Auditor's Annual Report

West Yorkshire Combined Authority – year ended 31 March 2023

December 2024

forv/s mazars

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Introduction

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 2023. 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 6 December 2024. Our audit report included a disclaimer of opinion. This means our audit report did not express an opinion on the financial statements and no assurance was provided. It was necessary to issue a disclaimer of opinion as amendments to the Account and Audit Regulations introduced a statutory deadline for publication of the Authority's financial statements. We were unable to complete the audit procedures necessary to obtain sufficient appropriate audit evidence on which to base our opinion before the date the Authority published its audited financial statements.

Wider reporting responsibilities
As a result of the backstop arrangements and our intention to issue a disclaimer of opinion on the Authority financial statements, we do not anticipate reporting to the NAO on the Authority's Whole of Government Accounts submission. The NAO have signed off the 2022/23 Whole of Government Accounts and we do not anticipate any further work will be required.

Value for Money arrangements
In our audit report issued we reported that we had completed our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources and had issued a recommendation in relation to an identified significant weakness in those arrangements. Section 3 provides our commentary on the Authority's arrangements.

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Audit of the financial statements

Audit of the financial statements

The scope of our audit and the results of our opinions

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. Amendments to the Accounts and Audit Regulations introduced a deadline for publication of local authorities' audited 2022-23 financial statements. Prior to issuing our audit report, the ISAs require us to determine whether we have obtained sufficient appropriate audit evidence based on the audit procedures completed at that date. We concluded we had not obtained sufficient appropriate audit evidence to enable us to express an opinion on whether the financial statements present a true and fair view and have been prepared, in all material respects, in line with the Code of Practice on Local Authority Accounting. Consequently, as required by the ISAs, we modified our audit report and issued a disclaimer of opinion. This means, in our audit report issued on 6 December 2024, we have not expressed an opinion on the Authority's financial statements.

We were required to report to management and those charged with governance significant risks identified at the planning stage of our audit, uncorrected misstatements that we identified and any control deficiencies which came to our attention as part of the audit procedures we completed prior to issuing our audit report. The matters we reported are summarised in Appendix A.

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Our work on Value for Money arrangements

VFM arrangements

Overall Summary

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.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment

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.

We obtain our understanding or arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information
- Information from internal and external sources including regulators
- Knowledge from previous audits and other audit work undertaken in the year
- Interviews and discussions with staff and directors

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.

Phase 2 - Additional risk-based procedures and evaluation

Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We outline the significant weaknesses that we have identified and the work we have done to address those risks on page 20.

Phase 3 - Reporting the outcomes of our work and our recommendations

We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Authority. We refer to two distinct types of recommendation through the remainder of this report:

- **Recommendations arising from significant weaknesses in arrangements -** We make these recommendations for improvement where we have identified a significant weakness in the Authority arrangements for securing economy, efficiency and effectiveness in its use of resources. Where such significant weaknesses in arrangements are identified, we report these (and our associated recommendations) at any point during the course of the audit.
- **Other recommendations -** We make other recommendations when we identify areas for potential improvement or weaknesses in arrangements which we do not consider to be significant but which still require action to be taken.

The table on the following page summarises the outcomes of our work against each reporting criteria, including whether we have identified any significant weaknesses in arrangements or made other recommendations.

VFM arrangements – Overall summary

Overall summary by reporting criteria

Reporting criteria	Commentary page reference	Identified risks of significant weakness?	Actual significant weaknesses identified?	Other recommendations made?
Financial sustainability	11	No	No	Yes – see two recommendations on page 13
Governance	14	No	Yes – see page 20	No
Improving economy, efficiency and effectiveness	17	No	No	No

VFM arrangements

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to WYCA's operating environment

In recent years local government bodies in England have faced a period of unprecedented challenge, both financially and operationally. These challenges have included recovery from the Covid-19 pandemic, generationally high levels of inflation and uncertainty around the future levels of government funding.

