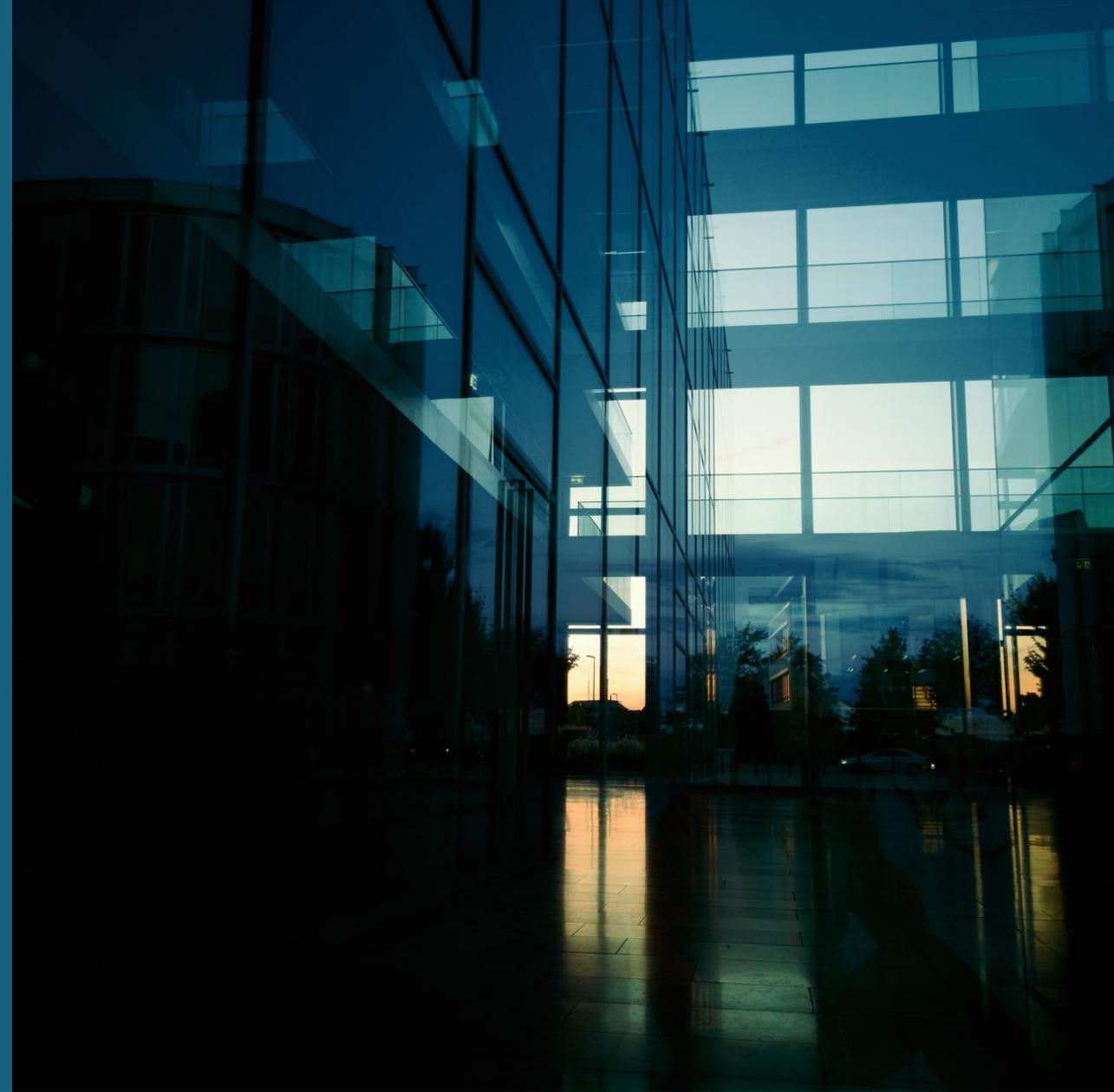


Auditor's Annual Report

West Yorkshire Combined Authority –
year ended 31 March 2021

January 2022



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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. No responsibility is accepted to any member or officer in their individual capacity or to any third party.

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Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for West Yorkshire Combined Authority ('the Authority') for the year ended 31 March 2021. Although this report 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 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 4 October. Our opinion on the financial statements was unqualified.



