessary confidence to the Governance and Audit Committee that the appointed CAE credentials include the appropriate knowledge/skill level required of the role.</p> <p>Priority: High</p>	<p>Response The HOIA will attend a "Chartered by Experience" assessment centre at the Institute of Internal Auditors in London.</p> <p>Responsibility HOIA</p> <p>Timescale May 2019</p>	Completed
5.2	<p>The standards require that up-to-date job descriptions should exist that reflect roles and responsibilities and that personal specifications define the required qualifications, competencies, skills, experience and personal attributes.</p> <p>The draft Job Profile in respect of the Head of Internal Audit was examined. It</p>	<p>Internal Audit Job Profiles should include clear reference to the PSIAS.</p> <p>Priority: Medium</p>	<p>Response Role profiles will be developed as part of the organisational development process</p> <p>Responsibility HOIA</p> <p>Timescale May 2019</p>	<p style="text-align: center;">Role profiles updated and reference to PSIAS incorporated</p> <p style="text-align: center;">Completed</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
	<p>was noted that the Job Profile did not include reference to the requirement for professional responsibilities to comply with the PSIAS.</p> <p>The Internal Audit Manager has acknowledged that this would be addressed as part of the current review of all job descriptions which is expected to be implemented by 1st April 2019.</p>			
25.3 27	<p>The professional standards require that the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities.</p> <p>It has been acknowledged within the recent Internal Audit Business Case that the activity would benefit from a specialist IT resource in order to evaluate ICT security risks.</p> <p>The Governance and Audit Committee and SLT are aware of this issue via the Emerging Audit Plan Report and Final Audit Plan documents.</p> <p>However, the additional specialist resource has not yet been engaged / procured in order to effectively audit IT related risks / activities.</p>	<p>The required level of IT resource should be procured as soon as possible.</p> <p>Resource levels should be monitored in order to ensure that the level is sufficient and that the work performed provides value for money and meets the needs of the business.</p> <p>Priority: Medium</p>	<p>Response Agreed</p> <p>Responsibility HOIA</p> <p>Timescale May 2019</p>	<p>Ongoing</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
6.	Internal Assessments (Standard 1311)			
6.1 28	<p>The standards require that internal assessments include ongoing monitoring of the internal audit activity which includes routine quality monitoring processes. Although quality performance indicators are included within the Internal Audit Annual Report, quality performance related information is not included within the regular progress reports to the Governance and Audit Committee.</p> <p>In addition, the annotated comments provided by auditees are not routinely reported to the Governance and Audit Committee. However, the Assessor was informed that that any significant feedback would be included within the Internal Audit Annual Report.</p>	<p>In order to enhance the visibility of the results of quality monitoring the feedback from clients should be included within the Internal Audit Progress Report along with any annotated feedback details.</p> <p>Priority: Medium</p>	<p>Response Agreed</p> <p>Responsibility HOIA</p> <p>Timescale July 2019</p>	<p>Customer feedback now included as standard item in report to Governance and Audit Committee and narrative feedback to be included from January 2020</p> <p>Partially completed, January 2020</p>
6.2	<p>The standards require ongoing performance monitoring which includes comprehensive performance targets. It was noted that such performance related information does not include the percentage of recommendations implemented by the agreed due date.</p> <p>This issue is reinforced as at the time of</p>	<p>In order to provide for a more robust and transparent performance monitoring system, performance related information should include the percentage of recommendations implemented by the agreed due date.</p> <p>Priority: Medium</p>	<p>Response Agreed</p> <p>Responsibility HOIA</p> <p>Timescale July 2019</p>	<p>Recommendation implementation included in report to Governance and Audit Committee</p> <p>Completed</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
	<p>the external assessment several audit report recommendations had remained outstanding for a relatively long period of time.</p>			
<p>6.3</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">29</p>	<p>A performance measure is utilised to measure the number of days taken to issue the final report from the date of the post audit meeting / closure of the audit report.</p> <p>A target of 90% of audit reports are expected to be issued within 5 days of the post audit meeting / closure of the audit report. The 2017/18 Annual Report states that actual performance fell short of expected standard which equated to 72%.</p> <p>Stakeholder feedback suggests that insufficient time is allowed in order to adequately finalise the audit report.</p> <p>There is therefore some justification to review the performance measure with a view to increasing the number of days for both the Auditor and the Auditee to finalise reports in order to ensure the accuracy of final reports and audit report recommendations remaining outstanding.</p>	<p>The performance measure utilised to measure the number of the days taken to issue a final report should be reviewed and appropriate timescales derived.</p> <p>Priority: High</p>	<p>Response Agreed</p> <p>Responsibility HOIA</p> <p>Timescale July 2019</p>	<p>Due to a change in audit methodology this measure will be reviewed as part of KPI setting for the new corporate plan 20/21.</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
	As part of the roll out of the new structure the intention is to increase the level of dialogue and engagement with SLT members. This should provide an opportunity to address issues such as the timescales for dealing with Internal Audit reports.			
7.	Quality Assurance and Improvement Programme (Standard 1320)			
7.1 30	<p>The standards require the development of a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the Internal Audit activity.</p> <p>Although the Charter refers to the requirement to develop a QAIP, an action plan has not been defined, agreed and presented which includes the necessary actions, assignees and timescales for completion of the required actions.</p> <p>Consequently, an effective mechanism does not exist to provide the latest position visibly and to monitor progress against the QAIP.</p>	<p>The results of the QAIP should be presented in the form of a structured and appropriate improvement plan, which includes the necessary improvement actions, assignees and timescales for completion of the required actions.</p> <p>The QAIP should be reported as part of the Internal Audit Annual Report and Internal Audit Effectiveness Report along with the progress against any required actions.</p> <p>Priority: High</p>	<p>Response Agreed</p> <p>Responsibility HOIA</p> <p>Timescale July 2019</p>	<p>Action plan in place</p> <p>Completed</p>
7.2	The Institute of Internal Auditors provides a checklist in order to assess compliance against the PSIAS.	The PSIAS checklist should be expanded to demonstrate the level of compliance the Internal Audit activity	<p>Response Information demonstrating compliance with elements of the checklist will be</p>	To be included in the annual assessment of compliance

