Annual Audit Letter

West Yorkshire Combined Authority

Year ending 31 March 2019

CONTENTS

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for West Yorkshire Combined Authority (the Authority) for the year ended 31 March 2019. Although this letter 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 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our auditor's report issued on 29 July 2019 included our opinion that the financial statements: • give a true and fair view of the Authority's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	Our auditor's report issued on 29 July 2019 included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	Our auditor's report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 30 July 2019 we reported to the group auditor in line with the requirements applicable to the Authority's WGA return.
Statutory reporting	Our report confirmed that we did not use our powers under section 24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority. The report also confirmed that we did not exercise any other special powers of the auditor under sections 28, 29 or 31 of the 2014 Act.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	Unqualified

The scope of our audit and the results of our work

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 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Authority on 29 July 2019, stated that, in our view, the financial statements give a true and fair view of the Authority's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Governance and Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 1.75% of Gross Operating Expenditure	£5m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.15m

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Authority's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Governance and Audit Committee within the Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
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. Because of 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.	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.	Our work provided the assurance we sought and did not highlighted any indication of management override of controls.
Revenue recognition – fees and charges In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Authority's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal in 2018/19. We have identified income from fees and charges as the key area of audit risk. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.	We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition we undertook a range of substantive procedures including: • testing receipts in March, April and May 2019 to ensure they have been recognised in the right year; • testing material year end receivables; • testing adjustment journals; and • obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.	We identified no matters to report in relation to revenue recognition.
Property, plant and equipment (PPE) valuation 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.	We evaluated the design and implementation of controls to mitigate the risk. We reviewed the scope and terms of the engagement with the Authority's valuer and how management used the valuers report to value land and buildings in the financial statements including testing the underlying data and assumptions. We also: • assessed the competence, skills and experience of the Authority's valuer; and	We identified no matters to report in relation to property, plant and equipment valuation. *(continues next page)*

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
Property, plant and equipment (PPE) valuation (continued) 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.	• compared the valuation output with market intelligence provided by Gerald Eve, our expert and consulting valuers engaged by the National Audit Office, to obtain assurance that the valuations are in line with market expectations.	
Defined benefit liability valuation 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 2016. The valuation of the Local Government Pension Scheme 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 assumptions 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. There is a risk that the assumptions and methodology used in valuing the Authority's pension obligation are not reasonable or appropriate to the Authority's circumstances. This could have a material impact to the net pension liability in 2018/19.	We reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also: • evaluated the competency, objectivity and independence of the scheme Actuary, AON Hewitt; • 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 Pension Fund 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.	Our audit work provided the assurance we sought and did not identify any indication of material estimation error in respect of the defined benefit liability valuation.

2. AUDIT OF THE FINANCIAL STATEMENTS

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We identified four internal control deficiencies as part of our audit. These were not significant in nature and related to IT passwords and policies and Members declarations of interest. Management has highlighted compensating controls to mitigate the associated risks and agreed to seek to strengthen arrangements to address the control recommendations during 2019/20. We are content with Management's response.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified

Our audit approach

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 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.

Our auditor's report, issued to the Authority on 29 July 2019, stated that, in all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The Combined Authority has a clear governance structure which is described on its website and includes the expected features of an effective governance framework in local government. During the year the Combined Authority has continued its 'One Organisation' Programme designed to put in place the right structures, processes and people to deliver agreed objectives and priorities. 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. The Medium Term Financial Strategy which is reviewed and refreshed annually reflects strategic objectives and allocates resources to priority areas. In addition, regular financial reporting takes place through the Senior Management Team and Leadership Team, with regular reporting to the Governance and Audit Committee and Combined Authority. For over a year, 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. *(continued overleaf)*	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Informed decision making (continued)	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. The system of internal control is subject to Internal Audit and for 2018/19, the Combined Authority's internal auditors, provided an overall opinion that controls and governance are operating adequately. 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. In accordance with changes in legislation and to strengthen arrangements an independent member was appointed to the Committee in June 2018 and who chaired the meeting during the last municipal year. The Combined Authority ensures its Corporate Governance Code and Framework reflects changes made to arrangements in the year.	Yes
Sustainable resource deployment	The Combined Authority has made good progress in addressing the ongoing financial challenges and has a proven track record of strong budget management and delivering planned budget reductions. The Authority delivered financial outturn for 2018/19 £3.0 million better than originally planned. The much improved year end position is mainly attributable to savings in the subsidised services ahead of target, reduced concessionary fares costs and a combination of early redemption fees and further loan interest accrued on Growing Places loans. Additionally the higher than expected cash balances, reflecting receipt in advance of a number of external funds, has generated additional interest earned over budget. A balanced budget has been set for 2019/20 with the use of £1.2m of reserves consistent with the three year Medium Term Financial Strategy covering the years 2018/19 to 2020/21. The Authority has also recognised the significant financial challenge facing the partner councils and has agreed to reductions in the transport levy. The capital programme reflects priorities set out in the Corporate Plan flowing from the SEP.	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	The Authority, including the LEP, plays an important and active role in providing the vehicle for closer partnership working between the local authorities of West Yorkshire and York 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. The Authority has clearly defined its ambitions to work with its partners across the region to effect economic growth in the Leeds City Region and these ambitions are set out in the SEP. The SEP is kept under review to ensure it continues to align with the region's needs and recognises relationships with new and emerging strategies such as the Local Industrial Strategy for example. The SEP provides a framework for engagement with others within the City Region and beyond across private, public and third sectors to deliver good growth. 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. Up to date procurement arrangements are in place to secure cost effective purchasing.	Yes

