

A meeting of the  
**West of England Combined Authority  
Audit Committee**

will be held on

**Date: 26 April 2018**

**Time: 10:30am**

**Place: WECA Board Room, 3 Rivergate, Temple Quay, Bristol, BS1 6ER**

Notice of this meeting is given to members of the West of England Combined Authority Audit Committee as follows:

Cllr Will Sandry, Bath & North East Somerset Council  
Cllr Brian Simmons, Bath & North East Somerset Council  
Cllr Donald Alexander, Bristol City Council  
Cllr Harriet Bradley, Bristol City Council  
Cllr Brenda Massey, Bristol City Council  
Cllr Claire Hiscott, Bristol City Council  
Cllr Geoffrey Gollop, Bristol City Council  
Cllr Jerome Thomas, Bristol City Council  
Cllr John O'Neill, South Gloucestershire Council  
Cllr Roger Avenin, South Gloucestershire Council  
Cllr John Ashe, South Gloucestershire Council

**Enquiries to:**

Democratic Services

West of England Combined Authority Office

3 Rivergate, Temple Quay, Bristol, BS1 6GD

Email: [democratic.services@westofengland-ca.gov.uk](mailto:democratic.services@westofengland-ca.gov.uk)

# West of England Combined Authority Audit Committee Agenda

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- Attend all WECA Audit Committee meetings unless the business to be dealt with would disclose 'confidential' or 'exempt' information.
- Inspect agendas and public reports five days before the date of the meeting
- Inspect agendas, reports and minutes of the WECA Audit Committee for up to six years following a meeting.
- Inspect background papers used to prepare public reports for a period of up to four years from the date of the meeting. (A list of background papers to a report is given at the end of each report.) A background paper is a document on which the officer has relied in writing the report.
- Have access to the public register of names, addresses and wards of all Councillors sitting on the WECA Audit Committee.
- Have a reasonable number of copies of agendas and reports (relating to items to be considered in public) made available to the public attending meetings of WECA Audit Committee.
- Copy any of the documents mentioned above to which you have a right of access. There is a charge of 15p for each side of A4, subject to a minimum charge of £4.
- For further information about this agenda or how the Authority works please contact Joanna Greenwood, telephone 0117 428 6210 or e-mail: [info@westofengland-ca.gov.uk](mailto:info@westofengland-ca.gov.uk)

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### Guidance for press and public attending this meeting

The Openness of Local Government Bodies Regulations 2014 mean that any member of the public or press attending this meeting may take photographs, film or audio record proceedings and may report on the meeting including by use of social media (oral commentary is not permitted during the meeting as it would be disruptive). This will apply to the whole of the meeting except where there are confidential or exempt items, which may need to be considered in the absence of the press or public.

If you intend to film or audio record this meeting please contact the Officer named on the front of the agenda papers beforehand, so that all necessary arrangements can be made.

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## **EVACUATION PROCEDURE**

In the event of a fire, please await direction from the West of England Combined Authority staff who will help assist with the evacuation. Please do not return to the building until instructed to do so by the fire warden(s).

### **1. APOLOGIES FOR ABSENCE**

To receive apologies for absence from Members.

### **2. DECLARATIONS OF INTEREST UNDER THE LOCALISM ACT 2011**

Members who consider that they have an interest to declare are asked to: a) State the item number in which they have an interest, b) The nature of the interest, c) Whether the interest is a disclosable pecuniary interest, non-disclosable pecuniary interest or non-pecuniary interest. Any Member who is unsure about the above should seek advice from the Monitoring Officer prior to the meeting in order to expedite matters at the meeting itself.

### **3. MINUTES**

To consider and approve the minutes from 25 January 2018 of the West of England Combined Authority Audit Committee and review Action List.

### **4. ITEMS FROM THE PUBLIC**

Members of the public can speak for up to 3 minutes each. The total time for this session is 30 minutes so speaking time will be reduced if more than 10 people wish to speak.

If you wish to present a petition or make a statement and speak at the meeting, you are required to give notice of your intention by noon on the working day before the meeting by e-mail to [democratic.services@westofengland-ca.gov.uk](mailto:democratic.services@westofengland-ca.gov.uk). For this meeting, this means that your submission must be received in this office by **12noon on Wednesday, 25 April 2018**.

If you wish to ask a question at the meeting, you are required to submit the question in writing to [democratic.services@westofengland-ca.gov.uk](mailto:democratic.services@westofengland-ca.gov.uk) no later than 3 working days before the meeting. For this meeting, this means that your question(s) must be received in this office by **5pm on Friday, 20 April 2018**.

### **5. PETITIONS**

Any member of the public in the West of England Combined Authority may present a petition at a West of England Combined Authority Audit Meeting.

### **6. INTERNAL AUDIT ANNUAL REPORT 2017/18**

To consider the Internal Audit Annual Report 2017/18

### **7. INTERNAL AUDIT PLAN 2018/19**

To consider the Internal Audit Plan for 2018/19

- i. Appendix 1 – Internal Audit Plan 2018/19
- ii. Appendix 2 – Internal Audit Charter

### **8. REPORT FROM THE EXTERNAL AUDITOR:**

- i. Appendix 1 - Progress Report on 2016/17 and 2017/18 work
- ii. Appendix 2 - Fees Letter 2018/19
- iii. Appendix 3 - IAS 240 Letter

### **9. OUTTURN BUDGET REPORTING**

To review the Outturn Budget Reporting for WECA and Joint Committee

### **10. ANY OTHER BUSINESS**

**Next meeting: 12 July 2018**

Date	Committee	Agenda Item	Res No	Resolution	Action Required By	Action Details	Statures	Closure Notes
28/09/2017	Audit	Appointment process for independent member	1	To appoint independent member	GG/WS/TR	In progress		
28/09/2017	Audit	Internal Audit Plan 2017/18	2	Three levels of assessments and reasonable assurance model of 80 audit days to start with but to review the amount of audit days at the end of the year	TR	TBC		
28/09/2017	Audit	External Audit Update	3	Barrie Morris to forward link to members to document of GT produced national report on combined authorities	BM	TBC		
25/01/2018	Audit	6. Treasury Management Strategy 2018/19	4	Clarification rquired from Arling Close regarding the meaning of the term 'upside risk' on page 18 of the Audit Committee combined papers and report back to the Committee on this	TM	TBC		
25/01/2018	Audit	7. External Audit Plan 2016/17 AND 2017/18	5	Financial reporting templates to be added as an agenda item to the Audit Committee Meeting on 26thApril	TM	Complete		
25/01/2018	Audit	8. Internal Audit Plan 2017/18	6 i)	Request the Chief Executive to compile an A4 page detailing what she considers to be the risks for WECA	TR	TBC		
			6 ii)	Suggest to the Mayor & Chief Executive that they attend part of a future Audit Committee Meeting so that the Audit members can hear their version of the importance of an audit plan	TR	TBC		
			6 iii)	Items for the risk register to be discussed at the Audit Committee Meeting on 26th April 2018	All	Complete		

**WEST OF ENGLAND COMBINED AUTHORITY:  
AUDIT COMMITTEE  
25 January 2018**

**DRAFT MINUTES**

**Committee Members:**

Cllr Geoffrey Gollop, Bristol City Council (Chair)  
Cllr Will Sandry, Bath & North East Somerset Council (Vice-Chair)

Cllr Brian Simmons, Bath & North East Somerset Council  
Cllr Donald Alexander, Bristol City Council  
Cllr Harriet Bradley, Bristol City Council  
Cllr Brenda Massey, Bristol City Council  
Cllr Claire Hiscott, Bristol City Council  
Cllr Jerome Thomas, Bristol City Council  
Cllr John O'Neill, South Gloucestershire Council  
Cllr Roger Avenin, South Gloucestershire Council  
Cllr John Ashe, South Gloucestershire Council

	<p><b>WELCOME AND EVACUATION PROCEDURE</b></p> <p>The Chair welcomed everyone to the meeting and advice was given on the fire evacuation procedure.</p>							
1	<p><b>APOLOGIES FOR ABSENCE</b></p> <p>Apologies were noted from Cllrs Roger Avenin, John Ashe and Brenda Massey. Cllr Marion Lewis attended as a substitute for Cllr Roger Avenin.</p>							
2	<p><b>DECLARATIONS OF INTEREST UNDER THE LOCALISM ACT 2011</b></p> <p>There were no declarations of interest.</p>							
3	<p><b>MINUTES</b></p> <p>The Committee considered the minutes from the meeting of 28 September 2017.</p> <p><b>The Minutes were otherwise accepted as an accurate record of the meeting.</b></p> <p>The Committee reviewed the actions from the meeting of 28 September, which will be included in a log to ensure actions are tracked.</p> <table border="1"> <tr> <td>Appointment process for an independent member: 'To appoint an independent member to the committee who is neither Local or Combined Authority affiliated' – GG, WS, TR</td> <td><b>In progress</b></td> </tr> <tr> <td>Internal Audit Plan 2017/18: 'Three various levels of assessments and reasonable assurance model of 80 audit days to start with but to review the amount of audit days at the end of the year' - TR</td> <td><b>TBC</b></td> </tr> <tr> <td>External Audit Update: 'Barrie Morris to forward link to members to document of GT produced national report on combined authorities' – BM</td> <td><b>TBC</b></td> </tr> </table>		Appointment process for an independent member: 'To appoint an independent member to the committee who is neither Local or Combined Authority affiliated' – GG, WS, TR	<b>In progress</b>	Internal Audit Plan 2017/18: 'Three various levels of assessments and reasonable assurance model of 80 audit days to start with but to review the amount of audit days at the end of the year' - TR	<b>TBC</b>	External Audit Update: 'Barrie Morris to forward link to members to document of GT produced national report on combined authorities' – BM	<b>TBC</b>
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External Audit Update: 'Barrie Morris to forward link to members to document of GT produced national report on combined authorities' – BM	<b>TBC</b>							
4	<p><b>ITEMS FROM THE PUBLIC</b></p> <p>No public questions or statements had been received.</p>							
5	<p><b>PETITIONS</b></p> <p>There were no petitions.</p>							
6	<p><b>TREASURY MANAGEMENT STRATEGY 2018/19</b></p> <p>Tim Richens (TR), Director of Investment and Corporate Services, introduced the report which sets out Treasury Management Strategy including authorised lending institutions in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.</p>							