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
	<p>This checklist has been completed by the Internal Audit Manager. It was noted that levels and details of evidence were not always sufficient to support compliance with the PSIAS.</p>	<p>is achieving against the specified standards.</p> <p>In doing so, the information provided by the Assessor should be considered to assist this process.</p> <p>Priority: Low</p>	<p>enhanced as part of the annual review of effectiveness.</p> <p>Responsibility HOIA</p> <p>Timescale July 2019</p>	<p>April/May 2020</p>
	<p>PERFORMANCE STANDARDS (Managing the Internal Audit Activity)</p>			
3-8.	<p>Planning (Standard 2010) and Coordination (Standard 2050)</p>			
8.1	<p>The Internal Audit Business Case acknowledges that the organisation has not yet defined an assurance framework in order to identify and determine the approach to using other sources of assurance.</p> <p>In the absence of such, the Internal Audit Annual Plan of activities is based on the application of an Audit Risk Assessment across the audit universe which considers a number of factors e.g., value of transactions, results of previous audit work, date since previous audit.</p> <p>It was noted that a significant element of the audit plan is devoted to a programme</p>	<p>The development of an assurance framework should be a priority.</p> <p>The Internal Audit Manager should review the risk-based planning methodology with a view to ensuring that the assessment takes account of the strategic and operational risks along with three lines of defence model.</p> <p>The SLT should be consulted in order to have oversight and the opportunity to input to the approach to ensure that it is appropriate and value adding to the organisation.</p>	<p>Response</p> <p>2019/20 Strategic Audit Plan considers corporate risk information, objectives and provides links to risk categories. However, it is acknowledged that risk reporting arrangements are still being developed and there is a dependency on Internal Audit's knowledge of the operations and associated risks when identifying and prioritising assurance activity.</p> <p>It is an objective to develop second line defence management assurance reporting which, with the enhancement of the risk framework, will facilitate a shift in approach to Internal Audit activity.</p>	<p>Ongoing</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
32	<p>of grant certification work and annual reviews of financial systems. Over one quarter of the 2018/19 audit plan is devoted to these types of audit work.</p> <p>Although it has been acknowledged that a degree of continuous assurance is required, such audits are cyclical routine audits which are generally well controlled. In addition, such audit work doesn't appear to be directly present any strategic or operational risk nor is consistent with the Combined Authority's priorities and the three lines of defence model.</p> <p>The focus / emphasis of the current audit plan may not therefore be providing sufficient coverage for the likes of potential strategic or operational risks.</p> <p>Several officers interviewed reinforced this issue and suggested that the audit approach could be reviewed to include more consultancy type work e.g. more involvement in new systems and developments along with a programme of risk based themed reviews aimed at assessing a number of cross cutting risk areas.</p> <p>The involvement and support of the SLT</p>	<p>Priority: High</p>	<p>Responsibility HOIA</p> <p>Timescale Dec 2019</p>	

