



Audit Completion Report

West Yorkshire Combined Authority

Year ending 31 March 2020

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November 2020

Dear Committee Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 23 January 2020. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Authority was that the deadlines for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised deadlines we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 0113 394 5315.

Yours faithfully

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1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of West Yorkshire Combined Authority 'the Authority' for the year ended 31 March 2020, and forms the basis for discussion with the Governance and Audit Committee.

The detailed scope of our work as your appointed auditor for 2019/20 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Authority's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum:

- management override of control;
- property, plant and equipment valuation; and
- defined benefit liability valuation.

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

We anticipate issuing an unqualified opinion, without modification, on your financial statements. We intend to reflect in our auditor's report, the disclosure made in notes 9 (Property, Plan and Equipment) and 5 (Pension Costs) to the financial statements regarding material valuation uncertainty of property valuations.

Value for money conclusion

We anticipate concluding that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

The NAO has not yet issued its Group Instructions regarding the audit work required and its timetable for audit reporting. We would expect to be able to provide the information required by NAO by the reporting deadline once confirmed.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and to consider any objection made to the accounts. Further details on the exercise of our wider powers are provided in section 2.

Executive summary

Significant findings

Internal control recommendations

Summary of misstatements

Value for money conclusion

Appendices

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and value for money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Whole of government accounts procedures	●	Completion of whole of government accounts procedures
Post balance sheet events	●	Review of post balance sheet events up to the point at which we sign our audit report.
Review and closure procedures	●	Completion of audit closure procedures, including VFM conclusion moderation, final manager and partner review.

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in to material adjustment or significant change to disclosures within the financial statements
- Not considered likely result in material adjustment or change to disclosures within the financial statements

We will provide the Governance and Audit Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in January 2020. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

We set materiality at the planning stage of the audit at £5.631 million using a benchmark of 2% of Gross Operating Expenditure. Our final assessment of materiality, based on the final financial statements and qualitative factors is £5million, which is consistent with 2018/19's materiality. We set our trivial threshold (the level under which individual errors are not communicated to the Governance and Audit Committee, at £0.152 million based on 3% of overall materiality.

Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make, together with an update on any prior year recommendations.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Governance and Audit Committee in a follow-up letter.



2. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 8 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management;
- any significant difficulties we experienced during the audit; and
- modifications required to our audit report.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Authority's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum.

Significant risk

Description of the risk

Management override of controls

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to 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.

How we addressed this risk

We addressed this risk by performing audit work in the following areas:

- 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.

Audit conclusion

Our work has not identified any instances of management override of controls and we have no significant matters to report in relation to this risk.

2. SIGNIFICANT FINDINGS (CONTINUED)

Property, plant and equipment valuation

Description of the risk

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.

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.

How we addressed this risk

We have considered the Authority's arrangements for ensuring that PPE values are reasonable and have consulted with our own expert to provide data which has enabled us to assess the reasonableness of the valuations provided by the Authority's valuer. To do this we have:

- reviewed the valuation methodology used, including testing the underlying data and assumptions. We have also assessed the competence, skills and objectivity of the valuer;
- compared the valuation output with market intelligence provided by Gerald Eve the consulting valuers engaged by the National Audit Office, to obtain assurance that the valuations are in line with market expectations;
- assessed the effect of the valuation uncertainty disclosed by the Authority's valuer and the adequacy of disclosure in note 9 of the financial statements.

Audit conclusion

Other than the points highlighted in relation to the material valuation uncertainty and the proposed Emphasis of Matter paragraph within our auditor's report, we identified no significant matters to report in relation to the property, plant and equipment valuations.

2. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Defined benefit liability valuation

Description of the risk

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 2019.

The valuation of the Fund relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.

There are financial 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.

At the planning stage we assessed there was a risk that the assumptions and methodology used in valuing the Authority's pension obligation were not reasonable or appropriate to the Authority's circumstances. This could have a material impact to the net pension liability in 2019/20.

How we addressed this risk

We reviewed the controls that the Authority has in place over the information sent to the Actuary, including the Authority's processes and controls with respect to the assumptions used in the valuation. We also:

- evaluated the competency, objectivity and independence of the Actuary;
- 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 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.