TR confirmed that this is the document that we are required to look at each year and that it needs to be approved at the next WECA Committee meeting, which is happening on the 2<sup>nd</sup> of February. WECA works closely with its treasury advisors, Arlingclose, to produce this document which looks at WECA's approach to borrowing and how it invests its surface cash flow. TR confirmed that no borrowing was undertaken during 2017/18 and that it is proposed that no borrowing is undertaken by the Combined Authority during 2018/19 either. This is due to prioritisation and project work currently being completed.

With respect to page 27, TR confirmed that CLG require that this item is brought to the Committee's attention as it deals with WECA receiving independence advice from Arlingclose. He confirmed that aside from their Section 151 Officer, WECA does not have any staff dealing with treasury management and that Bath and North-East Somerset Council administer this on behalf of WECA.

The committee members raised the following questions which were addressed by officers as follows:

- Cllr Harriet Bradley asked for clarification regarding revenue and capital budget. TR responded by saying that there is a distinct separation between the two and that this is the same in all councils. Revenue budget deals with day to day costs and services whereas capital budget deals with investment, infrastructure and asset creation. Cllr Bradley asked where the money in the revenue budget comes from. TR confirmed that WECA receives a grant investment from the government which is split equally between the revenue and capital budgets. Furthermore, revenue budget income also comes from the business rates retention pilot, ESIP and various transport grants, including concessional travel, community travel grants and bus levies.
- Cllr Brian Simmons asked if WECA levies the councils with regards to bus subsidies. TR confirmed that councils run and administer this themselves but that going forward the bus strategy might change how bus subsidies are administered across the combined authority area. TR confirmed that if this process were to change, the councils would need to consult with WECA.
- Cllr Claire Hiscott referred to page 18 of the Audit Committee combined papers and asked for clarification regarding what an 'upside risk' is. TR responded by saying that he would need to check this with Arlingclose and come back to Cllr Hiscott with an answer.
- Cllr Harriet Bradley asked for clarification regarding the Upper and Lower limits in respect of borrowing as indicated at the top of page 16 of the Audit Committee combined papers. TR confirmed that the current interest rate environment has been steady for a while. In the early 2000's and in the 1990's, they tended to fluctuate more but in the current environment these tend to stay quite stable so it wouldn't make sense to put a limit on these.
- Cllr Geoffrey Gollop mentioned that he understands that WECA needs advisors but worries that Arlingclose might be lulling WECA into a false sense of security because over the last ten years there haven't been sudden changes in the interest rate. What if this rate suddenly shoots up and they haven't forecasted this sudden change? Cllr Gollop expressed his concern that this may have an

impact on WECA. TR assured Cllr Gollop that Arlingclose are very attuned to the interest rate environment but acknowledged that economies can change and noted that the code has changed to factor this eventuality in. TR also confirmed that WECA have no borrowing exposure currently but that in future this could become an issue if interest rates do suddenly change. TR is actively monitoring current and previous account reports though and it has remained flat for several years.

- Cllr Will Sandry raised a query with regards to how borrowing limits differ between Local Authorities and the Combined Authority. TR confirmed that the legacy around borrowing here differs; with respect to Local Authority borrowing, the government doesn't get involved, however the government sets the borrowing limit for the Combined Authority. TR also confirmed that a Treasury Cap applies to Combined Authorities.
- Cllr Harriet Bradley queried why WECA uses Natwest for banking when the bank's credit rating is not that good. TR confirmed that we use Natwest for our retail (day-to-day) banking but that we do not hold any investment money with them.
- Cllr Geoffrey Gollop referred to page 25 and queried why WECA would contemplate investing money with foreign countries such as Iceland. TR responded by saying that WECA doesn't plan to make deposits in foreign countries but that some banks are denominated in foreign countries.

The members confirmed that this item was all noted for the record.

**Action. TR to get clarification from Arlingclose regarding the meaning of the term, 'upside risk' on page 18 of the Audit Committee combined papers and report back to the Committee on this.**

## 7 EXTERNAL AUDIT PLAN 2016/17 AND 2017/18

Barrie Morris (BM), Director and Engagement Lead in Public Sector at Grant Thornton, introduced the External Audit Plan for 2016/17 and 2017/18 for the Committee to consider.

BM confirmed that as this is the first year WECA has had accounts produced, a lower materiality of 1% has been set which reflects the level of risk associated with WECA during its first year. BM also confirmed that 'clearly trivial' has been set at £19k.

The committee members raised the following questions which were addressed by officers as follows:

- Cllr Will Sandry queried what the next steps are in respect of future years as the threshold rate seems to be low. BM responded by saying that the maximum this rate can go to is 2% of gross expenditure and that regulators of professional firms report 2% as being quite high.
- Cllr Geoffrey Gollop raised a concern regarding how the 'clearly trivial' amount and the materiality rate could be perceived. He queried how WECA would go



about getting the balance right between the volume of transactions and the level of materiality being set. He also mentioned, as an example, that were £19k to go missing from petty cash, this would be a matter of great concern. BM stressed that this is only the first year and he would expect this level to rise in future. Cllr Gollop mentioned that he felt more audit work would be needed on the Mayor's Budget and the admin side of the business as opposed to the investment and project areas which are controlled by more processes. BM confirmed that there are significant risks around operational expenditure and other grant funding activities and that Grant Thornton would be completing a programme of work around this.

- Cllr Jerome Thomas asked for more clarity around the medium term financial plan and strategy so that this can be looked at by the Committee. TR confirmed that this was being published today (25<sup>th</sup> January) and that the strategy has been consulted on and is being reflected on currently.
- Cllr Jerome Thomas asked how the financial reporting dashboard will be developed to enable the Committee to do their jobs more effectively. He added that if the Committee does not have usable financial reporting templates they wouldn't be able to report adequately. Cllr Gollop noted his agreement with these comments. TR confirmed that this feeds into governance and that some of Jeff Wring's paper will pick this up. TR confirmed that there is currently a useable financial reporting framework; the outturn reporting is done quarterly, this is also set out in the Standing Orders section of the WECA Constitution and is reported on quarterly at the WECA Committee. TR also confirmed that he'd need to think about how to give the Audit Committee more assurance on this but thought that signposting to the different committees (WECA and Joint Committees) and taking note of Jeff Wring's report could help. Cllr Thomas requested that this be added as an agenda item to the next Audit Committee meeting and TR agreed that this could be useful.
- Cllr Will Sandry queried what WECA gets in terms of the Audit fees of £24k it pays to Grant Thornton. BM confirmed that initial interim work is usually about ten days, onsite financial accounts work is usually about three weeks and then value for money work is completed which takes ten days. BM confirmed that these fees are benchmarked against the fees other Combined Authorities pay and that TR managed to negotiate the rate down.

**Action. Financial reporting templates to be added as an agenda item to the Audit Committee meeting happening on the 26<sup>th</sup> of April.**

## 8 INTERNAL AUDIT PLAN 2017/18

Jeff Wring (JW), Head of Audit West, introduced the report to update the Committee on Internal Audit work in 2017/18.

JW explained that the Reasonable Assurance Model supports WECA's audit process and ensures good governance. He explained that good models and methodologies are being used but as we are still in year one this is an evolving process. He confirmed that the assessment areas are scored according to level of risk and level of assurance and that if either falls into the red category, more audit activity would need to be completed

or assurance would need to be gained from elsewhere. JW also explained that in year one it would be expected that there would be some red or orange categories but as the years go on these should move across to the green areas.

JW explained the eight themes of the Reasonable Assurance model and their initial scorings.

#### Theme 1: Corporate Governance

The initial assessment results from WECA governance being complex due to the three local authorities. The level of assurance is high but risk is also relatively high in year one.

#### Theme 2: Financial Management

JW explained that this area is assessed because financial management is a key risk element. Processes seem to be in place but there are some things that still need assurance. For example, internal and external audit processes will feed into this.

