

Report to: Governance and Audit Committee

Date: 17 January 2019

Subject: Internal Controls and Financial Monitoring

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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.
- 2.2 At its last meeting discussion took place with regard to better linking the work on risk, compliance and the internal audit assurances provided and demonstrating, perhaps through a dashboard approach, how the three lines of defence model is working across the Combined Authority. This would enable any gaps in assurance to be identified and, where appropriate, inform the work of internal audit. It is proposed that further work is progressed on this to enable a new style of reporting for the upcoming financial year.

Internal controls

- 2.3 There have been no significant changes to internal controls in the period and monthly reconciliations are up to date.
- 2.4 Further to the information previously provided to the Combined Authority and to this Committee progress has been made in enhancing the internal governance arrangements in place for risk management and compliance with decision making. The new Regulatory and Compliance Board at officer level met for the first time in November and will provide information as required to this Committee and the Combined Authority. The first meeting considered

assurances provided and weaknesses identified 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.

- 2.5 Changes are planned to the governance arrangements in place for the LEP following the publication of 'Strengthening Local Enterprise Partnerships' by the Ministry of Housing, Communities and Local Government in July. This will fall into two phases, with some initial changes required for the current LEP and, should the proposed merger with York, North Yorkshire and East Riding LEP proceed, then new processes set up for the new merged LEP. This work will progress under the review of a joint team with representation from both LEPs. A further report will be provided to this Committee as the work streams are developed.
- 2.6 Regular governance meetings continue to be held with Leeds City Council to consider and review the transactions relating to investments and treasury management being carried out jointly with Leeds City Council. At the most recent meeting in November 2018 the high level of cash balances was considered and the challenges this presents with regard to placing funds with approved counterparties. LCC notified a minor breach with regard to the sums placed on deposit beyond a 12 month term. No resultant risk was identified and measures have been put in place to prevent this happening again. The limits on deposits will be reviewed as part of the treasury update within the budget report.

Treasury Management

- 2.7 As reported to the previous meeting, changes are required as a result of the revised CIPFA Code of Practice on Treasury Management and subsequent guidance issued by MHCLG which require the new Code to be implemented for the 2019/20 financial year. In summary local authorities must ensure that all of its capital and investment plans and borrowing are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt and consideration of risk and the impact, and potential impact, on the authority's overall fiscal sustainability. While indicators for sustainability are required to be set over a minimum three year rolling period, indicators should be set in line with a capital strategy and asset management plan that is sustainable over the longer term.
- 2.8 Determining a capital strategy for the authority is a new requirement in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The strategy, in a high level view, sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

The capital strategy should form a part of the authority's revenue, capital and balance sheet planning.

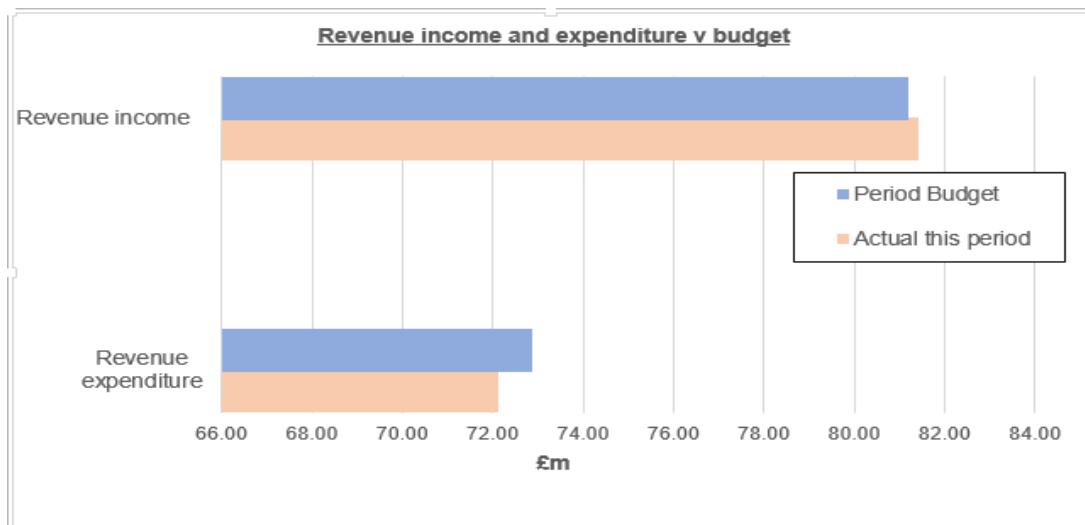
- 2.9 The strategy needs to be tailored to an authority's circumstances but should include capital expenditure, investments and liabilities and treasury management.
- 2.10 The new code also requires a set of indicators to be developed and monitored during the year. Many are current indicators which are currently monitored at the quarterly Treasury Management meetings with Leeds City Council but there are also a range of new indicators that need to be in place.
- 2.11 Work is still progressing on the production of the new requirements (capital strategy and new indicators), with the aim to be completed before the new financial year commences. Monitoring of the indicators will continue at the quarterly treasury meetings, with exceptions reported to this meeting. Final drafts of the required strategies, and proposed indicators, will be brought to the March meeting of this Committee.

