

## **Private and Confidential**

Mark Outterside  
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30 September 2021

Dear Mark

Please find below the responses to the questions put to the Governance and Audit Committee in your letter dated July 2021, received by email on 8<sup>th</sup> July 2021.

**1. How does the Governance and Audit Committee oversee management's processes to identify and respond to the risk of fraud and possible breaches of internal controls? In particular how the Committee oversees managements:**

- **Assessment of the risk that the financial statements may be materially misstated due to fraud or error;**
- **Processes for identifying and responding to risks of fraud in the authority. This includes any specific risks of fraud which management have identified, and classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;**
- **Processes for communicating to employees its view on business practice and ethical behaviour; and**
- **Processes for communicating to you for identifying and responding to fraud or error.**

Response:

A number of elements are in place to ensure that fraud or errors are not present in the financial systems and thereby the financial statements.

Management ensure internal controls are functioning effectively through monitoring and review. The performance of key financial controls are regularly reported to the officer Regulatory and Compliance Board and the Member Governance and Audit Committee. Internal Audit perform a review of all the key financial systems to check if they are set up effectively and undertake further work on a risk basis. The results of these audits are reported to this Committee. A robust and transparent financial system with comprehensive access controls is in place, with a reconciliation of the financial system to the financial statements.

The Combined Authority has in place clear procedures for reporting any suspected frauds, including adoption of the Whistleblowing policy which has been fully revised this year and adopted by both the Combined Authority and LEP. A revised Anti-Fraud policy and new Anti-Money Laundering policy have also been developed and accepted for use across the Combined Authority and LEP, any allegations and outcomes of investigations are reported to the Regulatory and Compliance Board and to the Governance and Audit Committee. Members adhere to the Code of Conduct which is taken each year to the Annual Meeting of the Combined Authority in order to remind Members of their obligations under the code – this has been updated in line with national best practice in the year. Deep dive sessions are held periodically at the Governance and Audit Committee where Internal and External Audit as well as senior management within the Combined Authority present updates and mitigation actions taken in response to the adequate management of risk and control activities.

The Combined Authority actively participates in the National Fraud Initiative exercise, with any key findings reported to both the officer Regulatory and Compliance Board and the Governance and Audit Committee.

The Combined Authority has a robust risk management process, with risk considered and risk registers maintained at all levels throughout the organisation. The Combined Authority (and sub committees) regularly review current and emerging risks and this process would pick up any related to potential fraudulent activity and controls required to mitigate such risks.

**2. Has the Governance and Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1<sup>st</sup> April 2020 to 31<sup>st</sup> March 2021?**

Response:

To our knowledge there have been no identified frauds during 2020/21.

**3. Has the Governance and Audit Committee identified any specific fraud risks within the organisation?**

Response:

No.

**4. Is the Governance and Audit Committee aware of any significant breaches of internal control during 2020/21?**

And

**5. Is the Committee satisfied that internal controls, including segregation of duties exist and work effectively. If not (i) what are the risk areas and (ii) what other controls are in place to detect / prevent fraud.**

Response:

A governance report is provided to the Committee each quarter highlighting any key issues in relation to internal controls. Internal control reviews form part of the Internal Audit Plan 2020/21 and internal audit report back to this Committee each quarter. Internal Audit also produce an annual report that summarises the reviews undertaken and that supports the Annual Governance Statement in the Annual Accounts. This was considered by members at the last meeting and included a positive assurance from internal audit.

All policies and processes for identifying fraud are endorsed by the Governance and Audit Committee. A governance report is provided to the Committee each quarter highlighting any key issues in relation to risk. This would include any actual or suspected fraud matters. In areas where fraud might be deemed more likely to occur particular attention is paid to the internal controls in place. This is relevant to travel centres which is the only area where large volumes of cash are handled and the finance team which handles large volumes of electronic cash. Controls in these areas are monitored and any reviews of these undertaken by internal audit are reported back to the Governance and Audit Committee.

To our knowledge there have been no significant breaches of internal controls during 2020/21.

**6. Is the Committee aware of any related party relationships or transactions that could give rise to instances of fraud?**

And

**7. How does the Committee mitigate the fraud risks associated with related party relationships and transaction?**

Response

Declarations of interest are sought from all Members, key officers and new staff members and are available on the Combined Authority's website. Also, our Board / Committee meeting agendas require 'interests' to be declared on any agenda items.

In addition, since 2019/20, a more robust specific process has been introduced that captures the declarations required for related party disclosures. Reliance / assurance is also placed on both the internal audit and the external audit work undertaken during the year.

Contracts Standing Orders require that all relationships of a business or private nature with external contractors, or potential contractors, must be made known to the appropriate manager in accordance with the Officers' Code of Conduct.

To our knowledge there have been no risks associated with related party relationships during 2020/21.

**8. Is the Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading?**

Response

To our knowledge there have been no such entries to the accounting records during 2020/21.

**9. Is the Committee aware of any organisational, or management pressure to meet financial or operating targets?**

And

**10. Is the Committee Aware of any inappropriate organisational, or management pressure being applied, or incentives offered, to employees to meet financial or operating targets?**

Response

To our knowledge there has not been any inappropriate organisational or management pressure regarding targets during 2020/21. However, the Combined Authority do ensure 'stretching' targets, financial or otherwise are in place and management are held to account to achieve these.