#### Theme 3: Performance Management

This seems to be an evolving and developing piece for WECA until the strategy and business plan is in place. There is evidence of good systems being in place and good project work being done in the LEP. From a corporate perspective, there is still some work to be done in this area.

#### Theme 4: Risk Management

JW confirmed there is not a system in place yet so this category has scored to the right of the chart. He confirmed that this can be rectified quite quickly. It becomes more important as the years go on and as it is still year one, JW is quite comfortable with this position at present. He confirmed that he would discuss with SMT how to improve this.

#### Theme 5: Programme and Project Management

JW confirmed that this is a critical and fundamental area for WECA. The systems that are in place currently are good and that assurance is positive. He confirmed that the risk scoring was above average but would probably increase as WECA delivers more.

#### Theme 6: Procurement

JW explained that this area has scored low with regards to assurance as some things are in place but more is expected in future. Risk will also increase with time as more systems are implemented.

#### Theme 7: Information Management

JW confirmed that as WECA is holding small amounts of personal information, risk is quite low. It can be noted that systems are in place and that there is an IT network. There is still some development to be done in terms of staff training.

#### Theme 8: Asset Management

JW confirmed that, aside from the individuals it employs, it doesn't own many assets yet therefore this scores low in the risk category. There is no assurance yet but he hopes to see this move across the chart as the next year progresses.

JW confirmed that this work is based on evidence and these themes will remain under review until the end of March - the final version of this report will be set out in the March Audit plan. He mentioned that he hoped this would help to provide organisational improvement and that Audit West would update this model as additional information comes to light.

The committee members raised the following questions which were addressed by officers as follows:

- Cllr Donald Alexander queried whether Audit West adjusts their work according to the level of risk in the environment? JW confirmed that Audit West would reflect this in their work and in the scope of their reviews.
- Cllr Will Sandry noted that WECA provides money to the Local Authorities for them to deliver projects and asked how much project management WECA is going to do. TR responded by saying that currently project delivery rests with the scheme promoter. In the future, as WECA moves forward with funding schemes and the work involved, it may look at getting more involved with project delivery.
- Cllr Jerome Thomas confirmed that he thinks this is an excellent framework and thanked Jeff Wring for his presentation. He asked if the Chief Executive could come up with an A4 page detailing what she considers to be the risks for the organisation. The Committee agreed with this.
- Cllr Harriet Bradley asked JW what the timeframe on this process is. JW confirmed that it happens once a year formally and that as it is year one for WECA, Audit West goes into quite a lot of detail on this. He confirmed that years one, two and three would involve the same amount of work due to ongoing change.
- Cllr Will Sandry suggested the idea of the Mayor and Chief Executive attending part of a future Audit Committee meeting so that the group could hear their version of the importance of an audit plan. TR confirmed that he would be happy to put this to them.
- Cllr Geoffrey Gollop mentioned that he'd like to see an action plan put in place by TR for key areas needing improvement as identified by Audit West's report. Areas of high priority need to be identified early on so that this sets the foundation for future years. Cllr Gollop agreed that the Mayor and Chief Executive should feed into this process to which TR agreed and said that this is a high priority for them. TR confirmed that at the end of October in 2017 a new resourcing structure was approved and that senior management positions are being recruited to currently. There is still a lot of work to be done to get the key tasks completed and this has been a priority for them at present.
- Cllr Geoffrey Gollop asked what the expected time frame was for the risk register and what the process for this would be. TR confirmed that this would be by the end of the year and confirmed that the process for this sits with the officers and Chief Executive and is usually communicated through the annual governance statement which will report to this committee about key risks. JW also confirmed that WECA's strategy document sets out risks. Cllr Gollop suggested that the risk register, when compiled, should go through the scrutiny process or a public meeting as this could be helpful with regards to informing this committee about priorities, risks and ensuring all members are involved with controlling governance. It was agreed by the Committee that the Mayor and Chief Executive should have sight of the risk register before it goes to a public meeting and that

	<p>this topic would be considered at the Audit Committee meeting on the 26<sup>th</sup> of April.</p> <ul style="list-style-type: none"> <li>• Cllr Jerome Thomas confirmed that for something to be agreed, all Combined Authorities need to vote unanimously. He queried what would happen in the event of one Local Authority not voting in favour for something. TR responded by saying that for legislation to be changed, the order would need to be changed and this too would need unanimous consent from all councils involved. He confirmed that the Chief Executives and leaders meet every second week and try to resolve issues before we get to the latter stage.</li> <li>• Cllr Brian Simmons asked if WECA was planning to be part of the new South West and Wales powerhouse. TR confirmed that he'd not heard anything about this.</li> </ul> <p><b>Action. TR to ask the Chief Executive to compile an A4 page detailing what she considers to be the risks for WECA.</b></p> <p><b>Action. TR to suggest to the Mayor and Chief Executive that they attend part of a future Audit Committee meeting so that the Audit members can hear their version of the importance of an audit plan.</b></p> <p><b>Action. Items for the risk register to be discussed at the Audit Committee meeting on the 26<sup>th</sup> of April.</b></p>
9	<p><b>ANNUAL GOVERNANCE REVIEW</b></p> <p>Jeff Wring (JW), Head of Audit West, introduced the report to present the outline of the process for the Annual Governance Statement.</p> <p>JW confirmed that the document is embedded within the overall set of annual accounts and is given an overview by the external auditors as well. The Annual Governance Statement will be given to members as part of the accounts sign off process later in the year. JW also confirmed that the WECA Code of Corporate Governance was initially adopted from South Gloucestershire Council and will be reviewed at the next audit meeting to make it fitter for purpose.</p> <p>BM added that the Annual Governance Statement applies to the entire year rather from a particular point in time and as of the 1<sup>st</sup> of April, WECA didn't have many governance structures in place. Therefore, the first report should reflect all changes made this year.</p>
10	<p><b>INDEPENDENT MEMBER APPOINTMENT</b></p> <p>TR let the Committee know that WECA advertised, used LinkedIn and Twitter to promote the vacancy prior to Christmas. One application was received that just met the minimum requirements but wasn't ideal in terms of what the organisation was looking for. TR explained that at a similar time, the LEP were advertising for new members and received 53 applications. An idea has been suggested where we could look at approaching the unsuccessful applicants and their organisations to ascertain whether they'd be interested in putting someone forward for the independent member vacancy. If that approach is not successful WECA would then need to advertise the vacancy</p>

	<p>again. TR said he'd be able to update the Committee more at the next Audit Committee meeting in April.</p>
11	<p><b>ANY OTHER ITEM THE CHAIR DECIDES IS IMPORTANT</b></p> <p><b>Document packs.</b> It was agreed by the Committee that paper copies of the papers for each committee member would no longer be needed. If needed, members should request a paper copy from Democratic Services in advance for a given meeting. A couple of copies of the papers will be provided for members of the public.</p> <p><b>Audit Committee start time.</b> It was also agreed that future Audit Committee pre-meetings would start at 10:00am with Committee meetings starting at 10:30am.</p> <p>The Chair declared the meeting closed at 12.18pm.</p>

**ITEM: 6**

**REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE**

**DATE: 26 April 2018**

**REPORT TITLE: INTERNAL AUDIT ANNUAL REPORT 2017/18**

**AUTHOR: JEFF WRING – AUDIT WEST (INTERNAL AUDIT)**

**1. PURPOSE OF THE REPORT**

1.1 This is the Annual Report of the Internal Audit function detailing progress against the Plan, a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

**2. RECOMMENDATION**

2.1 The Corporate Audit Committee notes the Internal Audit Annual Report 2017/18 and formal opinion on the internal control framework.

**3. FINANCIAL IMPLICATIONS**

3.1 There are no direct financial implications relevant to this report.

**4. THE REPORT**

4.1 The Annual Internal Audit Plan for 2017/18 was presented to the West of England (WECA) Audit Committee on the 28<sup>th</sup> September 2017. This approach involved a mixture of formal audit work along with an assessment of the internal control framework to inform the plan for future years. The Plan forms the principal work of the Internal Audit Service and is a significant source of assurance of the effectiveness of the WECA's internal control environment.

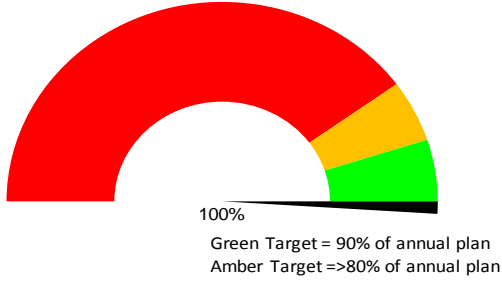
4.2 The Committee receives verbal updates at each meeting and a formal update on delivery against the plan on the 25<sup>th</sup> January 2018. This report builds upon that update and the chart overleaf records the position as at 31<sup>st</sup> March 2018.