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
	collectively would ideally be required in order to assess whether the Combined Authority would benefit from a change to the existing audit methodology.			
33 8.2	<p>It was noted that the terminology applied to the risk based annual audit plan is not always consistent with the corporate risk management system e.g. the audit plan is based on risk categories whereas the Corporate Risk Register refers to risk types.</p> <p>Consequently, this may adversely impact upon the effectiveness of the audit planning process.</p>	<p>The terminology applied to the risk based annual audit plan should be consistent with the Corporate Risk Management System.</p> <p>Priority: Low</p>	<p>Response Risk categories used corporately and within the Internal audit Plan are broadly in line. However, it is accepted that some minor amendments are required.</p> <p>Responsibility HOIA</p> <p>Timescale Dec 2019</p>	<p>The corporate risk system is currently under review and audit will align its terminology to be consistent with the corporate approach</p>
9.	Resource Management (Standard 2030)			
9.1	<p>The Internal Audit Service comprises a relatively small team and it has been recognised by both the Internal Audit Manager and the organisation that sufficient resources are not available to audit all audit activities within the audit universe.</p> <p>However, the level of resource imbalance between the audit universe</p>	<p>The level of resource imbalance between the audit universe and the actual plan should be reported to SLT and the Governance and Audit Committee within the Annual Plan Report to enable both awareness and potential review.</p> <p>Priority: High</p>	<p>Response The requirement for independent assurance is identified before any assessment of audit resource is calculated. At this point an evaluation of how the plan can be achieved, in house team or in house plus external resources, is made.</p> <p>The underlying objective is to provide sufficient work on which an opinion of</p>	<p>Any resource imbalance will be reported as part of the annual audit report</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
34	<p>and the actual audit plan is not currently reported to SLT and the Governance and Audit Committee.</p> <p>This would help to ensure awareness and thereby enable due consideration to be given to the current audit resource and ascertain whether it should be augmented in any way or not.</p>		<p>the entire control, risk management and corporate governance arrangements can be delivered.</p> <p>Audit activities not included within the plan are regarded as low risk.</p> <p>Internal Audit will review this approach and consult with stakeholders concerning this observation.</p> <p>Responsibility HOIA</p> <p>Timescale Dec 2019</p>	<p>March 2020</p>
10.	<p>Engagement Planning (Standard 2200)</p>			
10.1	<p>An Internal Audit Project Brief / Terms of Reference is completed for each audit assignment. It was noted that the timing and resource allocation details are not included within the Project Brief / Terms of Reference.</p> <p>Consequently, the auditee is not fully aware of such details prior to the commencement of the review. The absence of such information may be contributing to the negative feedback in respect of the timeliness of the completion of audit work as reported</p>	<p>The Internal Audit Project Brief / Terms of Reference should be amended to include the timing and resource allocation details accordingly.</p> <p>Priority: Low</p>	<p>Response Agreed</p> <p>Responsibility HOIA</p> <p>Timescale April 2019</p>	<p>The planning document now includes timing and resource allocation</p> <p>Completed</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
	<p>within the 2017/18 Annual Report.</p> <p>This issue was reinforced following feedback from stakeholders obtained during the course of this external assessment</p>			
11.	Engagement Scope (Standard 2210)			
35 11.1	<p>The scope of consulting / advisory engagements is not documented and agreed with management prior to undertaking the work.</p> <p>This issue gives rise to the risk that management may not be clear as to the remit of Internal Audit and also the expected outputs arising from such work. This may also present a missed opportunity to utilise outputs to inform the annual assurance opinion.</p> <p>Although the extent of this type of work is minimal, the intention is for Internal Audit to undertake more of this type of work moving forward. This has been acknowledged within the recent Business Case.</p> <p>In addition, feedback from stakeholders obtained as part of the assessment process reinforced this issue.</p>	<p>The scope of significant consulting / advisory engagements should be documented and agreed with management in the form of a terms of reference prior to undertaking the work.</p> <p>Priority: Medium</p>	<p>Response To be included in the review and development of the Internal audit Charter.</p> <p>Responsibility HOIA</p> <p>Timescale Sept 2019</p>	<p>Internal Audit Charter to be updated in final quarter of the year in line with changes to Audit Manual.</p> <p>March 2020</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
12.	Use of 'Conducted in Conformance with the PSIAS (Standard 2430)			
12.1	<p>The standards state that Internal Auditors should report that engagements are 'conducted in conformance with the PSIAS' (if the results of the QAIP support such a statement).</p> <p>It was noted that although the Project Brief / Terms of Reference refers to the PSIAS, the current report format does not include reference to such. Consequently, there is a missed opportunity to evidence that the service follows professional standards.</p>	<p>Once the appropriateness of this assessment and the accompanying QAIP has been agreed and implemented, the wording of various Internal Audit Reports and documents should be amended to include reference to engagements being conducted in conformance with the PSIAS.</p> <p>Priority: Low</p>	<p>Response Agreed</p> <p>Responsibility HOIA</p> <p>Timescale April 2019</p>	<p>Audit reports have been updated to include this confirmation.</p> <p>Completed</p>
13.	Disseminating Results (Standard 2440)			
13.1	<p>Internal Audit reports are issued via e-mail. However, details of the recipients of the audit report are not included within the body of the Internal Audit report.</p> <p>This may adversely impact upon the degree of visibility and accountability attached to actioning the</p>	<p>Internal Audit reports should include details of the recipients of the report.</p> <p>Priority: Low</p>	<p>Response Agreed</p> <p>Responsibility HOIA</p> <p>Timescale April 2019</p>	<p>Audit reports now include a circulation list as standard</p> <p>Completed</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

Ref	Observations	Action to Consider / Priority	Management Action / Responsible Officer and Implementation Date	Update including any revisions to management actions and dates
	recommendations within the Internal Audit report.			
14.	Overall Opinion (Standard 2450)			
14.1	<p>The standards require that the annual internal audit opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.</p> <p>It was noted that whilst the annual opinion provided in respect of 2017/18 referred to the adequacy of the governance and control framework, this did not extend to effectiveness.</p> <p>This may therefore result in an insufficiently robust opinion being given in terms of compliance with the Accounts and Audit Regulations 2015.</p>	<p>The assurance opinion noted within subsequent Internal Audit Annual Reports should include reference to the effectiveness of the governance and control framework.</p> <p>Priority: Medium</p>	<p>Response Agreed</p> <p>Responsibility HOIA</p> <p>Timescale April 2019</p>	<p>This will be included in the annual audit report going forward</p> <p>April/May 2020</p>
14.2	<p>The standards require that the Internal Audit Annual Report includes a comparison of work actually carried out with the work planned.</p> <p>Although the Internal Audit Annual Report acknowledges that changes to the original audit plan have been made in response to changing priorities during</p>	<p>The Internal Audit Annual Report should include details of the planned audit work which hasn't been undertaken during the year along with the rationale for not completing such work e.g. audit deferred, no longer required.</p> <p>Priority: High</p>	<p>Response Agreed</p> <p>Responsibility HOIA</p> <p>Timescale July 2019</p>	<p>This will be included in the annual audit report going forward</p> <p>April/May 2020</p>

QUALITY AND ASSURANCE IMPROVEMENT PROGRAMME ACTION PLAN

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	<p>the year, details of planned work not undertaken along with the rationale is not included.</p> <p>This adversely impacts on transparency of the work actually completed which contributes and supports the overall assurance opinion.</p>			

Report to: Governance and Audit Committee

Date: 31 October 2019

Subject: **External Audit Update**

Director(s): Angela Taylor, Director, Corporate Services.

Author(s): Jon Sheard

1. Purpose of this report

- 1.1 To present an update on external audit matters to the Committee.
- 1.2 To consider any issues to include in a proposed response to two consultations underway.

2. Information

Annual Audit Letter

- 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 There were no significant internal control deficiencies to report.