3. VALUE FOR MONEY CONCLUSION

Significant audit risks

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

Risk	Work undertaken	Conclusion
Financial sustainability The Authority's medium term financial strategy (MTFS) 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. Whilst the mid year financial position for 2018/19 indicated that the Authority is managing expenditure within the approved annual budget, delivering a balanced budget is likely to require the use of £1.4m of reserves. Whilst this is consistent with the MTFS, this use of reserves to support service delivery is indicative of the financial pressures faced by the Authority. The continuing challenges the Authority faces are not new and are not unique. 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.	Building on our work in previous years, we reviewed the arrangements the Authority has in place for ensuring financial resilience. Specifically, our work included reviewing: • 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; and • the arrangements in place to monitor progress in delivering a balanced budget for 2019/20 and the related savings plans.	The Authority has in place a MTFS for 2018/19 to 2020/21 to provide a longer term view of the financial challenges it faces. This is based on appropriate income, funding, pay and non-pay assumptions and recognises the risks associated with these assumptions. A balanced budget has been set for 2019/20 with the use of £1.2m of reserves consistent with the three year MTFS. The MTFS and balanced budget for 2019/20 have been subject to appropriate scrutiny and challenge via established governance and reporting arrangements. The Authority's Corporate Plan sets out priorities and is closely aligned to the overarching aims of the Strategic Economic Plan . 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. It is noted that the Authority has a good track record of delivering financial plans and the required savings. For 2016/17, 2017/18 and 2018/19 the Authority secured the planned savings plus additional savings of £1.4m, £1.6m and £3m respectively. There are no matters which give rise to VFM reporting issues for 2018/19.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**Below testing threshold**
Other information published alongside the audited financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Authority's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We 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 law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

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. We submitted this information to the NAO on 30 July 2019.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Authority. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Governance and Audit Committee in January 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£25,964	£25,964

Fees for other work

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

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (https://www.nao.org.uk/code-audit-practice/about-code/)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

Fair Funding Review

The Authority will need to incorporate the impact of the Spending Review, due in the latter half of 2019, to its Medium Term Financial Plan. The Spending Review will set out the department allocations for 2020/21. Regardless of the timing and period covered by the Spending Review, the Authority recognises the key issue is the management of the future funding cliff edge and general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

Local Authority Financial Resilience Index

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Authority to have at least considered the index once it is formally released.

Commercialisation

The National Audit Office intends to publish a report on Commercialisation during 2019. Depending on the appetite for Commercialisation, we would expect the Authority to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office's Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property; and
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 *Leases* in the Code is delayed until 1 April 2020. The Authority will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

6. FORWARD LOOK

Next year's audit and how we will work with the Authority

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to support the Authority by:

- continued liaison with the Authority's Internal Auditors to minimise duplication of work;
- attending Governance and Audit Committee meetings and presenting an Audit Progress Report including updates on regional and national developments; and
- hosting events for staff, such as our Local Government Accounts workshop.

We will meet officers to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Authority has taken a positive and constructive approach to our audit and we wish to thank the Combined Authority, Governance and Audit Committee and officers for their support and co-operation during our audit.

CONTACT

Mark Kirkham
Partner

Phone: 0113 394 5315
Mobile: 07747 764 529
Email: mark.kirkham@mazars.co.uk

Mark Dalton
Senior Manager

Phone: 0113 394 5316
Mobile: 07795 506766
Email: mark.dalton@mazars.co.uk

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