# PERFORMANCE DASHBOARD - INTERNAL AUDIT

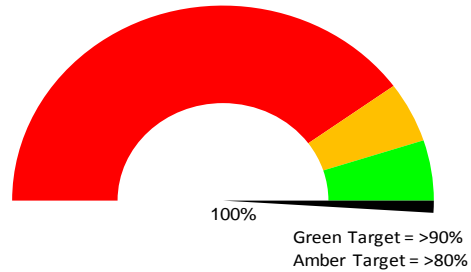
Client - WECA

Period - April 2017 - March 2018

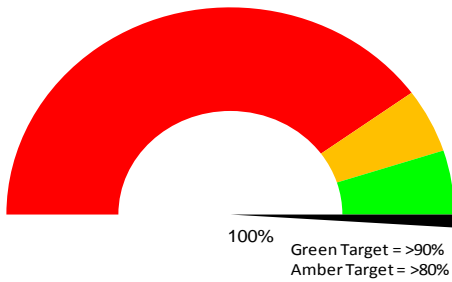
## 1. AUDIT PLAN COMPLETED



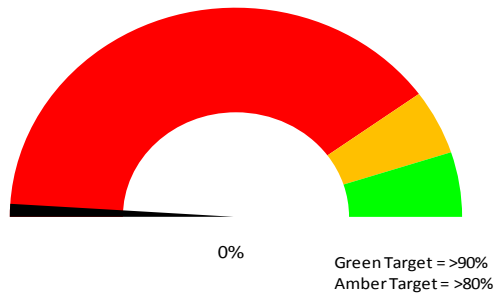
## 2. AUDITS COMPLETED IN PLANNED TIME



## 3. CUSTOMER SATISFACTION

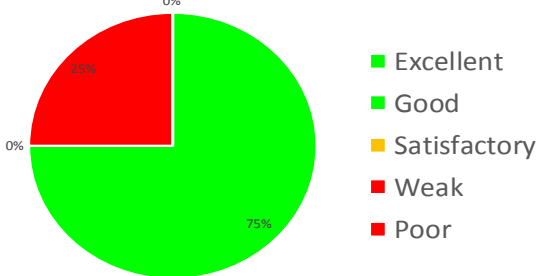


## 4. IMPLEMENTATION OF RECOMMENDATIONS

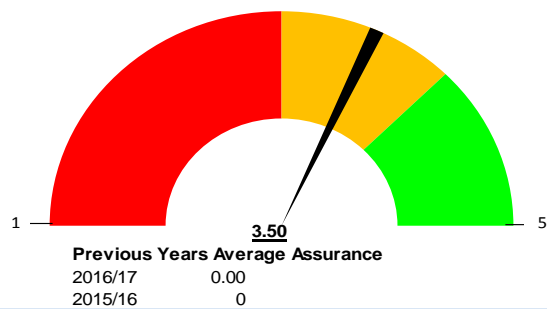


## 5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED

### Current Position



### Current Average Assurance Level



## 6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR



## 7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD



## 8. NEW UNPLANNED WORK



## PERFORMANCE SUMMARY

### 4.3 COMPLETION OF THE INTERNAL AUDIT PLAN

- 4.3.1 The performance dashboard shows that 100% of the plan is 'substantially completed'. This includes work that is either finalised or at reporting stage.
- 4.3.2 Appendix 1 records the estimated status of each audit review within the 2017/18 Audit Plan (15 audit reviews) at the end of March 2018.
- 4.3.3 This records that 10 audit review have been finalised / completed and 5 reviews are in 'draft' report format or 'substantially completed'.

### 4.4 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

- 4.4.1 The percentage of audits completed within the initial allocated days is recorded at 100%. This figure was calculated based on audits recorded as being at 'Final' and 'Completed' Report stage.
- 4.4.2 The importance of completing work within the assigned number of days is monitored closely by the management team.

### 4.5 CUSTOMER SERVICE

- 4.5.1 Customer service and providing value to clients is essential to the provision of a quality internal audit service. We are pleased to report that all questionnaires completed through the Internal Audit Computer System recorded good / excellent responses and this matched feedback received verbally from individual Service Managers.
- 4.5.2 Customer feedback is initially reviewed by the Audit Manager and the scores and comments are communicated onto the relevant auditor.
- 4.5.3 Customer feedback has been received for one audit review (Compliance with Procurement Regulations (IBB)). Some of the comments received from this completed questionnaire are recorded below:

"Identified several gaps in the process that will enable the team to improve compliance with procurement and finance processes".

"Excellent ongoing communication through the whole process".

"A great review and it felt like an engaging process rather than being 'done unto'".

"Very fair and the iterative nature of finalising the report enabled us to gain comfort in the recommendations".



## **4.6 IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS**

4.6.1 The dashboard records the implementation of critical / high risk rated recommendations at the time the audit was 'Followed-Up' at 0%. This is because no 'Follow Ups' have been undertaken during 2017/18. A 'Follow Up' process will be introduced during 2018/19 during which time the recommendations agreed for those audits completed during 2017/18 will be reviewed.

## **4.7 INVESTIGATIONS/ WHISTLEBLOWING**

4.7.1 During the year 2017/18 Audit West has not been involved in any formal investigations and there are no known whistleblowing cases.

## **4.8 ASSURANCE LEVEL PROVIDED**

4.8.1 Outside of the work on the Reasonable Assurance Model there are seven audit reviews at draft or final report stage. Three have recorded an assurance level of good (Level 4) and one audit recorded an assurance level of weak (level 2), please see Appendix 2 for a description of our assurance levels.

4.8.2 Subject to final review and client agreement it is proposed that the final three reviews, Accounts Payable, Accounts Receivable and Payroll key control reviews will have an audit opinion of satisfactory to excellent (between Assurance Levels 3 and 5).

4.8.3 Details on the level 2 review – IBB Compliance with Procurement Regulations – will be provided at the meeting. In all cases management have responded positively to the reviews and all the Internal Audit recommendations have been accepted and due to be 'followed-up' in the first two quarters of 2018/19.

## **4.9 UNPLANNED AUDITS / WORK**

4.9.1 There were no unplanned pieces of work during 2017/18.

## **4.10 FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK**

4.10.1 The Head of Audit West is required to give an opinion on the internal control framework.

4.10.2 Statement of the Head of Audit West - In forming an opinion on the internal control framework I have considered the work of the Audit & Assurance function as well as consideration of other assurances I can rely on and the wider governance framework and performance of the WECA.

It is my opinion that at the current time the WECA's internal control framework and systems to manage risk are reasonable.

- Reasonable assurance can be provided over the WECA's systems of internal control, helping to ensure corporate priorities can be achieved;
- Agreed policies, Financial Regulations and Contract Standing Orders are broadly being complied with;
- Managers throughout the WECA are aware of the importance of maintaining adequate and effective governance arrangements;
- Appropriate arrangements are operated to deter and detect fraud and investigations did not identify any systemic failures;
- There were no fundamental system failures or control breakdowns to business critical functions;

The Audit Committee's support in ensuring this balance and maintaining effective corporate governance is appreciated and I would like to thank all members of the committee for their input and guidance over the past year.

**Consultation:**

5. Outcomes of Audit Work were consulted with Senior Management team and Director of Investment & Corporate Services.

**Public Sector Equality Duties:**

6. No significant implications

**Economic Impact Assessment:**

7. No direct implications.

**Finance Implications:**

8. No direct implications, cost of service within existing budgets

**Legal Implications:**

9. No direct implications

**Land/Property Implications;**

10. No direct implications.

**Human Resources Implications:**

11. No direct implications

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**Recommendation:**

- 12 To note the report, statutory opinion on the Internal Control framework and outcome of Internal Audit work undertaken in 2017/18.

**Report Author:**

**West of England Combined Authority Contact: Tim Richens – Director of Corporate Services**

**Audit West – Jeff Wring**

**Background Papers**

Any person wishing to inspect the Background Papers, used in the preparation of this Report, should seek the assistance of the Contact Officer for the meeting

## Appendix 1

### Audit Reviews Position Statement (as at 31<sup>st</sup> March 2018)

Ref	Topic	Status	Assurance Level	Recommendations	
				Made	Agreed
17-233W	Reasonable Assurance Model – Corporate Governance	Completed	Amber	N/A	N/A
17-233W	Reasonable Assurance Model – Financial Management	Completed	Amber	N/A	N/A
17-233W	Reasonable Assurance Model – Risk Management	Completed	Red	N/A	N/A
17-233W	Reasonable Assurance Model – Performance Management	Completed	Amber	N/A	N/A
17-233W	Reasonable Assurance Model – Procurement & Commissioning	Completed	Amber	N/A	N/A
17-233W	Reasonable Assurance Model – Programme & Project Management	Completed	Amber	N/A	N/A
17-233W	Reasonable Assurance Model – Information Management	Completed	Amber	N/A	N/A
17-233W	Reasonable Assurance Model – Asset Management	Completed	Amber	N/A	N/A
17-202W	Accounts Payable Key Controls Review	Substantially Completed			
17-203W	Accounts Receivable Key Controls Review	Substantially Completed			
17-205W	Payroll Key Controls Review	Substantially Completed			
17-207W	Compliance with Procurement Regulations (Invest in Bristol & Bath)	Final Report	2	7	7
17-211W	Mayoral Election Costs	Completed	4	N/A	N/A
17-212W	Grant Funding Key Controls Review	Draft Report	4	3	Awaited
17-213W	Treasury Management	Draft Report	4	3	Awaited

## Appendix 2 – Audit Opinion Descriptions

Assurance Rating	Opinion
Level 5	The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary
Level 4	The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However there is one area detailed in the Assurance Summary which requires improvement and specific recommendations are detailed in the Action Plan
Level 2	The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
Level 1	The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

**ITEM: 7**

**REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE**

**DATE: 26<sup>th</sup> APRIL 2018**

**REPORT TITLE: WECA - INTERNAL AUDIT PLAN (2018/19)**

**AUTHOR: JEFF WRING – AUDIT WEST (INTERNAL AUDIT)**

**Purpose of Report**

1. To present the indicative Internal Audit Plan for 2018/19 and Internal Audit Charter to the Audit Committee for approval.