Value for Money arrangements

In our audit report issued on the 4 October 2021 we reported that we had not completed our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Authority's arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.



Wider reporting responsibilities

We have not yet received group instructions from the National Audit Office in respect of our work on the Authority's WGA submission. We are unable to commence our work in this area until such instructions have been received and we cannot issue our 2020-21 Certificate until this work is completed.

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. We did not receive any questions or objections in respect of the Authority's financial statements.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

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 2021 and of its financial performance for the year then ended. Our audit report, issued on 4 October 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Our Audit Completion Report, presented to the Authority's Governance and Audit Committee on the 30 September 2021, provides further details of the findings of our audit of the Authority's financial statements. This includes our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit.

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Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

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 and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Authority plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Authority ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Authority uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Authority has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements. Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses. We did not highlight any risks of significant weaknesses as part of our review of the Authority’s arrangements.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement. There are no significant weaknesses to report.

The table below summarises the outcomes of our work against each reporting criteria. On the following pages we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	9	No	No
Governance	10	No	No
Improving economy, efficiency and effectiveness	12	No	No

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3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to WYCA’s operating environment in 2020-21

The majority of the Authority’s operational activities are funded from the transport levy, paid by the five constituent West Yorkshire local authorities and contributions from the Leeds City Region Enterprise Partnership (LEP). The Authority sets its revenue budget and transport levy annually and this process includes approval by Members for the five constituent local authorities.

The Authority entered 2020-21 at the start of the national lockdown, and faced a significant operational impact from the effects of the pandemic. Patronage on the transport network across West Yorkshire reduced significantly, leading to material shortfalls in revenue, in particular in relation to fare income. The Authority worked closely with the Department for Transport to secure additional grant funding, mitigating the lost revenues throughout 2020-21.

Financial planning and monitoring arrangements

In February 2020, the Authority approved its balanced revenue and indicative capital budgets for 2020-21. However, due to the impact of the pandemic, the Authority was required to mitigate the financial impact of Covid and therefore approved a revised budget in July 2020. Throughout the year the Authority updated its budget forecasts, which ensured budgets were up-to-date in the uncertain operating environment of the pandemic. As part of our review we considered the underlying assumptions made by management, to provide assurance they were reasonable in the context of the pandemic, and were adequately reported throughout the year.

Due to mitigations put in place during the year, the Authority reported a surplus of £4.8 million at 31 March 2021. We have considered the arrangements in place in respect of budget management as part of the Governance criteria later in this report.

During the year the Authority reported its financial position to the Combined Authority and its final outturn to the newly introduced Finance, Resource and Corporate Committee. We reviewed the reports presented in 2020/21, which contain detail of performance against revenue, with explanations for any significant variances detailed in the report. The Finance reports also contain information on progress against approved capital programme and reasons for over or underspends against the budget profile.

As part of the annual accounts process management completes a review of its ability to operate as a going concern, highlighting any potential financial risks for the following financial year. In 2020-21, the Authority has not highlighted any significant going concern risks. This assumption was predicated by continued receipt of the transport levy, regardless of performance (£92 million), robust levels of reserves (£13 million) and receipt of the Mayoral Combined Authority ‘gain share’ (totalling £38 million) in March 2021.

Arrangements for the identification, management and monitoring of funding gaps and savings

As part of the budget submission process directorates within the Authority are routinely asked to consider how they can minimise costs and maximising income. Discussions with management has confirmed challenge sessions are used to scrutinise the funding requirements which inform discussions with Members on options to present a balanced budget. These resulted in a range of efficiencies and savings that contribute to the Authority being able to reduce the transport levy. This process enabled the Authority to set a balanced budget without the need to use general reserves.

Arrangements and approach to 2021-22 financial planning

The 2021-22 budget was approved by the Combined Authority in February 2021 and considered the Authority’s transition to a Mayoral Combined Authority (MCA), effective in May 2021. While the MCA has been factored into the current budget, the budget setting process has largely followed the arrangements in place for 2020-21. The 2021-22 budget is prepared on the following basis and assumptions:

- No change in the transport levy from 2020-21, at £92.2 million.
- The MCA is now responsible for the devolved adult education budget and now includes expenditure totalling £42 million.
- Police and crime budgets are not included in the Authority’s 2021-22 budget.
- The Authority has applied the most up to date Department of Transport guidance on reimbursement of concessionary travel costs based on reduced passenger numbers, which has resulted in a saving, while noting there is a risk operators could still claim for increased costs and lost revenue.