External Audit Consultations

- 2.4 There are two consultation 'calls' out currently as follows and both with a deadline of 22 November 2019:
 - i. One from Ministry of Housing, Communities and Local Government (Redmond Review) which invites views from anyone with a direct or

indirect interest in local authority audit and financial reporting. In summary the consultation will cover:

- definitions of audit and its users
- the expectation gap
- audit and wider assurance
- the governance framework
- audit product and quality
- auditor reporting
- how local authorities respond to audit findings
- the financial reporting framework

- ii. The second one from the National Audit Office is seeking public feedback on proposed updates to its Code of Audit Practice, calling for greater focus on value for money in public bodies.

2.5 Full details can be found at:

Redmond review: <https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>

National Audit Office: <https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/#>

2.6 It is proposed that the West Yorkshire Combined Authority respond to each consultation, focussing on the most relevant aspects to our organisation. Due to the tight timescales it is further proposed that officers prepare the draft responses by mid-November, share with members via email for comment and agree the final response with the Chair of the Governance and Audit Committee before the submission date. Members' views are requested on any areas of concern for inclusion in any consultation feedback.

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 2018/19 and endorse the approach proposed for the two consultation responses.

8. Background Documents

None.

9. Appendices

Appendix 1 – Annual audit letter 2018/19

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Annual Audit Letter

West Yorkshire Combined Authority

Year ending 31 March 2019





CONTENTS

1. Executive summary
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 2019. 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 auditor's report issued on 29 July 2019 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 2019 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 2018/19.
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 29 July 2019 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 auditor's 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 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, on 30 July 2019 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 2019 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 auditor's report, issued to the Authority on 29 July 2019, stated that, in our view, the financial statements give a true and fair view of the Authority's financial position as at 31 March 2019 and of its financial performance for the year then ended.

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 2019:

Financial statement materiality	Our financial statement materiality is based on 1.75% of Gross Operating Expenditure	£5m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.15m

1. Executive summary

2. Audit of the financial statements

3. Value for money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

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 the 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</p> <p>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 by performing audit work in the following areas:</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 work provided the assurance we sought and did not highlighted any indication of management override of controls.</p>
<p>Revenue recognition – fees and charges</p> <p>In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Authority's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal in 2018/19. We have identified income from fees and charges as the key area of audit risk. 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 2019 to ensure they have been 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>We identified no matters to report in relation to revenue recognition.</p>
<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 in relation to PPE. The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date.</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 including testing the underlying data and assumptions. We also:</p> <ul style="list-style-type: none"> assessed the competence, skills and experience of the Authority's valuer; and 	<p>We identified no matters to report in relation to property, plant and equipment valuation.</p>

(continues next page)

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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 (continued)</p> <p>Although the Authority employs an external valuation expert to provide information on valuations, 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.</p>	<ul style="list-style-type: none"> compared the valuation output with market intelligence provided by Gerald Eve, our expert and consulting valuers engaged by the National Audit Office, to obtain assurance that the valuations are in line with market expectations. 	
<p>Defined benefit liability valuation</p> <p>The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of the West Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016.</p> <p>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in valuing the Authority's pension obligation are not reasonable or appropriate to the Authority's circumstances. This could have a material impact to the net pension liability in 2018/19.</p>	<p>We reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also:</p> <ul style="list-style-type: none"> evaluated the competency, objectivity and independence of the scheme Actuary, AON Hewitt; liaised with the auditors of the West Yorkshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the financial statements. 	<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 four internal control deficiencies as part of our audit. These were not significant in nature and related to IT passwords and policies and Members declarations of interest. Management has highlighted compensating controls to mitigate the associated risks and agreed to seek to strengthen arrangements to address the control recommendations during 2019/20. We are content with Management's response.



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; and
- working with partners and other third parties.

Our auditor’s report, issued to the Authority on 29 July 2019, 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 31st March 2019

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 in local government. 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 agreed objectives and priorities.</p> <p>The Corporate Plan sets out the Authority’s priorities and is closely aligned to the overarching aims of the Strategic Economic Plan (SEP). 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 Senior Management Team and Leadership Team, with regular reporting to the Governance and Audit Committee and Combined Authority.</p> <p>For over a year, Leeds City Region Enterprise Partnership (LEP) panels (with their public and private sector representation) have been integrated within the Combined Authority’s decision-making structure as advisory committees, improving transparency and accountability.</p>	Yes

(continued overleaf)



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Informed decision making (continued)	<p>There is a Corporate Risk Management Strategy, endorsed by the Governance and Audit Committee, which sets out the way risks are identified, recorded and monitored. Management have agreed to implement Internal Audit recommendations to strengthen risk management arrangements. The Authority's project management assurance framework is in line with national best practice and ensures there is robust accountability and governance with regard to the management and delivery of projects.</p> <p>The system of internal control is subject to Internal Audit and for 2018/19, the Combined Authority's internal auditors, provided an overall opinion that controls and governance are operating adequately.</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 Authority's financial statements. In accordance with changes in legislation and to strengthen arrangements an independent member was appointed to the Committee in June 2018 and who chaired the meeting during the last municipal year.</p> <p>The Combined Authority ensures its Corporate Governance Code and Framework reflects changes made to arrangements in the year.</p>	Yes
Sustainable resource deployment	<p>The Combined Authority has made good progress in addressing the ongoing financial challenges and has a proven track record of strong budget management and delivering planned budget reductions.</p> <p>The Authority delivered financial outturn for 2018/19 £3.0 million better than originally planned. The much improved year end position is mainly attributable to savings in the subsidised services ahead of target, reduced concessionary fares costs and a combination of early redemption fees and further loan interest accrued on Growing Places loans. Additionally the higher than expected cash balances, reflecting receipt in advance of a number of external funds, has generated additional interest earned over budget.</p> <p>A balanced budget has been set for 2019/20 with the use of £1.2m of reserves consistent with the three year Medium Term Financial Strategy covering the years 2018/19 to 2020/21. The Authority has also recognised the significant financial challenge facing the partner councils and has agreed to reductions in the transport levy. The capital programme reflects priorities set out in the Corporate Plan flowing from the SEP.</p>	Yes