**Issues for Consideration**

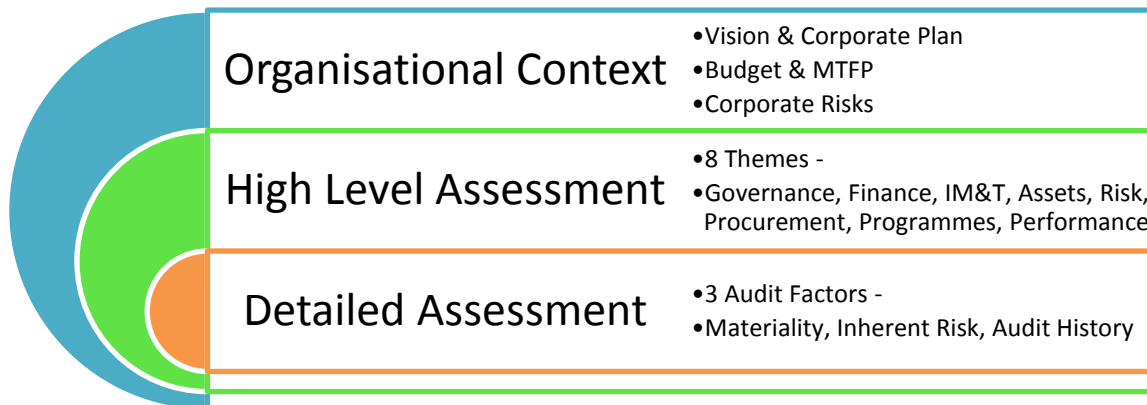
2. To consider the areas included within the Audit Plan in the context of WECA being a new organisation and the core assurances it requires from its audit function on its core systems and governance framework.
3. To ensure that the Audit Committee can rely on the independent assurance given by its Internal Auditor's as laid out within the Audit Charter.

**Report Narrative / Main Content**

**Internal Audit Annual Plan 2018/19 (Appendix 1)**

- 4.1 The Public Sector Internal Audit Standards require Internal Audit to prepare a risk-based plan. As this is only the second year of WECA's operation there is limited audit history and risk assessment to rely on and as such the plan attached at Appendix A is based on the current position and could be subject to further change as WECA's organisational requirements become more established.
- 4.2 The Audit Plan will therefore focus on the following main themes –
  - a) Continued Assurance on Core Systems;
  - b) Assurance on Core Governance framework;
  - c) Advice on new financial and grant funded systems and processes;

4.3 The Plan has been subject to consultation with the Director of Investment and Corporate Services (S151 Officer) and WECA's strategic management team. The Internal Audit service (Audit West) use the reasonable assurance model to compile the plan, of which the essential elements are as follows –



4.4 As presented to the last Audit Committee in detail at its last meeting we have used the reasonable assurance model as one of our core assurance processes as well as informing the plan for this year. Notwithstanding the assessment, specific circumstances (such as a significant reputational issue or request of S151 Officer or Senior Management Team may on occasion mean that a new audit area may be included in the Plan.

4.5 Resources available to deliver the Plan will also inform the quantum of the Plan which amounts to approximately 80 days in total plus a contingency sum and the areas indicated in the plan relate to these numbers of days.

4.6 In addition to completing the Internal Audit Reviews, Audit West will -

- Provide support to the Council's risk management framework;
- Provide advice on systems of internal control including WECA policies and procedures. This is particularly important when systems and processes are being developed or changed;
- Provide support to WECA on carrying out investigations in relation to financial irregularities. This may require Audit West staff to take on the Investigating Officer role in compliance with the Council's disciplinary procedures;
- Provide a service to verify the accuracy of specific grant claims and when required provide assurance to the WECA's Chief Executive or other officers who are required to 'sign-off' Claim Certificates.

4.7 The Plan will remain fluid during the year to enable the service to respond to WECA's changing risk environment and the Committee will receive an update on the work undertaken later in the year.

### Internal Audit Charter

4.8 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1<sup>st</sup> April 2013 and replaced the CIPFA Code of Practice for Internal Audit in Local Government, Central Government and the NHS. The PSIAS was revised wef 1<sup>st</sup> April 2017 and are based on the Institute of Internal Auditors' International Standards. The objectives of the PSIAS are to:

- Define the nature of internal auditing within the UK public sector.

- Set basic principles for carrying out internal audit in the UK public sector.
  - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations.
  - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 4.9 A key requirement of the PSIAS is an Internal Audit Charter which defines the internal audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes its position within the organisation; the nature of the Chief Audit Executive (CAE's) functional reporting relationship with the Audit Committee; formally records its access to property, records and personnel; and defines the scope of internal audit activities. The CAE must periodically review the Internal Audit Charter and present it to the Audit Committee for approval.
- 4.10 As WECA is a new organisation the Charter attached at Appendix 2 is new and will need to be approved by the Audit Committee.
- 4.11 Each year we will assess ourselves against the required standards and ensure a quality assurance and improvement programme (QA&IP) is in place requiring both internal and external assessment with an external assessment being required at least every 5 years.
- 4.12 We have just been externally assessed and we are pleased to confirm we have received the highest rating – general confirming to standards – and will ensure we keep the Committee appraised on an annual basis of our ongoing compliance.

**Consultation:**

5. Draft Plan was consulted with Senior Management team and Director of Investment & Corporate Services.

**Public Sector Equality Duties:**

6. No significant implications

**Economic Impact Assessment:**

7. No direct implications.

**Finance Implications:**

8. No direct implications, cost of service within existing budgets

Advice given by: Director of Corporate Services

**Legal Implications:**

- 9 No direct implications

Advice given by: Director of Corporate Services

**Land/Property Implications;**

- 10 No direct implications.

Advice given by: Director of Corporate Services



**Human Resources Implications:**

- 11 No direct implications

Advice given by: Director of Corporate Services

**Recommendation:**

- 12 To note the report and approve the Internal Audit Plan attached at Appendix 1 and Audit Charter at Appendix 2.

**Report Author:**

**West of England Combined Authority Contact: Tim Richens – Director of Corporate Services**

**Audit West – Jeff Wring**

**Background Papers**

Any person wishing to inspect the Background Papers, used in the preparation of this Report, should seek the assistance of the Contact Officer for the meeting



# Appendix 1 – Internal Audit Plan 2018/19

Delivering Independent Assurance to the Public Sector

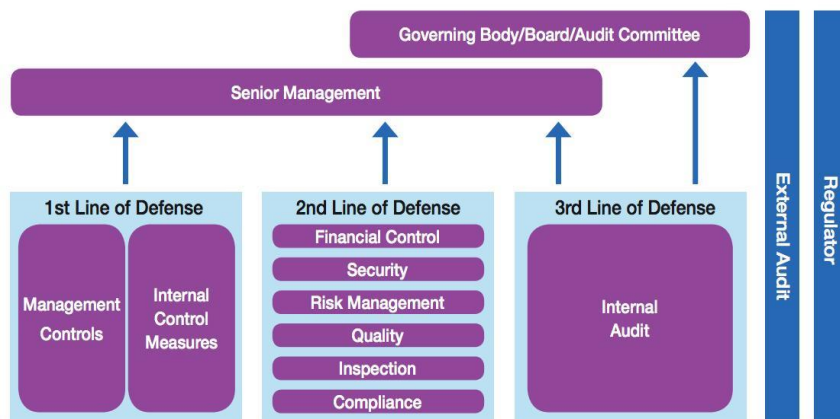
# 1. Our Role

## Introduction

The West of England Combined Authority is striving to be a beacon of growth and innovation where everyone has an opportunity to reach their potential and where prosperity delivers for everybody. The Authority has also recognised through its first year the importance of excellence in resource management and sound governance as fundamental to achieving its priorities and is putting those key building blocks in place.

Audit West fully recognizes its need to be flexible and agile in the face of the significant changes affecting the whole of the public sector and meet the needs of its stakeholders. Independent assurance which is strong but supportive can provide a helpful and positive role not just to services but to elected Members and the Community at large by demonstrating that the Authority is operating effectively and protecting its assets and resources for the benefit of all its stakeholders.

## Three Lines of Defence Model



By being independent of management Audit West maintain the third line of defence and we continue to do this effectively by working with all our stakeholders - especially the Audit Committee, Statutory Officers and Senior Management – to improve the service we offer but also to provide an independent voice in supporting service change and transformation.