Based on the above no significant weaknesses in the Authority’s arrangements in relation to financial sustainability have been identified.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risk management and monitoring arrangements

As part of the Authority’s governance framework, the Combined Authority has overall responsibility for the risk management framework. Operationally, the framework is managed by Internal Audit and the Governance and Audit Committee has the responsibility for providing the Authority with assurance that the risk management process in place is effective.

Teams and directorates maintain and update their own risk register, which feeds into the corporate risk register at the organisation level. We have reviewed an example risk register and confirmed it is sufficiently detailed to allow for effective risk management, with each risk having an assigned risk owner and a risk score based on a probability and impact matrix. Where mitigating actions are identified they are assigned a risk owner and due date to provide accountability and allow for effective oversight of the risk.

The corporate risk register is built from the team and directorate risk registers, and provides the senior leadership team with oversight of the key risks faced by the Authority. Regular updates are taken to the Governance and Audit Committee on key risk management activities within the organisation, providing assurance over the effectiveness of the arrangements in place.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Authority has a team of internal auditors, led by the Head of Internal Audit. The annual Internal Audit plan is agreed with management at the start of the financial year and reviewed by the Governance and Audit Committee prior to final approval.

We have reviewed the Internal Audit Plans for 2020/21 and 2021/22 and confirmed work is planned on a risk based approach. The risk rating of each audit area determines the frequency of audit, with key areas such as Information Systems and Finance being subject to annual audit procedures. Progress reports are presented to each Governance and Audit Committee meeting including follow up reporting of recommendations not fully implemented by agreed due dates. This allows the Committee to effectively hold management to account on behalf of the Authority. At the end of each financial year the Head of Internal Audit provides an opinion on the overall adequacy and effectiveness of the Authority’s framework of governance, risk management and control. For 2020/21 this gave an adequate level of assurance.

Arrangements for budget setting and budgetary control

The Authority runs a detailed annual budget setting process whereby budget holders for each directorate are required to provide detailed budgets for all cost and income headings within their directorate. This process is completed for both revenue and capital budgets, with the latter being indicative spend, funding and borrowing requirements. The budget setting process is run in tandem with the business and corporate planning process, to ensure budgets meet the performance objectives of the Authority.

Budget holders are also requested to provide key information with regards to forecasts for the following two years which is used to update the Medium Term Financial Strategy. The detailed budgets prepared include the workforce plan which includes a detailed person by person analysis of each cost centre, including assumptions such as grade and hours worked. Directorate budgets are considered by senior management and at member level, via the Member Budget Working Group, Overview and Scrutiny Committee, Governance and Audit Committee before approval by the Authority.

Through out the year budget holders are required to produce an updated budget, or reforecast, for the full year. This is based on actual results to date and a re-review of the budget for the remainder of the year based on recent trends and known changes to future projections.

Following approval of the budget, progress against targets is then monitored on a regular basis including the preparation of monthly management accounts and challenge on key variances to agreed budgets. A member of the finance team attends Governance and Audit Committee, so they aware of any financial issues raised, and can raise appropriate challenge to ensure the financial aspects of any key decisions have been appropriately considered.

Decision making arrangements and control framework

The Authority has an established governance structure which is set out within its Annual Governance Statement. This is supported by the Authority’s constitution and scheme of delegation which shows the levels of authority required for all key decisions. Executive Directors have clear responsibilities linked to their roles and the Board Sub-Committee structure in place at the Authority allows for effective oversight of operations and activity. These arrangements have been updated in 2021-22 to take account of mayoral functions.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria (continued)

Decisions which require 'new' investment or expenditure for capital projects or schemes not included in the annual budget must be presented to the Authority for consideration and approval before any expenditure can be incurred. All reports must follow a standard format which ensures that all business, strategic, commercial, economic and financial aspects of the scheme have been considered in reaching the recommended decision. We have reviewed an example project decision taken to the Authority and confirmed the decision making process was supported by appropriate justification for the investment, including the strategic fit, planned programme management and financial implications. The Director of Delivery and relevant officers consider the projects via the assurance framework prior to it being presented to the Authority.