3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
<p>Working with partners and other third parties</p>	<p>The Authority, including the LEP, plays an important and active role in providing the vehicle for closer partnership working between the local authorities of West Yorkshire and York 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 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 Local 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 Authority is an active participant in sub-regional networks and works with 'Transport for the North' on 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 SEP, the Single Transport Plan, major schemes and the bus area network reviews which have successfully sought to contain costs but retain accessibility for 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>	<p>Yes</p>



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 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 Authority being inadequate. In our Audit Completion Report, we reported that we had identified one significant audit risk. The work we carried out in relation to significant risk is outlined below.

Risk	Work undertaken	Conclusion
<p>Financial sustainability</p> <p>The Authority’s medium term financial strategy (MTFS) includes a reduction in the transport levy of £1m in each of the three years to 2020/21. A reduction of £1m equates to a circa 2% saving requirement in discretionary expenditure. The Authority is in the process of updating its MTFS to 2021/22.</p> <p>Whilst the mid year financial position for 2018/19 indicated that the Authority is managing expenditure within the approved annual budget, delivering a balanced budget is likely to require the use of £1.4m of reserves. Whilst this is consistent with the MTFS, this use of reserves to support service delivery is indicative of the financial pressures faced by the Authority.</p> <p>The continuing challenges the Authority faces are not new and are not unique. However, the challenges do present a significant audit risk in respect of considering the arrangements that the Authority has in place to deliver financial sustainability over the medium term.</p>	<p>Building on our work in previous years, we reviewed the arrangements the Authority has in place for ensuring financial resilience. Specifically, our work included reviewing:</p> <ul style="list-style-type: none"> the Authority’s MTFS to ensure it takes into consideration factors such as the latest income projections, funding reductions from the transport levy, salary and general inflation, restructuring costs and sensitivity analysis given the degree of variability in the above factors; and the arrangements in place to monitor progress in delivering a balanced budget for 2019/20 and the related savings plans. 	<p>The Authority has in place a 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 2019/20 with the use of £1.2m of reserves consistent with the three year MTFS.</p> <p>The MTFS and balanced budget for 2019/20 have been subject to appropriate scrutiny and challenge via established governance and reporting arrangements.</p> <p>The Authority’s Corporate Plan sets out 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>It is noted that the Authority has a good track record of delivering financial plans and the required savings. For 2016/17, 2017/18 and 2018/19 the Authority secured the planned savings plus additional savings of £1.4m, £1.6m and £3m respectively.</p> <p>There are no matters which give rise to VFM reporting issues for 2018/19.</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 on 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 30 July 2019.

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 January 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£25,964	£25,964

Fees for other work

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

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

Fair Funding Review

The Authority will need to incorporate the impact of the Spending Review, due in the latter half of 2019, to its Medium Term Financial Plan. The Spending Review will set out the department allocations for 2020/21. Regardless of the timing and period covered by the Spending Review, the Authority recognises the key issue is the management of the future funding cliff edge and general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

Local Authority Financial Resilience Index

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Authority to have at least considered the index once it is formally released.

Commercialisation

The National Audit Office intends to publish a report on Commercialisation during 2019. Depending on the appetite for Commercialisation, we would expect the Authority to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office's Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property; and
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 *Leases* in the Code is delayed until 1 April 2020. The Authority will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

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6. FORWARD LOOK

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 officers to identify any learning from the 2018/19 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 officers for their support and co-operation during our audit.

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Report to: Governance and Audit Committee

Date: 31 October 2019

Subject: **GDPR Compliance Report**

Director: Angela Taylor, Director of Corporate Services

Author(s): Rebecca Brookes, Regulatory Lawyer and DPO

1. Purpose of this report

1.1 To note the progress made on GDPR implementation and remaining actions.

2. Information

2.1 In March 2018, a report was provided to the Governance and Audit Committee on the readiness of the West Yorkshire Combined Authority for the implementation of GDPR and setting out a GDPR implementation plan. Appendix 1 provides a progress report against the six workstreams of the GDPR implementation plan and actions remaining to ensure compliance.

2.2 The GDPR implementation project is scheduled to close in November at which stage the Data Protection Officer, in consultation with the Head of Internal Audit, will implement a programme of compliance checking. Ongoing compliance with GDPR will be part of normal business for the organisation with support from the Information Governance team.

2.3 The actions from the implementation plan that will remain after November are those which are dependent upon other projects and work streams such as the Accommodation Project (building security), Corporate Technology Programme (ICT security) and Corporate Policy Review (HR policies).

2.4 Policies, procedures and toolkits for records management and offsite storage of records have been put in place however the re-boxing, re-labelling and destruction of records currently held in offsite storage will be an ongoing task with a target completion date of March 2020 at which point the offsite storage requirements will be assessed.

2.5 The DPO considers remaining actions to be in-hand with reasonable and achievable timescales attached.

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 Governance and Audit Committee notes the governance progress made with GDPR implementation and remaining actions.

8. Background Documents

None.