**11. How does the Committee gain assurance that all relevant laws and regulations have been complied with?**

And

**12. Are you aware of any instances where of significant non-compliance during 2020/21?**

Response:

The Combined Authority employs a full legal team which is headed by a qualified solicitor who attends all meetings of the Combined Authority. As part of the work of that legal team, officers are specifically tasked with considering changes in legislation relating to their particular areas, such as health and safety, property, employment law and governance. This topic also forms a standing item on the agenda of the officer Regulatory and Compliance Board. Any non-compliance would be reported and would be expected to appear on the risk register - regular reviews of risk are undertaken by the Combined Authority and Governance and Audit Committee. A number of internal audit reports during the year also consider compliance matters.

To our knowledge there have been no instances of non-compliance during 2020/21.

**13. Are you aware of any actual or potential litigation or claims that would affect the financial statements of the authority?**

Response:

We are not aware of any outstanding claims against the Combined Authority that would have a significant impact on the financial statements as at 31 March 2021.

The NGT/Supertram land issues relating to on-going claims are disclosed in the financial statements as is the situation with claims arising from Mutual Municipal Insurance. Legal proceedings regarding a property matter have commenced against the Combined Authority which has the potential for a damage claim which could lead to a financial liability. At this stage it is too early to disclose the outcome.

**14. How has the Governance and Audit Committee assessed and satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements?**

**And**

**15. Has the Governance and Audit Committee identified any events or conditions since the assessment was undertaken which may cast significant doubt on the organisation's ability to continue as a going concern?**

Response:

A comprehensive note is attached to this letter at Appendix 1.

For further information, the officer Senior Leadership Team receive and sign off a report each year, that details both the accounting policies and processes to be adopted during the year, along with details of the comprehensive 'closedown' timetable and responsibilities for all concerned in the year end process.

Yours sincerely

Councillor Susan Hinchcliffe  
**Chair, Governance and Audit Committee**  
**(On behalf of the Governance and Audit Committee)**

## **Going Concern Note West Yorkshire Combined Authority year end 31/3/2021**

### **Going Concern Principle**

The concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. Where this is not the case, particular care will be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept can have a fundamental impact on the financial statements.

Accounts drawn up under the Code assume that a local authority's services will continue to operate for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. A Combined Authority relies on funding from its constituent members, all of which are local authorities with revenue raising powers, and it is able to levy on them the funding it requires to deliver its services.

### **West Yorkshire Combined Authority – Going Concern Assumption**

The medium term finance strategy / budget approved by the Combined Authority in February 2021 set out the proposed funding of the Combined Authority and formally approved the budget for the current year 2021/22. The budget and strategy ensure that the Combined Authority raises the level of transport levy that allows services and functions to continue to operate at a level that is aligned to the policies and objectives of the organisation and ensures the reserves are maintained so as to mitigate risks to the organisation.

The budget and strategy make suitable provision to address the pension deficit and as an Authority we collectively work with the West Yorkshire Pension Fund and actuary to ensure contributions are realistic and sustainable. Additionally, a 3 year indicative capital programme complete with capital funding/finance was agreed as part of this process.

### **Covid-19**

The Covid19 situation that emerged in March 2020 evolved over the financial year 2020/21 and overall the position was well managed with no adverse impact on the Combined Authorities financial position.

The Combined Authority was still in receipt of its key funds and received support funding from Central Government following representations made at senior officer, political level and collectively with other Mayoral Combined Authorities. The general reserves were 'protected' and forecast to remain at the same level as 2019/20 – ie approximately £13 million as at 31.3.21 (some £8 million above minimum levels).

We had regular meetings with our partner local authorities, as our main funder of the revenue budget, and this includes the Directors of Finance, Chief Executives and Leaders.

We had engaged early with the Combined Authority Board, signalling that we planned to take further difficult actions in the early months of 2020/21 if no help was forthcoming, but fortunately this was not required. In parallel we signalled to Government that we could not continue to pay bus operators for services not being delivered (ie paying Concessionary Fares and Tendered Services - some £80 million per annum - at pre covid rates when patronage has plummeted) and this led to support / further guidance being issued. Payments to operators was kept under regular review throughout the year.

Additionally, we had the comfort of a near £40 million West Yorkshire plus Transport Reserve, which though prudently created for the purpose of funding the future borrowing costs for this programme, was actually available if required for such an emergency circumstance (subject to Combined Authority approval).

### **Mayoral Combined Authority / devolution deal**

Finally, the Combined Authority secured a devolution deal in March 2020 and this became 'law' in January / February 2021, with the first 'gainshare' payment (£38m) being received in March 2021. With the appointment of a Mayor in May 2021, we will be a fully working Mayoral Combined Authority from that date. The overall devolution deal includes 'gainshare' funding for 30 years, worth £1.14 billion.

Other significant funding receipts - from the devolution deal – have started to be received. These include the Transforming Cities programme (which actually started in 2019/20), Brownfield Housing and Adult Education (confirmation of funding from 2021/22). Additionally, the Getting Building Fund (£26m for 2 years) commenced in 2020/21.