In common with most transport authorities, the pandemic had a significant impact on the Authority's transport functions, due to significantly decreased patronage across its bus network. During the pandemic central government funding was provided to support any loss of revenue and to help maintain bus services across the region, this was for a finite period and the Authority has since adjusted for reductions in funding.

As the Authority looked beyond 2022/23, the financial outlook continued to be challenging. In addition to dealing with the recovery from the Covid-19 pandemic, the war in Ukraine has had an adverse impact on the UK's economy, resulting in significant increases in energy costs, supply chain issues and inflation rates reaching highs not seen in recent times. The subsequent increases in the cost of living, which are forecast to continue for the foreseeable future, will require the Authority to pay close attention to its budget position and reassess its position at regular intervals, while also identifying mitigations at the earliest opportunity.

Financial planning and monitoring arrangements

In February 2021 and 2022, the Authority approved balanced revenue and capital budgets for 2021/22 and 2022/23, respectively. Our review of Finance, Resource and Corporate Committee reports has provided assurance that projected budget outturn was regularly reported throughout the reporting period. We have also considered the arrangements in respect of budget management as part of the Governance criteria on page 15 of this report.

The Authority reported its year-end financial position to the Finance, Resource and Corporate Committee and to the Combined Authority Committee in both years. Review of the finance reports throughout 2021/22 and 2022/23, provides assurance that they contain commentary of performance against revenue, with explanations for any significant variances detailed in the report. The finance reports also contain information on project outturn spend against the approved capital programme and reasons for variances.

The following table, highlights key information from the Authority's reported financial outturn for both years, noting the 2022/23 figures.

	2021/22	2022/23
Budget outturn (surplus/deficit)	£2.8m surplus	£12.0m surplus
Budgeted expenditure	£200.3m	£231.4m
General Fund (GF) reserves	£13.6m	£14.2m
GF as a % of budgeted expenditure	6.8%	£6.1%
Total usable reserves	£443.6m	£593.8m
Capital outturn	£50.6m underspend	£12.0m underspend
% of capital programme delivered	83.4%	94.7%
Capital programme budget	£304.1m	£227.7m

Revenue performance in both years has enabled the Authority to contribute to its useable reserves, which is an indication that the Authority has a prudent budget setting process and continues to be a viable going concern. While the capital programme budget reduced in 2022/23, the percentage of completed programmes has increased, highlighting that following the pandemic the Authority improved delivery of its capital programme in 2022/23.

In its Finance, Resources and Corporate committee meeting dated on 5 September 2024, 23/24 end of year financial report that it is surplus of £285k against its balanced revenue budget and is projecting a capital programme outturn of £312.7m, equating to 97% of the £321.3m capital budget.

Consistent with the Authority's arrangements in 2020/21, the Authority has several financial strategies and multi-year financial plans in place. However, these have not been collated into a single Medium-Term Financial Strategy (MTFS) document, we have therefore made the following 'other' recommendation:

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria - continued

Other recommendation 1: The Authority should develop a MTFS, bringing together all known factors affecting the Authority's financial sustainability and linking the Authority's financial strategy to the West Yorkshire Plan. This will enable the Authority to balance the financial implications of its key business objectives and policy decisions against resource constraints and will facilitate better strategic decision making.

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. This process resulted in a range of efficiencies and savings that contribute to the Authority being able to maintain the transport levy at its 2021/22 level in both years. This process has also enabled the Authority to set a balanced budget, which included contributions to useable reserves and does not rely on general reserves to balance the budget.

Arrangements and approach to financial planning

Balanced budgets for 2023/24 and 2024/25 were approved by the Combined Authority Committee in February 2023 and 2024, respectively. Budgets are predicated by outcome-led directorate operating models and are linked to the seven corporate objectives, per the vision set out in the West Yorkshire Plan. The table below highlights the headline budget figures for each year:

	2023/24	2024/25
Revenue budget	£285.4m	£387.5m
Transfer to reserves	£7.4m	£19.2m
Capital budget	£321.3m	£478.3m

This analysis shows a significant increase in both revenue and capital budgets from previous years. It also confirms that the Authority, in overall terms, plans to contribute to its reserve balances.