WYCA has a full suite of governance arrangements in place. These are set out in the Authority's Statement of Accounts and Annual Governance Statement. We reviewed these documents as part of our audit and confirmed they were consistent with our understanding of the arrangements in place. In addition to the Constitution, WYCA has Codes of Conduct that officers and members need to be aware of and adhere to. All formal meetings include a request for Declarations of interests from all attendees at the start of the meeting. The Authority also has a Gifts and Hospitality policy which sets out the limited occasions when gifts or hospitality may be acceptable.

In 2021-22 the Authority has updated and adopted its governance arrangements and constitution consistent with its responsibilities as a mayoral authority. The updated constitution sets out the governance arrangements for the Authority's non-mayoral and mayoral functions.

Based on the above considerations we are satisfied there is not a significant weakness in the Authority's arrangements in relation to governance.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Arrangements for assessing performance and evaluating service delivery

The Authority and LEP agree a Corporate Plan annually which outlines the corporate ambitions, key priorities and targets for the year. As part of this process, the Authority has developed a set of key performance indicators (KPIs) linked to these objectives. These were routinely monitored and reported throughout 2020/21, to the Combined Authority as part of the 'corporate planning and performance' report. Any performance or delivery issues highlighted are considered and mitigations or remedies are put in place. Review of the year end report has not highlighted any significant performance issues. |

Any deviation from the Authority's procurement rules have to be agreed via a waiver process as described in the standing orders and are reported to the Regulatory and Compliance Board.

Based on the above considerations we are satisfied there is not a significant weakness in WYCA's arrangements in relation to improving economy, efficiency and effectiveness.

Arrangements for effective partnership working

The Authority works closely with the five local authorities in West Yorkshire and the Leeds City Region in delivering its priorities, per the Authority's Corporate Plan and LEP Delivery Plan.

In 2020-21, the Authority also developed its Strategic Economic Framework (SEF). The SEF provides an overarching economic strategy for the region, reflecting on the mayoral powers, responsibilities and objectives.

As in previous years the Authority participates in sub-regional networks, across the North of England. These collaborations are intended to overcome the challenges posed by the unbalanced UK economy and to develop the Northern Powerhouse. Currently the Authority plays an active roll in 'Transport for the North' (England's sub-national transport body) and the 'NP11' group, which is an association for the 11 Enterprise Partnerships across the Northern Powerhouse area.

Arrangements for commissioning services

The Authority has a procurement strategy and approach which ensures that it complies with all legal and regulatory requirements as well as achieving best value in procurement processes. As part its transition to a mayoral authority the Authority has updated its policies, including its contract standing orders, which are available to all staff via the Intranet. Standardised templates and procurement standing orders are used throughout the procurement process to ensure consistency of approach.

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Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors 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 the law; and
- issue an advisory notice.

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, and to carry out certain tests on the data. We have not yet received group instructions from the National Audit Office in respect of our work on the Authority's WGA submission. We are unable to commence our work in this area until such instructions have been received and we cannot issue our 2020-21 audit certificate until this work is completed.

4. Other reporting responsibilities and our fees

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum presented to the March 2021 Governance and Audit Committee. Having completed our work for the 2020/21 financial year, we can confirm that our fees are as follows:

Area of work	2019/20 fees	2020/21 fees
Planned fee in respect of our work under the Code of Audit Practice.	£25,964	£25,964
Additional fees in respect of work completed in regard to valuation testing for Property, Plant & Equipment and Defined Benefit Pensions Schemes as a result of changes in regulatory expectations.	£3,000	£5,000*
Additional fees in regard to new accounting standards: ISA 540 (Revised): Auditing accounting estimates and related disclosures; ISA570 (Revised) Going Concern.	-	£1,500*
Additional fees in respect of the change in the Code of Audit Practice in respect of Value for Money arrangements.	-	£5,000*
Total fees	£28,964	£37,464

* Fee variations subject to approval and confirmation by the Public Sector Audit Appointments Ltd (PSAA).

Fees for other work

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

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*where permitted under applicable country laws.