9. Appendices

Appendix 1 – GDPR implementation plan progress report

Item 10 Appendix 1 – GDPR implementation progress

GDPR workstream	Action undertaken	Action remaining
Governance and reporting	<ul style="list-style-type: none"> • DPO and SIRO designated • Monthly Reporting by DPO to Regulatory and Compliance Board with escalations • Quarterly reporting by DPO to Senior Management Team • Annual reporting by DPO to Governance and Audit Committee • Information Asset Owners and Administrators Designated • Information Governance Risk Register created • ICO notification updated and ICO reporting built into procedures. 	
Awareness and Training 61	<ul style="list-style-type: none"> • E- learning completed by all staff • New starters complete e-learning on day 1 • Advanced GDPR training for Information Asset Owners / Administrators/ key staff • DPO and SIRO training • DPO convenor of WY DPO group • IG Officers are members of Yorkshire and Humber Information Governance Group • 1- minute guides for staff • Drop in/ training sessions 	
Records and Audit	<ul style="list-style-type: none"> • Central Information Asset Register created and maintained • Retention schedules created for all information held • New record store created at Bradford Interchange • Offsite storage and archiving procedures and templates in place • Large scale review and destruction of old records at Halifax record store • Guidance issued to staff on electronic filing and file naming • Additional permanent IG Officer post created with records management specialism 	<ul style="list-style-type: none"> • Compliance checking procedure and toolkit (to be trialled in October 2019 and then rolled out) • Complete the re-boxing, re-labelling and destruction of records at Halifax and assess remaining storage requirements (March 2020)
Policies and Procedures	<ul style="list-style-type: none"> • Data Protection and Confidentiality Policy • Records Management and Data Quality Policy • Freedom of Information and Transparency Policy • Data Security Incident Procedure 	<ul style="list-style-type: none"> • Review of corporate policies (including HR) (in line with corporate policy review – October 2020)

Item 10 Appendix 1 – GDPR implementation progress

	<ul style="list-style-type: none"> • Data Subject Request Procedure • DPIA toolkit • Privacy Notice Toolkit • Recording consent toolkit • Offsite storage and archiving toolkit • Privacy section built into standard policy template • Data Protection review built into policy review and sign-off process • Employee contract updated • Revised disclosure request forms created 	<ul style="list-style-type: none"> • Information Sharing Toolkit – awaiting outcome of ICO consultation (to be completed November 2019)
62 Projects and Initiatives	<ul style="list-style-type: none"> • Revised terms and conditions for all contracts • Suitable due diligence questions provided to Procurement • Suitable Specification template for data processors provided to Procurement • Central Contracts register template updated • Form for updating the central contracts register created • DPIA/privacy by design build into Combined Authority processes including Procurement, PMO, Technical Design Authority, ICT Service Desk Decision Records • CTP projects have an allocated IG officer • Information Sharing Gateway membership for central creation, storage and review of Information Sharing Agreements 	<ul style="list-style-type: none"> • New procurement/contract templates need to be embedded – compliance checking to confirm (October 2019) • Contract Management of data processors and compliance checking of data processors to be considered (November 2019) • Central contracts register to be fully completed by Information Asset Owners and Administrators with details of data processors - compliance checking to confirm (October 2019)
Security and Systems	<ul style="list-style-type: none"> • Systems register updated • Systems data protection audit completed • Secure data sharing guidance for staff • Secure record store created at Bradford Interchange 	<ul style="list-style-type: none"> • Risks identified from systems audit to be addressed (November 2019) • Physical building security – accommodation project (in line with accommodation project timescales) • ICT Security and Business Continuity – Corporate Technology Programme (in line with CTP timescales)

Report to: Governance and Audit Committee

Date: 31 October 2019

Subject: **Compliance and Monitoring**

Director(s): Angela Taylor, Director, Corporate Services

Author(s): Jon Sheard / Louise Porter

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 The Regulatory and Compliance Board at officer level continues to meet and will provide information as required to this Committee and the Combined Authority. To date its meetings have considered assurances provided by the work undertaken by internal audit, health and safety, information governance, risks and controls and compliance including financial, HR and other policies, statutory returns and transparency arrangements. Actions are being identified to ensure compliance is adequately documented and evidenced and further information will be provided to this Committee as the work progresses.

Treasury Management

- 2.4 The regular governance meetings continue to be held with Leeds City Council to consider and review the transactions relating to investments and treasury management. At the most recent meeting in September 2019 no areas of

concern were raised though the high level of cash balances were considered and the challenges this presents with regard to placing funds with approved counterparties.

- 2.5 Officers from Leeds City Council treasury team are attending the meeting today to provide an overview of current arrangements.

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 none.
- 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 budget

2019/20

- 2.9 A summary of the 2019/20 current spend to budget as at August 2019 is attached at **Appendix 1**. A RAG rating has been included to identify budgets that need further review with budget holders. There are no 'red' areas of concern to report at this early stage of the financial year.
- 2.10 The approved annual budget included a £1.2 million deficit to be funded from general reserves. Periodic forecasting is being undertaken during the year to track performance against this budgeted position and a revised outturn will be reported to a future meeting. At this stage work to achieve the agreed savings and reductions continues, alongside managing emerging pressures including Brexit and work on bus options following the announcement of the proposed sale of First Group's bus operations.
- 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.

Business planning and budget 2020/21

- 2.12 Work is continuing on the detailed business plan for 2020/21 and the accompanying budget, to be set within the context of a revised medium term financial strategy.
- 2.13 Each directorate is producing both a detailed business plan and a summarised 'plan on a page' showing how it will deliver against the four corporate priorities

in the coming year. The budget will then show the costs of delivering these activities.

