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Dear Governance and Audit Committee Members

West Yorkshire Combined Authority – 2021/22:

Governance and Audit Committee briefing note - ISA240 (Fraud), ISA250 (laws and regulations), ISA501 (litigation and claims) & ISA570 (going concern)

Introduction

This letter aims to summarise for the Governance and Audit Committee the requirements under International Auditing Standards, in respect of preventing fraud in the annual accounts, compliance with laws and regulations, litigation and claims, and going concern. This letter requests an update from the Governance and Audit Committee in order to inform our continuous audit planning prior to the start of the final stage of our audit of West Yorkshire Combined Authority's (the Authority) 2021/22 accounts.

International Standard for Auditing 240 - The auditor's responsibility to consider fraud in an audit of financial statements

Background

Under the ISA, the primary responsibility for preventing and detecting fraud rests with both management and 'those charged with governance', which for the Authority is the Governance and Audit Committee.

The ISA requires us, as external auditors, to obtain an understanding of how the Committee exercises oversight of management's processes for identifying and responding to the risks of fraud and the internal controls established to mitigate them.

What is 'fraud' in the context of the ISA?

The ISA views fraud as either:

- the intentional misappropriation of the Authority's assets (cash, property, etc); or
- the intentional manipulation or misstatement of the financial statements.

What are auditors required to do?

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We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA240. We are therefore making requests from the Governance and Audit Committee and management on the following, or similar, issues:

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 control? 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 organisation. This includes any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- Processes for communicating to employees the views on business practice and ethical behaviour. For example updating, communicating and monitoring against the Authority's code of conduct; and
- Processes for communicating to those charged with governance the arrangements for identifying and responding to fraud or error

2) Has the Governance and Audit Committee knowledge of any actual, suspected or alleged fraud during the period 1 April 2021– 31 March 2022?

3) Has the Governance and Audit Committee identified any specific fraud risks within the organisation? For example does it have any concerns that specific areas within the organisation are at greater risk of fraud?

4) Is the Governance and Audit Committee aware of any significant breaches of internal control during 2021/22?

5) Is the Governance and Audit Committee satisfied that internal controls, including segregation of duties, exist and work effectively? If 'yes', please provide details of these controls. If not:

- Where are the risk areas?
- What other controls are in place to prevent, deter or detect fraud?

6) Is the Governance and Audit Committee aware of any related party relationships or transactions that could give rise to instances of fraud?

7) How does the Governance and Audit Committee mitigate the fraud risks associated with related party relationships and transactions?

8) Is the Governance and Audit Committee aware of any entries made in the accounting records of the organisation that it believes or suspects are false or intentionally misleading? In particular:

- Are there particular balances where fraud is more likely to occur?
- Is the Governance and Audit Committee aware of any assets, liabilities or transactions that it believes were improperly included or omitted from the accounts of the organisation?
- Are there any external fraud risk factors which create a high risk of fraud?

9) Is the Governance and Audit Committee aware of any organisational, or management pressure to meet financial or operating targets?

10) Is the Governance and Audit Committee aware of any inappropriate organisational or management pressure being applied, or incentives offered, to employees to meet financial or operating targets?

International Standard for Auditing 250 – Consideration of laws and regulations in an audit of financial statements

Background



Under the ISA, in the UK and Ireland, the primary responsibility for ensuring that the entity's operations are conducted in accordance with laws and regulations and the responsibility for the prevention and detection of non-compliance rests with management and 'those charged with governance', which for the Authority is the Governance and Audit Committee. The ISA requires us, as external auditors, to obtain an understanding of how the Committee gains assurance that all relevant laws and regulations have been complied with.

What are auditors required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA250. We are therefore making requests from the Governance and Audit Committee, and will be making similar enquiries of management:

11) How does the Governance and Audit Committee gain assurance that all relevant laws and regulations have been complied with. In particular:

- Is the Committee aware of the process management has in place for identifying and responding to changes in laws and regulations? Please provide details.
- What arrangements are in place for the Committee to oversee this process?
- Is the Committee aware of the arrangements management have in place, for communicating with employees, Members and stakeholders regarding the relevant laws and regulations that need to be followed?

12) Does the Committee have knowledge of actual or suspected instances where appropriate laws and regulations have not been complied with? If it is, what actions are management taking to address non-compliance?

International Standard for Auditing 501 – Specific consideration of the potential for, and actual, litigation and claims affecting the financial statements

Background

This ISA deals with specific considerations by the auditor in obtaining sufficient appropriate audit evidence, in this instance with respect to the completeness of litigation and claims involving the entity. The ISA requires us, as external auditors, to design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement.

What are auditors required to do?

We have to obtain evidence of how management and those charged with governance are discharging their responsibilities, if we are to properly discharge our responsibilities under ISA501. We are therefore making requests from the Governance and Audit Committee, and will be making similar enquiries of management:

13) Is the Governance and Audit Committee aware of any actual or potential litigation and claims involving the Authority that would impact on the financial statements?

International Standard for Auditing 570 – Consideration of the going concern assumption in an audit of financial statements

Background

Financial statements are generally prepared on the basis of the going concern assumption. Under the going concern assumption, an audited body is ordinarily viewed as continuing in operation for the foreseeable future. Accordingly, assets and liabilities are recorded in financial statements on the basis that the audited body will be able to realise its assets and discharge its liabilities in the normal course of its operations.

What are auditors required to do?

If used, we are required to consider the appropriateness of management's use of the going concern assumption in the preparation of the financial statements if we are to properly discharge our responsibilities under ISA570. We are therefore making the following request from the Governance and Audit Committee:

- 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?
- 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?

Consideration of related parties

The auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

Therefore we are making the following request from the Governance and Audit Committee:

- 16) What controls are in place to: identify, authorise, approve, account for and disclose related party transactions and relationships?
- 17) Confirmation that the Governance and Audit Committee have:
 - disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and
 - appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.

The way forward

The information you provide will help inform our understanding of the Authority and its business processes, prior to the start of the final stage of the audit of the 2021/22 financial statements.

I would be grateful for your responses, which should be formally considered and communicated to us on the Committee's behalf to cover the period to 31 March 2022, by September 2022. In the meantime, if you have any queries, please do not hesitate to contact me.

Yours sincerely



Mark Outterside
Senior Audit Manager