We also aim to offer continued value to all our clients based on the following key priorities –

- **Use of our Reasonable Assurance Model**
- **Maximising Use of Technology**
- **Investment in Skills**
- **Offering complimentary assurance services**
- **Providing Value for Money**

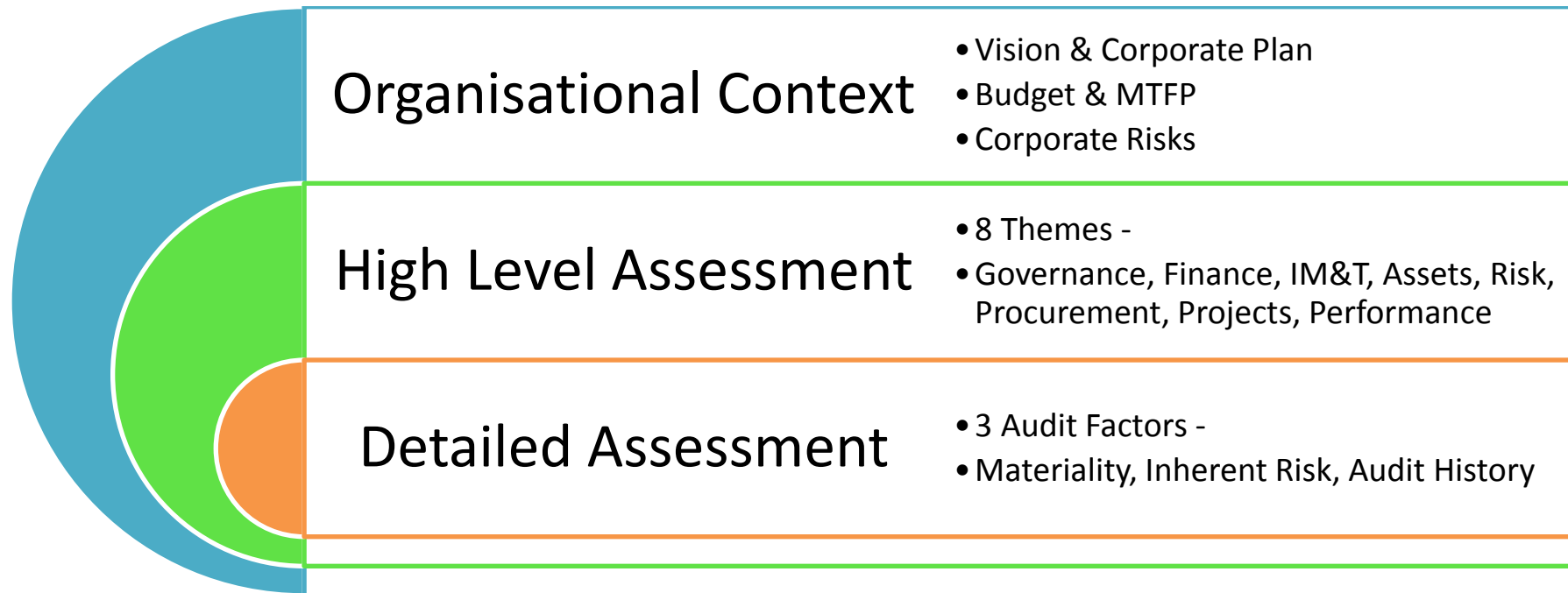
The remainder of this document outlines our approach and also the indicative areas for our audit and assurance plan for 2018/19.



## 2. Reasonable Assurance Model – Producing the Audit Plan

The model is based on the fundamental requirement that the audit plan proposed will deliver sufficient work to enable the Head of Audit to independently assess the internal control framework and give a reasonable assurance opinion at the end of each year.

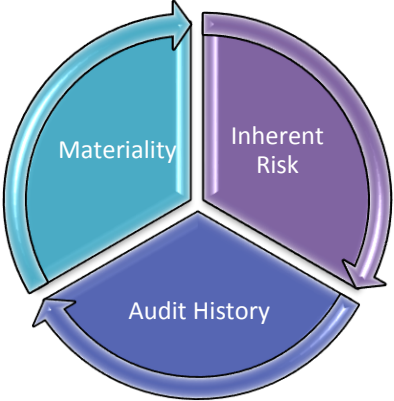
This involves considering current context of the Authority, what a 'healthy organisation' requires to operate effectively and then assessing independently against this in a staged process as follows –



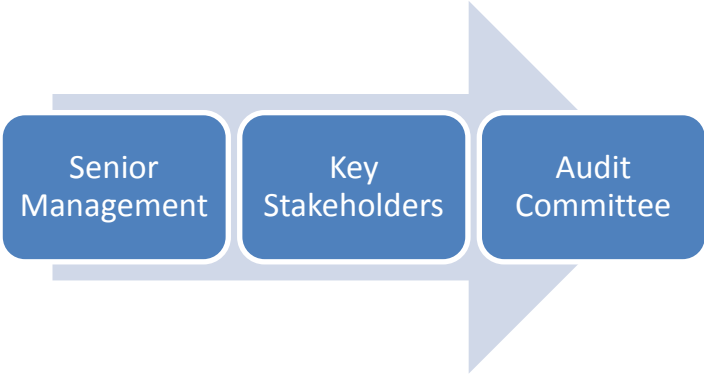
**HIGH LEVEL ASSESSMENT AREAS – REASONABLE ASSURANCE**



**DETAILED CRITERIA – AUDIT PLAN LISTING**



**CONSULTATION & APPROVAL**



**Results of our Reasonable Assurance Model Risk Assessment –**

<b>LEVEL OF RISK</b>	<b>HIGH</b>					
		<b>CORPORATE GOVERNANCE</b>	<b>FINANCIAL MANAGEMENT</b>			
		<b>PROGRAMME &amp; PROJECT MANAGEMENT</b>		<b>PERFORMANCE MANAGEMENT</b>	<b>RISK MANAGEMENT</b>	
			<b>INFORMATION MANAGEMENT</b>	<b>PROCUREMENT</b>		
	<b>LOW</b>				<b>ASSET MANAGEMENT</b>	
		<b>HIGH</b>	<b>LEVEL OF ASSURANCE</b>			<b>LOW</b>

### 3 Areas for Review – 2018/19

Internal Audit Areas	Reasonable Assurance Theme
<b>Core Systems</b>	
Accounting Ledger – Control A/C Reconciliation	Financial Management
Bank Account Reconciliation	Financial Management
<b>Financial Management</b>	
Risk Management	Risk Management
Counter Fraud Arrangements	Risk Management
<b>Corporate Governance</b>	
Annual Governance Review (AGS)	Corporate Governance
Reasonable Assurance Model – Corporate Governance	Corporate Governance
Reasonable Assurance Model – Financial Management	Financial Management
Reasonable Assurance Model – Performance Management	Performance Management
Reasonable Assurance Model – Risk Management	Risk Management
Reasonable Assurance Model – Programme & Project Management	Programme & Project Management
Reasonable Assurance Model – Procurement	Procurement
Reasonable Assurance Model – Information Management	Information Management & Technology
Reasonable Assurance Model – Asset Management	Asset Management
<b>Accountable Body Functions</b>	
Adult Education	Risk & Performance Management
Future Bright	Risk & Performance Management
<b>WOE Office (Accountable Body Status)</b>	
Grant Funding (i.e. Local Growth Fund)	Financial Management
<b>Follow-Up Reviews</b>	Corporate Governance

## 4 Methodology, Approach & Standards

### **Introduction:**

Internal Audit is an assurance function that provides an independent and objective opinion to the Authority on its control environment. Scope of Internal Audit activity is not limited to the Authority's financial systems and records, but extends to all its functions.

Internal Audit is required to compile each year a Plan of its intended activity for approval by the Audit Committee and to be compliant with the Public Sector Internal Audit Standards and designs its methodologies to ensure it meets these standards.

### **Independence:**

A critical element of the performance of Internal Audit is independence from the activities audited. This enables the function to form impartial and effective judgment for the opinions and recommendations made.

To help ensure independence, Internal Audit is delivered through a contractual arrangement with Bath & North East Somerset Council and so is not fettered by any management reporting line restrictions. It also has unrestricted access to Senior Management & Members, particularly, the Mayor, Chair of the Audit Committee, the Chief Executive, Directors, the Council's s151 Officer and Monitoring Officer. Additionally, the Head of Audit West reports in his own name and acts as Chief Audit Executive for the Combined Authority.

### **Relationship with the Authority's External Auditor:**

As part of their audit of the financial statements, the external auditor has a dedicated plan from which they carry out specific reviews of the Authority's activities. The External Auditors carry out their own risk assessment methodology to assist in agreeing their work plan.

The working relationship between Internal Audit and the External Auditors carrying out their respective functions is important and must take account of their differing roles. The External Auditor has a statutory responsibility to express an opinion on the financial statements, whilst the Internal Audit function is responsible for assessing the adequacy and effectiveness of the internal controls and advising Management accordingly.

The External Auditors whilst not formally required to seek reliance on the work of Internal Audit take into account the outcomes of all audit activity and consider their approach and plans to maximise their effectiveness and there is therefore regular contact between them.

### **Performance Management**

The function recognises the importance of regular and effective performance management to ensure an effective service is being operated. A performance dashboard is produced and reported as necessary to each of the key stakeholders.