Audit conclusion

Our work has not highlighted any indication of material estimation error in respect of the defined benefit liability valuation. However, as highlighted above in relation to the Authority's property valuations, the Pension Fund and the Pension Fund auditor has highlighted a "material valuation uncertainty" over the valuation of the Pension Fund's unquoted property and private equity funds. This has been disclosed in the notes to the Authority's Statement of Accounts and, in line with normal practice, we will need to include reference to this disclosure as an 'emphasis of matter' in our audit report. Our draft Auditor's Report at Appendix B will be updated for any 'emphasis of matter' paragraph once our internal consultation processes are complete. The inclusion of an 'emphasis of matter' paragraph is not a modification or qualification of our audit opinion.

2. SIGNIFICANT FINDINGS (CONTINUED)

Qualitative aspects of the Authority's accounting practices

We have reviewed the Authority's accounting policies and disclosures and concluded they comply with the requirements of the Code of Practice on Local Authority Accounting (the Code), appropriately tailored to the Authority's circumstances.

Draft accounts were received from the Authority on 5 June 2020 and were of a good quality.

Significant matters discussed with management

The impact of the Covid-19 pandemic has had a significant impact on the Authority and whilst the financial impact on the Authority will likely be more keenly felt in the 2020/21 financial year, we have specifically considered the potential impact on the significant risks in relation to property valuations and the pension liability valuation.

The Authority's response to relevant legal cases which impact on the valuation of certain pension liabilities. These included the proposed remedy for the 'McCloud' case (which emerged initially in 2018/19 and was reported on in our previous Audit Completion Report) which is likely to have led to an overstatement of the original estimate of the Authority's pension fund liability as at 31 March 2020. A further legal case (the 'Goodwin' case) has emerged in 2019/20. Management do not expect the impact of either of these cases to be material and do not propose to amend the draft financial statements.

As a result of independent quality reviews, in particular by the Financial Reporting Council, of our audit work and that of other audit suppliers we have needed to increase the level of work we do on defined benefit pension schemes and valuation of property, plant and equipment. This and other issues emerging during the year have had an impact on the fee required to complete the audit and we will discuss any fee variation request with management on completion of our audit work and update the Committee. All fee variation requests are subject to approval from PSAA.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. It is however worth noting that our audit work has been completed through remote working arrangements as a result of the constraints imposed by the COVID-19 pandemic. While challenging at times, the effective use of technology and close liaison with finance and other officers meant we were able to gather the audit evidence we needed.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability 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 powers as part of our 2019/20 audit.

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.

As at the time of writing this report, we have not received any questions from local electors or other parties.

2. SIGNIFICANT FINDINGS (CONTINUED)

Modifications required to our audit report

We have identified the following issue which has resulted in us proposing to issue a modified audit opinion. Our draft auditor's report, in full, is set out in Appendix B. Note as at the time of drafting this report, we have not received the Pension Fund Auditor's assurance, therefore we have not been able to assess the impact of this on our audit opinion.

Issue	Impact on our audit opinion
Material uncertainty relating to the valuation of land and buildings.	<p>Note 9 in the financial statements highlights a material valuation uncertainty in relation to the valuation of land and buildings as follows:</p> <p>The Authority's assessed the value of its land and buildings, which included using information from its valuers. The Authority has concluded that the value of land and buildings are not materially misstated. As part of this assessment the Authority has considered a 'material valuation uncertainty' disclosure relating to the CV-19 outbreak in the valuer's correspondence as follows:</p> <p>"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organization as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.</p> <p>Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID 19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.</p> <p>Our valuation(s) is / are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case"</p> <p>The Authority is not in a position to quantify the degree of uncertainty but will keep the valuation of its estate under review during 2020/21.</p> <p>In line with ISA706, we have determined that the auditor's report should draw the reader's attention to this disclosure given its significance to the financial statements. As a result, our auditor's report includes the Emphasis of Matter paragraph highlighted below. ISA (UK) 706.7 describes Emphasis of Matter paragraphs as 'a matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to the users' understanding of the financial statements'.</p> <p>In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 9 to the financial statements concerning the material valuation uncertainty statement made by the Authority's valuer.</p> <p>As highlighted, our opinion is not modified in respect of this matter.</p>

3. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	0
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	1

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Significant deficiencies in internal control – Level 3

Description of deficiency

The Authority does not record 'yellow' bus values individually in the fixed asset register, the value is recorded as an aggregate balance. While this deficiency is unlikely to have a material impact, it does require additional procedures when calculating proceeds from disposals and other capital charges.