- 2.14 The first full budget update has been submitted from each directorate, setting out any updates to the current year position and providing a detailed 2020/21 position. These submissions show some savings against budget in the current year but there is still a budget gap of over £1 million to address if the 2020/21 budget is to be set without the use of reserves. Work on options to address this gap is underway and will be brought forward for consideration.
- 2.15 In addition there are further budget pressures that will need to be managed alongside this funding gap. Actions to meet the commitment in the three year strategy to make further savings on bus tendered services and transport services in 2020/21 need to be progressed, alongside the identification of funding for activities to address climate change and improve inclusive growth. The work on bus options may require further funding next year, and the issue of 'cliff edge funding' ie short term funding that is time limited also requires consideration. Other funding risks identified include changes to the assumptions relating to pay awards and to the outcome of the triennial pension revaluation due next year.
- 2.16 Work continues on the capital budgets, with a particular focus on the challenges of achieving expenditure on key programmes – Leeds Public Transport Investment Programme and Growth Deal, both of which are due to spend in full by March 2021. The programmes are being reviewed to ensure all funding is maximised, any risks of not delivering by this date are mitigated and to understand the risks around the timing of individual projects which may result in commitments beyond the funding availability. A three year capital programme and any projected borrowing costs will be included as part of the budget process.
- 2.17 A full draft revenue and capital budget will be provided to a future meeting.

Risk management

- 2.18 In place of the usual update here a more substantive report is provided at item 11 on today's agenda.

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 Revenue Budget 2019/20 as at August 2019.

West Yorkshire Combined Authority - Summary

	(A)	(B)	(B) / (A)		41%
Title	Budget 2019/20	August 2019 Actual	%		RAG
	£	£			
Expenditure					
Salary & Pay Related Costs	23,574,623	8,551,024	36.3%	Reflects above average staff vacancies during the year	
Indirect Employee Related Costs	385,450	203,275	52.7%	Spend in line with expectations	
Premises Related Costs	6,245,146	2,547,724	40.8%	Spend in line with expectations	
Travel, Transport & Subsistence Related Costs	121,662	54,467	44.8%	Spend slightly ahead of expectations though only a small budget	
Member Related Costs	153,168	49,552	32.4%	Spend in line with expectations	
Office Supplies & Services	516,250	191,710	37.1%	Spend in line with expectations - payments in arrears	
ICT & Telephony Costs	2,614,132	1,056,190	40.4%	Spend in line with expectations	
Professional & Consultancy Fees	2,301,970	614,915	26.7%	Spend in line with expectations	
Marketing & PR Costs	2,079,896	358,600	17.2%	Low spend below expectations - due to timing of payments	
Insurance	304,900	300,638	98.6%	Spend in line with expectations - premiums paid annually	
Operator Payments (Transport)	25,601,325	11,394,465	44.5%	Spend slightly ahead of expectations - plans in place to address before year end	
Pre Paid Ticket Cost	34,125,000	12,283,950	36.0%	Cost matched by income (see below) ##	
Concessions	56,446,802	22,728,086	40.3%	Spend in line with expectations	
Additional Pension Costs	2,301,600	1,677,271	72.9%	Spend in line with expectations - impact of one annual payment £1.3m paid in advance	
Financing Charges	5,465,000	284,463	5.2%	Spend in line with expectations - charges accrued at the year end	
Grants	2,137,597	465,271	21.8%	Low spend below expectations - due to timing of payments	
Other Miscellaneous Costs	5,040,994	231,884	4.6%	Spend in line with expectations	
Contribution to External / Related Parties	324,744	112,092	34.5%	Spend in line with expectations - further spend expected in quarter three	
Additional Savings Target	(1,046,619)	0	0.0%	Staff budget saving target - to offset against savings in salary budget above.	
Total Expenditure	168,693,640	63,105,578	37.4%		
Income					
Rail Admin Grant	(878,000)	(878,000)	100.0%	Received in advance for full year	
LEP General Funding Income	(734,000)	(50,000)	6.8%	Received in arrears and towards year end	
Growing Places Fund Interest	(300,000)	(165,764)	55.3%	Income in line with expectations	
Enterprise Zone Receipts	(1,958,320)	(531,469)	27.1%	Income in line with expectations	
Transport Levy	(93,198,000)	(46,599,000)	50.0%	10 instalments - five received to date	
Bus Service Operator Grant (BSOG)	(2,063,592)	(2,063,592)	100.0%	Received in full at the start of the year	
Education Contribution to Transport	(6,768,000)	(2,207,034)	32.6%	Income in line with expectations - in arrears normally	
Bus Station Tenant Income	(1,583,085)	(512,256)	32.4%	Income in line with expectations - in arrears normally	
Bus Station / Services - Other Income	(2,881,917)	(543,114)	18.8%	Low income below expectations - due to timing of receipts	
Admin Recharges	(2,459,900)	(818,652)	33.3%	Income in line with expectations	
Capitalisation of Revenue Costs	(7,740,378)	(2,785,730)	36.0%	Income in line with expectations	
Pre Paid Ticket Income	(34,125,000)	(12,283,950)	36.0%	Income matches expenditure (see above) ##	
Other Income	(12,804,799)	(2,046,382)	16.0%	Low income below expectations - due to timing of receipts	
Total Income	(167,494,991)	(71,484,942)	42.7%		
Net Expenditure	1,198,649	(8,379,365)	-699.1%		

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Report to: Governance and Audit Committee

Date: 31 October 2019

Subject: **Risk Management Arrangements**

Director: Angela Taylor, Director of Corporate Services

Author(s): Greg Lamb, Corporate Projects Officer

1. Purpose of this report

- 1.1 To provide an update on developments in the organisation's corporate risk management arrangements and to consider the further planned improvements to these arrangements, including a proposed update of the Corporate Risk Management Strategy, with consideration to the recently completed internal audit report.