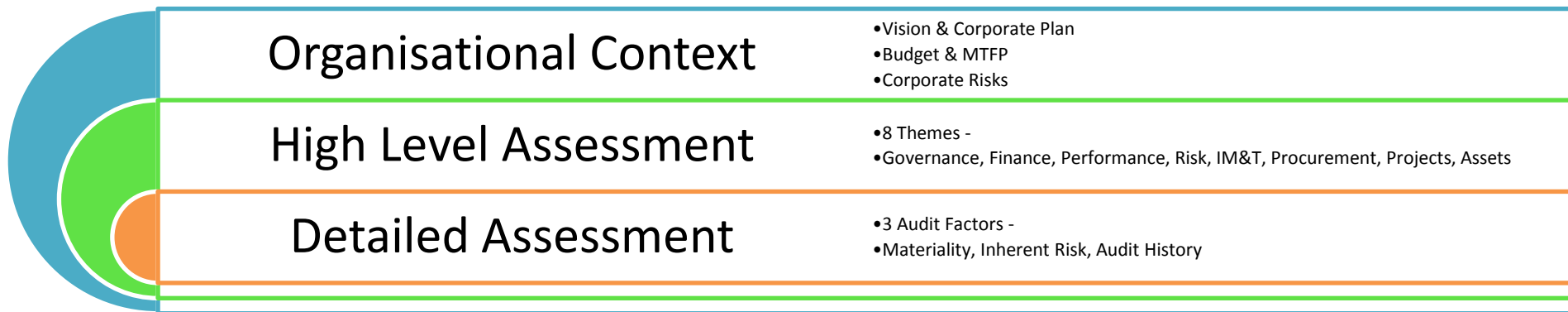


Performance Indicators and Measures are set in the following areas –

Completion of the Plan  
Audit Recommendations Implemented  
Assurance Levels Provided  
Productivity  
Customer Satisfaction  
Numbers of Investigations  
Unplanned Work

### Preparation of the Annual Plan: Reasonable Assurance Model

Internal Audit has adopted a risk based approach in determining its Annual Plan using the reasonable assurance model.



### Unplanned Work

The plan also allows for a contingency for any unplanned work. Unplanned work consists of the investigation of irregularities and prioritised ‘consultancy’ work. If this contingency number of days is fully utilised and further unplanned work is required it is the intention that planned audit reviews, with the lowest risk rating, will be replaced by the unplanned work activity.

In view of the ever changing environment in which Local Government exists the Plan will be reconsidered at regular intervals to confirm that the remaining work planned is still appropriate. This process will be carried out in consultation with Senior Management and in particular the S151 Officer who acts as the principal client for the function.

## **Methodology:**

### **Individual Audit Reviews:**

At the commencement of each Audit Review, an Audit Brief (**Annex A**) will be prepared and issued to the relevant Head of Service/Director and responsible Manager. This Brief will identify the objectives of the review and areas to be covered.

At the conclusion of each review, an end of review meeting will be held with the Client to discuss the matters arising. Following the conclusion of the audit review work a 'draft' audit report will be issued to Management. The report will provide a graded 'Assurance Level' (see ANNEX B); a summary of identified strengths & weaknesses; and a detailed action plan recording weaknesses & recommendations.

The nominated responsible Manager is required to respond to the audit findings and recommendations and prepare an action implementation plan recording responsible officers and timescale for implementation. The management comments and implementation plan are compiled into a 'final' version of the report. The relevant Director, Chief Executive and the Audit Committee will be informed of the outcome of any work which receives a level 1 rating.

### **Audit Review 'Follow-Ups':**

Internal Audit recommendations are subject to "follow-up" to ensure actions are implemented within the agreed timescales. The process is dependent on the risk classification and for all 'High' risk recommendations Internal Audit will carry out testing to confirm implementation and report its back to the Client. Where an area has a level 1 rating this may be reported to the Audit Committee.

### **Investigation of Fraud & Corruption:**


Senior Management have the primary responsibility for the prevention and detection of fraud and other financial irregularities. Internal Audit will however ensure it provides a lead in supporting management in this area, including design of appropriate strategies, policies and levels of control and will be alert in all their work to the possibility of theft, fraud, corruption and bribery.

### **Professional Standards**

All Internal Audit functions are required to comply the professional standards set out by the Chartered Institute of Internal Auditors and endorsed by CIPFA. Evidence of this compliance is through a formal external assessment every 5 years and annual self-assessments.

Audit West received a formal external self-assessment in March 2018 and it was confirmed that it was confirming with the standards. Updates will be provided to the Audit Committee of areas for improvement on an annual basis.

AUDIT BRIEF

<ul style="list-style-type: none"> <li>• <b>Title</b></li> </ul>	<p>{Title}</p>	
<ul style="list-style-type: none"> <li>• <b>Purpose of Review</b></li> </ul>	<p>To review the risks and internal controls related to the scope of the audit (detailed below) and provide management with an opinion on the adequacy of the framework of internal control.</p>	
<ul style="list-style-type: none"> <li>• <b>Scope of Review</b></li> </ul>	<p>The audit will review the following key risks/control objectives:</p> <ul style="list-style-type: none"> <li>• Ensure.....</li> <li>• Ensure.....</li> <li>• Ensure.....</li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Key Stages of Review Process</b></li> </ul>	 <pre> graph TD     A((Agree Brief with Client)) --&gt; B((Compile &amp; Issue Draft Report))     B --&gt; C((Agree Opinion &amp; Final Report with Client))     C --&gt; D((Implement &amp; Follow-up))     D --&gt; E((Discuss Summary Findings with Client))     E --&gt; F((Testing &amp; Field Work))     F --&gt; A     </pre>	
<ul style="list-style-type: none"> <li>• <b>Timeframe</b></li> </ul>	<p><b>Fieldwork Starts:</b> {Date}</p>	<p><b>Draft Report:</b> {Date}</p>
<ul style="list-style-type: none"> <li>• <b>Key Contacts</b></li> </ul>	<p><b>Lead Auditor:</b> {Name}</p>	<p><b>Lead Client:</b> {Name}</p>
<ul style="list-style-type: none"> <li>• <b>Service Charter &amp; Professional Standards</b></li> </ul>	<p>Our customer service charter outlines what you can expect from us and what in turn we need from you to complete this audit.</p> <p>All audit work is reported to and monitored by the Audit Committee. All audit work complies with Public Sector Internal Audit Standards.</p>	

**AUDIT OPINIONS*****Assurance Level 5 (Excellent)***

The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary.

**• *Assurance Level 4 (Good)***

The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary.

**• *Assurance Level 3 – (Satisfactory)***

The systems of internal control are satisfactory and reasonable assurance can be provided. However, there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan.

**• *Assurance Level 2 – (Weak)***

The systems of internal control are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce risk exposure.

**• *Assurance Level 1 – (Poor)***

The systems of internal control are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee.

**CONTACT DETAILS**

<b>Engagement Lead –</b>	Jeff Wring 01225 477323 <a href="mailto:jeff_wring@bathnes.gov.uk">jeff_wring@bathnes.gov.uk</a>
<b>Audit Team Leader -</b>	Mark Wheeler 01225 477286 <a href="mailto:Mark_wheeler@bathnes.gov.uk">Mark_wheeler@bathnes.gov.uk</a>
<b>Address</b>	Audit West Resources The Guildhall High Street BATH, BA1 5AW



## **Internal Audit Charter**

**This document sets out the purpose, authority and principal responsibilities of the Internal Audit Service for West of England Combined Authority.**

### **1 Internal Audit's Purpose and Mission**

- 1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the West of England Combined Authority (WECA) on its control environment.
- 1.2 Internal Audit helps the organisation to achieve its objectives through a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes. Its mission is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight.

### **2 Internal Audit's Statutory Role**

- 2.1 The Accounts & Audit Regulations 2015 (Local Government England & Wales) states that:

“A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.
- 2.2 Section 151 of the Local Government Act 1972 requires the Authority to designate an Officer to be responsible for “making arrangements for the proper administration” of the Council’s financial affairs. One of the ways by which this duty is discharged is by maintaining an adequate and effective Internal Audit Service.
- 2.3 The Audit Committee responsibilities are recorded in its’ own Terms of Reference, and are also subject to regular review.

### **3 Standards for Professional Practice of Internal Auditing**

- 3.1 Internal Audit will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Head of Audit West will report periodically to the WECA S151 Officer and the WECA Audit Committee regarding Internal Audit conformance to the Code of Ethics and the Standards.

### **4 Management's Responsibilities for Internal Control**

- 4.1 Responsibility for internal control rests fully with Management, who shall ensure that arrangements are appropriate and adequate. Management shall establish and maintain an adequate system of internal control to enable them to discharge their responsibilities and to ensure that the Council's resources are properly applied in the manner intended. This includes responsibility for the prevention and detection of fraud.