Potential effects

During our testing of fixed asset disposals relating to yellow buses we were unable to trace individual disposal values to the fixed asset register to ascertain its net book value. As yellow buses are shown in the fixed asset register as an aggregate balance, it is a difficult and time-consuming process to obtain sufficient audit evidence to support disposals and other capital charges included in the accounts.

Recommendation

We recommend that this type of asset is recorded individually in the fixed asset register, to improve accuracy and reduce the time required to obtain audit evidence relating to this type of asset.

Management response

This is a historical issue, relating to how the yellow buses were purchased in batches, with each batch of vehicles having similar specifications and unit price. At the time it was considered appropriate to record them in aggregate on the asset register.

When disposals cross different batches, spanning several years, the pro-rated accumulative depreciation is difficult and time consuming to trace to individual vehicle disposals, which is why we use the aggregate balance to calculate net book values.

Management agrees any new additions of this type of asset, will be registered on an individual basis. This will simplify the process of calculating depreciation, loss or gain on disposal for individual assets.



3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points

We set out below an update on internal control points raised in the prior year.

Description of deficiency

Password parameters set within the Authority's systems (Dream, Network OS, Payrite, Haven) do not align with the Authority's password policy.

Further, the Authority's password policy does not comply with best practice in the following instances:

- User account blocked after failed attempts,
- Initial password is randomly generated (not always the same trivial password)

Potential effects

Passwords are not sufficiently complex reducing the level of access security of critical business systems.

Recommendation

The Authority should ensure that the password parameters for the critical business systems highlighted above reflect the Authority's password policy.

The Authority should review its password policy to ensure it is in line with best practice and addresses the deficiencies highlighted above.

2019/20 update

Our IT general controls testing in 2019/20 that has not highlighted any significant weaknesses in this area. We have observed instances where the password policy does not match Mazars password best practice, however mitigating controls have been identified.

Description of deficiency

There is no formal backup policy in place at the Authority.

Potential effects

Staff are not aware of the process to follow and the Authority may not comply with the legal and statutory requirements for retention of financial records in the case of a serious incident.

Recommendation

The Authority should develop and implement a formal backup policy.

2019/20 update

The Authority has an interim disaster recovery in place, which is available for all staff on the intranet.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points (continued)

We set out below an update on internal control points raised in the prior year.

Description of deficiency

There are opportunities to improve the Authority's ICT Change Management policies and procedures to ensure that they provide more comprehensive guidance to users. For example, the change management policy does not:

- state when the policy was created, or when it is next due to be updated
- state that low-risk changes by service providers can be implemented without required testing or approvals
- include details of unitary/module tests, non-regression tests, user acceptance tests
- specified that there should be segregation of duties between IT Development and Operations.
- Further, we found IT Developers have access to the Dream production system with admin privileges.

Potential effects

The change management policy may not be appropriately up to date and users may not follow best practice in relation to change management.

Further, Developers may make changes to the live system without the relevant approvals.

Recommendation

- a) The Change Management procedure should be reviewed and updated to ensure that it addresses the deficiencies highlighted above.
- b) The Authority should remove developers' privileged access to the production environment

2019/20 update

The Authority has introduced a change advisory board chaired by the Head of ITC Services. Developer privileges and system access are now routinely monitored by a member of the ITC team.

3. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Follow up of previous internal control points (continued)

We set out below an update on internal control points raised in the prior year.

Description of deficiency

Whilst, per the Code of Conduct, the onus is on Members of the Combined Authority to ensure that their declarations of interest remain up to date, there is an agreed process whereby the Governance Officer writes to Members following the annual meeting to remind them to review their declarations. This did not happen in 2018/19.

Further, the Authority's pro-forma declaration forms does not request (and thus capture) interests of close family members as required by IAS 24.

Potential effects

The Authority is not aware of transactions with related parties and the related parties note in the financial statements is incomplete.

Recommendation

The Authority should:

- a) strengthen arrangements to ensure Member's declarations of interest remain up to date;
- b) update the pro-forma declarations of interest form to include interests of close family members; and
- c) review all completed declarations of interest forms during the accounts close down process and interrogate the ledger to identify all related parties disclosed by members and senior management.