2. Information

Background

- 2.1 The Corporate Risk Management Strategy was first approved in 2017 and last endorsed by the Governance and Audit Committee in July 2018. Since this time significant progress has been made in developing and improving risk management activities across the organisation. This has included reviewing and updating all directorate risk registers and putting in place measures to ensure consistency in how these are proactively managed.
- 2.2 Within the last six months a network of 'risk coordinators' within each directorate has been established to coordinate risk management activities and assist with the maintenance of Directorate risk registers. These coordinators also provide recommendations for escalation and redistribution of risks across the organisation and meet as a cross-directorate group in order to provide feedback on wider measures to improve corporate risk management.
- 2.3 Corporately facilitated risk workshops continue to take place across the organisation, to raise the profile of risk management arrangements and to support staff in conducting practical risk assessments. Informal workshops have been held with Combined Authority members to ensure their feedback is incorporated into the organisation's risk appetite statement and corporate risk register.

- 2.4 A dedicated risk management section has been established on the internal intranet, where staff can access a range of information on how to conduct risk management activities in line with the Corporate Risk Management Strategy. This also contains risk register templates and a range of guidance documents, designed to assist staff in conducting constructive risk reviews, as well as providing information on risk identification and mitigation.
- 2.5 As part of the ongoing review of risk management arrangements, a benchmarking exercise has recently been undertaken to establish the distribution of risks across the organisation, taking into account Directorate registers and key organisational registers (e.g. Health and Safety, Information Governance).
- 2.6 A new reporting template to the Regulatory and Compliance Board is currently being developed to better assist them in providing an objective assurance of risk management across the organisation. A periodic dashboard report will be created for the group, to provide high level details of risk levels and travel across directorates and key organisational registers.
- 2.7 The function of Senior Leadership Team (SLT), Senior Management Team (SMT) and Regulatory and Compliance Board continue to be reviewed to strengthen their role in providing objective challenge and benchmarking across the organisation. Consideration is being given to the introduction and format of periodic sessions whereby individual Directorate and key organisational registers are reviewed scrutinised in full.
- 2.8 SLT, SMT, Directorate Management Teams (DMT) and the Regulatory and Compliance Board continue to discuss risks as a standing agenda item. The secretariats for these meetings continue to work closely with risk coordinators and risk owners to ensure any updates and progress on mitigation actions is recorded in the appropriate registers.

Internal Audit recommendations

- 2.9 In September 2019, an internal audit was commissioned to consider how well risk management arrangements are embedded across the organisation. This built on previous audit exercises, which had largely concentrated on assessing the overarching corporate risk framework, rather than a more detailed assessment of how these are working in practice. This audit work, which was completed in early October, found that while progress had been made in more clearly defining corporate risk management arrangements and supporting tools, there was still inconsistency in how these were being implemented. The audit therefore concluded that there was ‘limited assurance’ in place i.e. “there is an adequate framework of controls in place but the controls are not being consistently applied to ensure the risks are managed effectively”.

A summary of the specific internal audit recommendations and the actions currently in progress to address these is provided below:

Recommendation	Action
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<p>As part of the planned revision to the corporate strategy, an awareness raising and training plan is to be developed to support increasing both knowledge and confidence levels in applying risk management throughout the business.</p>	<ul style="list-style-type: none"> • A communication plan to ensure risk management messages are consistently drip-fed to the organisation is in development with internal communications colleagues. • Senior risk managers across the organisation have been identified and are being approached to discuss means of in-house upskilling of key staff. • A 'bite-size learning' session on the Corporate Risk Strategy and risk management principles has been scheduled and attendance is open to all staff.
<p>The revised strategy must make escalation and delegation more explicit and that the recording of risks and actions is clearly visible to everyone.</p>	<ul style="list-style-type: none"> • A simplified reporting and escalations flowchart will be included in the updated Risk Management Strategy, with additional guidance provided in plain English. • The Corporate Risk Register document will be included under the 'Key Documents' heading on the intranet. • Access permissions will be expanded to enable more staff to view Directorate and Corporate risk register/s. • A uniform ID system will be implemented to map risks across registers.
<p>The revised risk strategy must set out the role for risk coordinators around risk management, for example making explicit links to performance management and business planning and how risk management can be built into regular meetings.</p>	<ul style="list-style-type: none"> • A more detailed definition of the Risk Coordinators will be included in the refreshed Strategy • Membership of Risk Coordinators will be reviewed to ensure they suitably cover all areas of the organisation, and can adequately fulfil their roles. They will then be introduced to the organisation through internal communications. • Detailed risk register reviews are to be scheduled for Directorates in February 2020 based on completed Business Plans for 2020/2021, to ensure linkage between the two. • Guidance will be provided surrounding the inclusion of risk actions in performance reviews to monitor progress.
<p>The current matrix should be reviewed and the revised strategy take account of any potential changes that could simplify and make the process more accessible to all users.</p>	<ul style="list-style-type: none"> • A revised risk assessment matrix will be created based on best practice from partner organisations. • Columns in Risk Register template will be reduced to simplify recording. • Language to be standardised and simplified in register and across documentation, in line with ISO 31000.

<p>The Combined Authority should invest in professional membership to a relevant body to support the development of risk management, for example membership of ALARM (current annual cost, £199 for one member)</p>	<ul style="list-style-type: none"> • Director, Corporate Services and Head of Finance engaged to discuss organisational membership of ALARM.
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Risk Strategy Refresh

- 2.15 The findings from the recent internal audit and the wider review work as outlined above are being used to inform a comprehensive update of the Corporate Risk Management Strategy. This work is currently underway with the intention of providing an updated strategy for approval by the end of November 2019.

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 Governance and Audit Committee considers the work underway to further improve risk management arrangements.

8. Background Documents

None.

9. Appendices

None.