Key indicators

- 2.12 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.
- 2.13 There have been no further reportable (RIDDOR) accidents reported since the previous meeting, leaving the total for the year at two.
- 2.14 Key indicators are monitored in relation to the suite of financial controls undertaken monthly in both the finance and the concessions and integrated ticketing team. These are both up to date as at the time of writing this report.

Financial monitoring – revenue budgets

- 2.15 A summary of the 2018/19 current spend to budget as at October 2018 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. The graphic below summarises the position:



- 2.16 The approved annual budget included a £1.4m deficit to be funded from general reserves. Latest draft forecasts suggest that actual expenditure is being managed within this figure and the use of general reserves is forecast to be reduced to £1.2 million, with the increased saving arising as a result of temporary staffing savings. The variances are still being reviewed as part of the work to establish an updated forecast for the year and 2019/20 draft budget.
- 2.17 Progress on capital budgets is being monitored through the Investment Committee which receives regular reports on expenditure forecasts and information on this is available via the papers on the website.

Risk management

- 2.18 As previously reported to the Governance and Audit Committee work is continuing to further roll out and embed the new corporate risk management arrangements throughout the organisation. Through the introduction of the first phase of the new internal governance arrangements which came into force in October 2018, risk management has now been formally added into the forward meeting planners for key management groups. Senior Leadership Team, Senior Management Team and Directorate Management Team meetings now have standard agendas which include the consideration of risk as a routine item.
- 2.19 In addition to this new reporting structure, a new Regulatory and Compliance Board was also established and met for the first time in November 2018. The purpose of this Board is to provide a corporate overview of any issues relating to matters of regulation or compliance and to identify any risks arising in these areas. The Board includes attendance from across the organisation and is chaired by the Director, Resources.
- 2.20 The areas which fall within the remit of the Regulatory and Compliance Board include Internal Audit, Health and Safety, information governance (including GDPR) and a wider range of other key controls. A standard agenda has been developed to ensure that there is an opportunity to report against all of these

areas and capture and new risks arising, or changes to known risks in each period. A regulatory and compliance risk register is in development following the first meeting and this will be reviewed and updated at future meetings. The group will also routinely consider any areas of risk which need to be escalated to the corporate risk register.

2.21 A summary of the current corporate risk register is provided at **Appendix 2**. At present there are currently two risks rated as 'very high' which relate to the risk of not securing devolved funding and not delivering against capital funding programmes. There are a further 16 risks which are rated as high but of these:

- two are rated as high which while their probability is considered unlikely, they have an impact which is considered to be 'highly significant'
- seven have a probability of 'possible' but an impact which is considered as 'major'
- seven have a probability of 'possible' but an impact which is considered as 'moderate'

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 Budget 2018/19 as at 31 October 2018.

Appendix 2 – Corporate risk register