2019/20 update

Our work in this area has not noted any issues regarding Member declarations in 2019/20.

4. SUMMARY OF MISSTATEMENTS

We set out below the misstatements identified for adjustment during the course of the audit, above the level of trivial threshold of £0.152m.

The table below outlines the misstatements that were identified during the course of our audit which management has assessed as not being material, either individually or in aggregate, to the financial statements and does not currently plan to adjust.

There were no other audit adjustments to the draft statements.

We have noted several updates to the draft accounts that are not audit adjustments. The first of these updates relates to the application of grant conditions for the Growing Places Fund (GPF). Since the GPF portfolio transferred into the Authority, the revenue element of the fund has been understated by £2.004m. An adjustment has therefore been made in 2019/20, which has reduced the net costs of services by £1.500m and allocated £0.504m to deferred income. The second update has switched £4.577m from the capital grants unapplied reserve to the usable capital receipts reserve. This update relates to GPF loans that have been paid back to the Authority and which management consider appropriate to classify as usable capital receipts.

As the amounts involved were not material and there was not a change in accounting policy, no prior year adjustment was required.

Unadjusted misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Short term debtors			2,017	
Cr: CIES expenditure		2,017		
This is an extrapolated error relating to £23,341 of pre-paid expenditure relating to 2020/21, recorded in 2019/20. A pre-payment for this amount should have been recorded in short term debtors.				
2 Dr: CIES expenditure	383			
Cr: Accruals and deferred income				383
This is an extrapolated error relating to £70,000 of expenditure relating to 2019/20, recorded in 2020/21. An accrual should have been included in 2019/20's accounts.				
3 Dr: Pension Reserve			953	
Cr: CIES expenditure		953		
In September 2020, the Authority received updated pension figures from the actuary. The change in value is the result of the Pension Fund identifying an error when calculating the Authority's share of the fund's assets as at 31 March 2020. As the amounts involved are not material the Authority has decided not to update the accounts. We are comfortable with this treatment and note there could be a difference between the balances brought forward in 2020/21.				
Total unadjusted misstatements	383	2,017	2,017	383

4. SUMMARY OF MISSTATEMENTS (CONTINUED)

Disclosure amendments

During the course of the audit we identified a number of disclosure errors which are detailed below. All have been adjusted for during the course of the audit:

- **Note 8 (Officers' Remuneration and Members Allowances):** Additional disclosure was added to explain that three officers held the post of Head of Economic Services position in 2019/20. Table 8.3 was updated to include missing bandings and the managing director's pension costs in table 8.2 has been updated from £17,483 to £23,311. Other minor presentational corrections were made.
- **Note 20 (Financial Instruments):** Short Term Debtor's carrying value have been reduced by £711k (interest received), to make the note consistent with note 13 debtors.
- **Cash flow statement:** Interest received (£3,229k) and paid (£3,3324k) figures have been included at the foot of the cash flow, they were included in the Authority's working paper, but had not been transferred to the financial statements.
- **Note 13 (Short Term Debtors):** a local authority debtor totalling £1,058k has been reclassified as 'other local authorities' from 'central government'.

In addition to the above, we identified a number of minor presentational issues during our audit and these have all been amended by the Authority.



5. VALUE FOR MONEY CONCLUSION

Our audit approach

We are required to form a conclusion as to 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.

Commentary against each of the sub-criteria, and an indication of whether arrangements are in place, is provided below.

Sub-criteria	Commentary	Sufficient audit evidence?
Informed decision making	<p>The Combined Authority has a clear governance structure and includes the expected features of an effective governance framework in local government.</p> <p>In March 2020 the Government outlined details of its devolution deal for West Yorkshire. In preparation for this the Authority is considering its governance arrangements and planning to adopt a mayoral model. This will require changes to existing constitutional arrangements and prepare the Authority for additional delegated functions. At the time of writing our report, these arrangements have been drafted and are out for consultation.</p> <p>As in previous years, 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 is reviewed annually to reflect strategic objectives and allocates resources to priority areas. Regular financial reporting takes place through the Senior Management Team and Leadership Team and to the Combined Authority.</p> <p>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> <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 2019/20, 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.</p> <p>The Combined Authority ensures its Corporate Governance Code and Framework reflects changes made to arrangements in the year.</p>	Yes