Consistent with governmental strategy, the capital budget is predicated by a significant increase in funding, received since the transformation to a Mayoral Combined Authority. This has enabled the Authority to develop and expand its transport and economic development programmes.

As in previous years, the Authority's key revenue streams are:

- specific grant funding;
- the transport levy;
- adult education funding; and
- other income including operation and concessionary fair income.

Following consultation with the West Yorkshire Authority', the Authority did not increase in the transport levy, which remains unchanged from 2022/23 at £92.2m, however a significant increase in revenue funding has enabled the Authority to implement its Bus Service Improvement plan and deliver new projects funded from the UK Shared Prosperity Fund.

Key assumptions in the 2023/24 budget include:

- no increase to the transport levy collected from the 5 constituent authorities;
- savings achieved on concessionary travel reimbursement are ringfenced to support increasing costs on bus tendered services;
- fuel inflation of 15%, materials cost inflation of 10% and pay inflation of 4% has been assumed; and
- the vacancy target has been increased from £2.1m to £3.1m.

Following our review of budget setting reports, we have made the following other recommendation:

Other recommendation 2: Budget setting reports should include more clarity around key expenditure decisions linked to business objectives. It should also inform the reader of key estimates, pressures and risks inherent within the budget. The report should also provide and more clarity on the planned use of reserves in year.

Except for the 'other recommendations' highlighted on this page of the report, we have not identified any significant weaknesses in the Authority's arrangements in relation to financial sustainability.

VFM arrangements

Governance

How the body ensures that it makes informed decisions and properly manages its risks

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.

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.

Attendance of Governance and Audit committee has confirmed that Internal Audit's work is planned on a risk-based approach. Risk ratings 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 which includes 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 the two years covered in this report they were as follows:

2021/22	2022/23
Operating Adequately	Operating Adequately

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 financial planning process is developed in conjunction with the business and corporate planning process. Each Directorate are required to submit multi-year budgets which are reviewed by senior management and by members.   This is an iterative process, which eventually results in full approval of the budget at the February Combined Authority meeting.

The Authority also sets indictive budgets for a three-year period (including the current year's budget), which are refreshed as more up to date information becomes available. On page 13 of this report, we have made 'other recommendations' regarding the Authority's MTFS process and budget setting report.

Throughout 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. Review of minutes and report provides assurance that governance arrangements were also updated to incorporate the Office for the Police and Crime Commissioner, following the mayoral election in May 2021.

Review of meeting minutes, provides assurance that 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.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria - continued

All reports 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 by 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.

Except for the significant weakness highlighted on page 20 of this report, we are satisfied there are no other significant weakness in the Authority's arrangements in relation to governance.

VFM arrangements

Improving Economy, Efficiency and Effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services

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

Each year the Authority agrees its Corporate Plan which outlines the corporate ambitions, key priorities and targets for the year. The Authority has also developed 7 overarching corporate objectives:

- empowering our communities, towns, and cities to thrive;
- building a sustainable, nature rich and carbon neutral region;
- creating an accessible, clean and customer focussed transport system;
- supporting community safety and accountable, proactive policing;
- championing culture, sport, and creativity;
- driving economic growth and innovation to enable good jobs; and
- enabling a diverse, skilled workforce and accessible learning for all.

As part of the business planning process, the Authority has developed a set of key performance indicators (KPIs) linked to these objectives. Throughout the year Heads of Service report progress against business plan outcomes and KPIs, as well as highlighting any operational business risks. The KPIs have been designed to provide a summary level overview of organisational performance against the Authority's overarching corporate objectives.

In 2021/22 and 2022/23 performance was routinely monitored and reported to the Finance, Resources and Corporate Committee as part of the 'corporate planning and performance' report. Any performance or delivery issues highlighted were considered and mitigations or remedies were documented. Review of the year-end report has not highlighted any significant performance issues.

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.