5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Sufficient audit evidence?
Sustainable resource deployment	<p>Consistent with previous years the Authority delivered a budget surplus. In 2019/20 the Authority achieved a surplus of £1.3 million, against a planned deficit budget of £1.2 million. The surplus was predicated by significant underspends in salary costs, financing costs and the postponement of planned projects.</p> <p>In February 2020, the Authority approved a balanced revenue budget for 2020/21 and a MTFS up to 2023. The MTFS included funding gaps of £2.04 million in 2021/22 and £3.55 million in 2022/23. The Authority planned to address these gaps in September 2020, when it received clarity over the devolution deal and could better assess the impact of Brexit.</p> <p>As in previous years, the Authority has recognised the significant financial challenge facing the partner councils and has agreed reductions in the transport levy.</p> <p>The Authority is set to become a Mayoral Combined Authority (MCA) in May 2021. As such it will receive an annual gain-share of £38 million per year. The gain-share has to be used to promote economic growth in the MCA area.</p> <p>The Authority is currently considering how this income will be used, with current thinking that it will be strategy led and based on the Strategic Economic Framework approved by the MCA. The Authority is currently looking at ways the additional income can be used to reduce the pressures in the MTFS.</p> <p>Since March 2020, the Authority has been dealing with the financial impact of COVID-19. It reappraised its 2020/21 budget and identified a “worst case scenario” of a £12 million income gap. This is a significant financial challenge to the Authority but it has identified the following measures to mitigate this risk:</p> <ul style="list-style-type: none"> • use of reserves, in addition to the General Fund reserve of £8.2 million and other usable reserves of circa £1.1 million, the Authority will consider applying its £38.3 million West Yorkshire and Transport Fund (WYTF) reserve to address immediate funding issues. This would require replacing in order to deliver the Authority’s agreed programme over the coming years; • the Authority received a further £1.3 million from the Department for Transport, which, with an earlier amount of £0.8 million and other revised cost estimates has reduced the financial impact of the £12 million worst case scenario; and • there are schemes included in the MTFS up to 2023, which are currently grant funded. While the Authority has included them in the MTFS, these schemes could be stopped or restructured to reduce costs. At this stage the Authority is considering whether they continue with these schemes and is assessing how to manage this. <p>In July 2020, the Authority has communicated these risks and the options available to the Authority to the Governance and Audit Committee.</p>	Yes

5. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Sufficient audit evidence?
Working with partners and other third parties	<p>As in previous years the Authority continues to play an important and active role in providing the vehicle for closer partnership working between the local authorities of West Yorkshire and the LEP in order to ensure improved economic outcomes for local people. It focuses on the areas that make the most sense to deliver at the city region level.</p> <p>As part of its arrangements for transition to a Mayoral Combined Authority (MCA) in 2021, the Authority has consulted with its stakeholders. The Authority, in conjunction with its five local government partners have published their 'scheme', which outlines the proposed changes to the governance and functions of the Combined Authority, to that of a mayoral model. It also considers the transfer of functions currently exercised by the Office of the Police and Crime Commissioner and the constitutional arrangements that will be required. It also sets out proposals for the Combined Authority to be delegated additional functions.</p> <p>Since September 2016 the Strategic Economic Plan (SEP) has set out priorities for growth and development for the Authority and its partners across the Leeds City Region. To reflect the Authority's growing range of policy areas and to incorporate any future mayoral commitments, the Authority has developed its Strategic Economic Framework (SEF). While the SEP will continue to be used for Growth Deal programmes until this ends in March 2021, the SEF will form an overarching economic strategy for the region, reflecting these new powers, responsibilities and objectives.</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>	Yes

5. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant audit risks

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

Risk	Work undertaken	Conclusion
<p>Financial sustainability</p> <p>The Authority's medium term financial strategy (MTFS) sets out the financial challenges the Authority faces in the medium term. This 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>The continuing challenges the Authority faces are not new and are not unique to the West Yorkshire Combined Authority. However, the challenges do present a significant audit risk in respect of considering the arrangements that the Authority has in place to deliver financially sustainability over the medium term.</p> <p>In March 2020 the Authority had to consider the impact of the COVID-19 pandemic on its financial plans, both in the current financial year and to its MTFS.</p>	<p>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. We have also considered the arrangements the Authority has put in place to mitigate impact of COVID-19 and devolution on the 2020/21 budget and MTFS up to 2023; and the arrangements in place to monitor progress in delivering a balanced budget for 2020/21 and the MTFS up to 2023. 	<p>In February 2020, the Authority approved its balanced revenue budget for 2020/21 and a MTFS. The MTFS included funding gaps of £2.04 million in 2021/22 and £3.55 million in 2022/23. While a deficit MTFS was set, this was because the Authority was awaiting clarity about the financial implications of the West Yorkshire devolution deal and to reassess the potential financial impact of Brexit.</p> <p>In March 2020, the Chancellor announced the details of the deal and the Authority is now making arrangements to become a Mayoral Combined Authority (MCA) in May 2021. The MCA is to receive additional funding including an annual gain-share totalling £38 million per year. The Authority is currently assessing how this additional funding can be used to reduce the pressures in the MTFS.</p> <p>The Authority has arrangements to regularly monitor and update the 2020/21 budget and MTFS, in light of the COVID-19 pandemic.</p> <p>The Authority has assessed the potential worst case scenario as £12 million in 2020/21. The Authority has already received £2.1 million of additional funding from Central Government and is considering if it will be required to deploy its usable reserves totalling £47.6 million, recognising these will need to be replenished in future years.</p> <p>While recognising the significant challenges facing the client, the Authority has a good track record of delivering its financial plans. At the time of writing this report there are no matters which give rise to VFM reporting issues in 2019/20 but, members may need to revisit priorities to ensure spending plans are affordable.</p>

Our overall value for money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified Value for Money conclusion for the 2019/20 financial year.

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DRAFT MANAGEMENT REPRESENTATION LETTER

Mr M Kirkham
Mazars LLP
5th Floor
3 Wellington Place
Leeds
LS1 4AP

DD /MM 2020

Dear Mark

West Yorkshire Combined Authority - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of West Yorkshire Combined Authority for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within West Yorkshire Combined Authority you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Chief Finance Officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Combined Authority and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on West Yorkshire Combined Authority's financial position, financial performance and cash flows.

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DRAFT MANAGEMENT REPRESENTATION LETTER

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by West Yorkshire Combined Authority in making accounting estimates, including those measured at current or fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against West Yorkshire Combined Authority have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Authority has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Chief Finance Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting West Yorkshire Combined Authority involving:
 - management and those charged with governance;
 - employees who have significant roles in internal control; and
 - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting West Yorkshire Combined Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of West Yorkshire Combined Authority's related parties and all related party relationships and transactions of which I am aware.

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DRAFT MANAGEMENT REPRESENTATION LETTER

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Covid-19

We confirm that we have carried out an assessment of the potential impact of the Covid-19 Virus pandemic on the Authority, including the impact of mitigation measures and uncertainties, and that the disclosures in the Narrative Report fairly reflects that assessment.

Going concern

To the best of my knowledge there is nothing to indicate that West Yorkshire Combined Authority will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. All uncorrected misstatements are included in the Appendix to this letter.

Yours sincerely

Director, Corporate Services (s73 Officer)

Date.....

Appendix

Schedule of unadjusted misstatements

[Include table of unadjusted misstatements or remove Appendix if there are none]



APPENDIX B

DRAFT AUDITOR'S REPORT

Independent auditor's report to the members of West Yorkshire Combined Authority (Draft Only – do not include in the financial statements)

Report on the financial statements

Opinion

We have audited the financial statements of West Yorkshire Combined Authority for the year ended 31 March 2020, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of West Yorkshire Combined Authority as at 31st March 2020 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty relating to valuation to land and property

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 9 to the financial statements concerning the material valuation uncertainty statement made by the Authority's valuer.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the Annual Governance Statement information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.



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DRAFT AUDITOR'S REPORT

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Chief Finance Officer is also responsible for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Finance Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Authority is informed of the intention for dissolution without transfer of services or function to another entity. The Chief Finance Officer is responsible for assessing each year whether or not it is appropriate for the Authority to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Conclusion on West Yorkshire Combined Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, West Yorkshire Combined Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in April 2020, as to whether 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of West Yorkshire Combined Authority, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Mark Kirkham
For and on behalf of Mazars LLP
5th Floor
3 Wellington Place
Leeds
LS1 4AP
DD/MM 2020

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APPENDIX C INDEPENDENCE

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



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