The Authority has published its 'West Yorkshire Plan' which sets out an overall strategic vision and sets out 5 missions which have been agreed by the Authority and its partners (the 5 West Yorkshire Authoritys). The missions are to make West Yorkshire a prosperous, happy, well-connected, sustainable, and safe place by 2040. These missions will provide the overall direction for the Authority and its partners, and will inform its corporate objectives, multi-year outcomes and annual business plans. Going forward these missions will inform the budget setting process.

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 role 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.

The Authority and the NHS West Yorkshire Integrated Care Board (ICB) have initiated a partnership agreement that sets out shared commitments to working together on the factors that affect population health: fair economic growth, climate, tackling inequality.

In 2022/23 the Government announced that from 2024 Local Enterprise Partnerships would no longer be supported and that they would be brought into the Mayoral Combined Authorities remit. The Authority and LEP has therefore submitted its Integration Plan, which has been endorsed by Government.

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.

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.

VFM arrangements

Identified significant weaknesses in arrangements and our recommendations

3. Identified significant weaknesses and our recommendations

Identified significant weaknesses in arrangements and recommendations for improvement

As a result of our work, we have identified significant weaknesses in the Authority's arrangements to secure economy, efficiency and effectiveness it its use of resources. These identified weaknesses have been outlined in the table below.

	Identified significant weakness in arrangements	Financial sustainability	Governance	Improving the 3Es	Recommendation for improvement	Our views on the actions taken to date
1	**Financial reporting arrangements** The 2022/23 financial statements were only published in March 2024 and consequently the audit has not started. The Authority took the decision to wait to publish its 2022/23 accounts until 2021/22 was complete as there were adjustments necessary to the 2022/23 accounts because of the audit. This delay meant that the Authority failed to meet its statutory publication duties. The Authority has had gaps in the finance team relating to the financial reporting, and this has impacted on the ability to publish the 2022/23 accounts promptly.	○	●	○	The Authority should: • establish and adhere to a detailed accounts closedown plan to support production of its annual financial statements in line with the statutory timescales; and • ensure the finance team has the capacity and capability to produce reliable and fully supported annual financial statements.	The Authority has taken the following actions to address the issues highlighted in this report: • The Authority published its draft 2023/24 financial statements in August 2024. • A year end plan has been developed, to facilitate the production of 2024/25 financial statements in line with statutory deadlines. • The Authority is completing an organisational redesign of its finance department, to increase both capacity and capability across all aspects of finance In our view the proposed actions are appropriate, and we will provide an update on their success in our future commentary.

04

Other reporting responsibilities and our fees

Other reporting responsibilities

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 Comptroller and Auditor General ('C&AG') has signed their opinion on the 2022-23 Whole of Government Accounts. Our audit report on the Authority's financial statements was issued after the Comptroller and Auditor General had issued their opinion and as such we were not required to provide information to the NAO in respect of their group audit.

Appendices

A: Further information on our audit of the financial statements

Appendix A: Further information on our audit of the financial statements

Significant risks and audit findings

As part of our audit, we identified significant risks to our audit opinion during our risk assessment. The table below summarises these risks. Whilst we planned our audit to address the risks of material misstatement we identified at the planning stage, we did not complete our audit prior to the backstop date. Consequently, we are unable to provide any assurance over individual areas of the financial statements or the financial statements as a whole, nor do we provide assurance over any of the risks we identified at the planning stage of the audit.

Significant risks identified:

- Management override of controls (Authority and Group)
- Valuation of defined benefit pension assets and liabilities (Authority and Group)
- Valuation of land and buildings (Authority)

Amendments to the financial statements

Management has processed the amendments set out in the table below which exceed the trivial threshold for adjustment of £648k .

Details of amendment	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£ '000)	Cr (£ '000)	Dr (£ '000)	Cr (£ '000)
Dr: Investment Cr: Cash An error of misclassification affecting the cash balance and short-term investments due to mis posted in the ledger.			15,000	15,000
Aggregate effect of amendments	**-**	**-**	**15,000**	**15,000**

Unadjusted misstatements

When we issue a disclaimer of opinion as a result of the backstop arrangements, auditing standards require us to consider whether we are aware of any matter that would have otherwise required a modification to our opinion. We confirm that no such matters have come to our attention.

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