### **5 Audit West's Responsibility & Objectives**

- 5.1 Audit West is responsible for carrying out an appraisal of all the WECA's activities, financial or otherwise, in line with this Internal Audit Charter. Audit West will provide an annual opinion to the WECA Audit Committee, and will carry out Audits and other assurance work in order to deliver this opinion. In addition, Audit West will report to Management any material facts that may affect the delivery of the opinion.
- 5.2 As stated in Section 3 Audit West will be governed and will comply with the Professional Practices Framework, (including the Public Sector Internal Audit Standards), and will complete an annual fully evidenced internal assessment of compliance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The findings and any required actions will be reported to the WECA Audit Committee. Compliance will also be verified through an external review assessment every five years.
- 5.3 One of the key service objectives of Audit West will be to produce a risk based Annual Audit Assurance Plan for approval by the WECA Audit Committee. The Audit Plan will remain flexible to take account of the WECA's changing environment and risk profile.
- 5.4 Completion of all or a significant proportion of the approved Audit Plan will be a key performance measure of the Internal Audit Service.
- 5.5 Audit West will directly employ staff and contract as necessary to provide a service to the WECA.

## **6 The Scope of Internal Audit**

- 6.1 Audit West's work is not limited to the WECA's financial systems and records, but extends to all activities of the WECA. This enables Audit West to give an independent and objective opinion on the adequacy and effectiveness of governance, risk management and the control environment as a source of assurance to management.
- 6.2 This will include: reviewing and evaluating compliance with policies, laws and regulations; assessing the reliability and integrity of information; and, safeguarding the WECA's assets. In addition to this core internal audit work, it will undertake, where appropriate, other non-assurance work at the request of management. This may include consultancy and fraud / irregularity related work.

## **7 Audit West's Reporting lines**

- 7.1 Audit West is employed via a contractual agreement from Bath & North East Somerset Council so have no conflicts with regard to management reporting lines. They shall have direct access and the right of report to the WECA Mayor, Chief Executive, Monitoring Officer, Chief Finance Officer, the External Auditor, Chair of the Audit Committee and Chair of the WECA's Scrutiny Committee, where appropriate.
- 7.2 The WECA has an Audit Committee whose Terms of Reference include responsibility for monitoring the performance of the Internal Audit Service and approving its Annual Audit Plan. The Head of Audit West reports regularly to the WECA Audit Committee and is required on an annual basis to provide a formal opinion of the adequacy of the Internal Control Framework and systems to manage risk.

## **8 Internal Audit Independence**

- 8.1 A critical element of the performance of the Internal Audit function is independence from the activities it audits. This independence enables Audit West to form impartial and effective judgment for the opinions and recommendations made. To help ensure independence the Head of Audit West shall have direct access and the right of report to the Mayor, Chief Executive, Monitoring Officer, Chief Finance Officer, the External Auditor and the Chair of the Audit Committee.
- 8.2 Internal Auditors will be impartial, have an unbiased attitude and avoid any conflict of interest. Auditors will not undertake audit reviews in services where they have previously worked (directly working for the function or carrying out 'consultancy services') in the last two years. In terms of 'consultancy services' this is work which is going beyond providing an opinion on the control environment, i.e. they are designing or developing systems to fulfil an objective.
- 8.3 Internal auditors will disclose any impairments of independence or objectivity, in fact or appearance, to appropriate parties.



- 8.4 Before Audit West agrees to carry out consultancy services consideration will be given to any potential conflicts of interest. If it is concluded that the proposed work would compromise delivery of Audit West's prime function then the work would be declined.
- 8.5 Where the Head of Audit West has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.
- 8.6 The Head of Audit West will confirm to the WECA Audit Committee at least annually of the independence of the internal audit activity.

## **9 Internal Audit Fraud related work**

- 9.1 Audit West does not have responsibility for the prevention and detection of fraud. However, Audit West staff shall be alert in all their work, to risks and exposures that could allow fraud or corruption. Audit West work alone cannot guarantee that fraud and irregularities will be picked up even when work is performed in compliance with the Public Sector Internal Audit Standards.
- 9.2 The main source for Audit West to be alerted to possible fraud and irregularities will be through the awareness of the Officers and Members of the WECA, the Counter Fraud Strategy and associated policies (Money Laundering Policy; Anti-Bribery Policy and Whistleblowing Policy).
- 9.3 Audit West may also be requested by Management to assist with the investigation of potential cases of fraud and financial irregularities. The objective of the Internal Audit Service is to ensure that: 1) the matter is fully investigated and if necessary referred for Police or disciplinary action; and 2) the system of internal control is enhanced to avoid a repeat of the issue. All reported irregularities would be investigated in line with adopted Strategies, Policies and protocols.

## **10 Audit West's Right of Access**

- 10.1 The Accounts & Audit Regulations 2015 provides that any Officer of the WECA must make available such documents of the Council which relates to its' accounts and other records as appear to be necessary for the purpose of the Audit.

In addition the WECA's Financial Regulations state that the Internal Auditors shall have authority to:

- Enter at any reasonable times, any operational or administrative WECA premises or land and have access to all WECA property.
- Have access to (and where necessary to copy or retain) all records whether manually or electronically held, documentation, correspondence and computer systems relating to any transaction of the WECA, or non-official funds operated by WECA staff,

- Require and receive such explanations as are necessary concerning any matter under examination,
- Require any employee of the WECA to produce or account for cash, stores or any other property under their custody or control,
- Examine any work or services carried out for the WECA by an employee or contractor, and any goods purchased on behalf of the WECA,
- Review appraise and report on the soundness, adequacy and application of internal controls. This includes those controls to protect WECA resources, property and assets from loss / waste.

The Council's Internal Auditors shall have direct access and the right of report to the WECA Mayor, Chief Executive, Monitoring Officer, Chief Finance Officer, the External Auditor, Chair of the Audit Committee and Chair of the WECA's Scrutiny Committee, where appropriate.

## **11 Relationship with External Audit & other assurance providers**

11.1 The relationship between Audit West and the WECA's External Audit should take account of their differing roles. The External Auditor has a statutory responsibility to express an opinion on the WECA's financial statements, whilst Audit West is responsible for assessing the adequacy and evaluate the effectiveness of its risk management, control and governance processes and advising Management accordingly.

11.2 Audit West will co-operate and co-ordinate with External Audit and other review agents to:

- Ensure that duplication of work is minimised
- Consider joint delivery where appropriate
- Determine the level of assurance that can be obtained from their work
- Review the reliance that can be placed on that assurance as part of Audit West's opinion on the control environment
- To enable access to all Audit West records as appropriate.

11.3 As part of its drive to secure efficiencies, Audit West will use all sources of assurance available to it to inform its opinion.

## **12 Quality Assurance and Improvement Plan**

12.1 The Head of Audit West has developed a quality assurance and improvement programme that covers all aspects of the internal audit activity. It has been designed to enable an evaluation of the Audit West's conformance with the Public Sector Internal Audit Standards and an evaluation of whether internal auditors apply the

Institute of Internal Auditors Code of Ethics. Identifying opportunities for improvement is a key requirement of the programme.

- 12.2 An annual internal assessment will be carried out using a methodology developed to review compliance with the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework. The results of the internal assessment including any action plans will be reported in the annual report to the WECA Audit Committee.
- 12.3 An external assessment will be carried out at least every five years by a qualified, independent assessor from outside the organisation.
- 12.4 The Head of Audit West will inform the WECA Audit Committee of the form of the external assessment and clarify the qualifications and independence of the external assessor. The results of the external assessment including any action plans will be reported in the relevant annual report to the WECA Audit Committee.
- 12.5 Any non-conformance to the International Standards for the Professional Practice of Internal Auditing and Code of Ethics will be highlighted for consideration for inclusion in the Council's Annual Governance Statement.

**ITEM: 8**

**REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE**

**DATE: 26 APRIL 2018**

**REPORT TITLE: EXTERNAL AUDIT UPDATE REPORT**

**AUTHOR: TIM RICHENS – DIRECTOR OF INVESTMENT AND CORPORATE SERVICES (S151 OFFICER)**

**Purpose of Report**

1. To consider the updates from the external auditor attached to this cover report.

**Issues for Consideration**

2. The External Auditor has provided the following items appended to this report to update the Committee on:
  - i. Appendix 1 – progress report and sector update
  - ii. Appendix 2 – fees letter 2018/19
  - iii. Appendix 3 – IAS 240 letter template
- 2.1. The External Auditor will provide a full briefing on these items at the meeting.

**Consultation:**

3. The External Audit plan for 2016/17 and 2017/18 was produced in consultation with the WECA S151 Officer and the appointed internal audit provider (Audit West).

**Public Sector Equality Duties:**

4. There are no direct implications arising from this report.

**Economic Impact Assessment:**

5. There are no direct implications arising from this report.

**Finance Implications:**

6. The External Audit work supports the statutory audit requirements for the Annual Accounts and the fee for this work is agreed by Public Sector Auditor Appointments Ltd. The specific fee proposals for 2018/19 external audit work is included in the update provided.

**Legal Implications:**

7 The report is in accordance the Accounts and Audit (England) Regulations 2011 .

**Human Resources Implications:**

8 There are no direct implications arising from this report.

**Recommendation:**

9 To note the External Audit updates.

**Report Author:**

**West of England Combined Authority Contact: Tim Richens – Director of Corporate Services, Tel: 0117 428 6210**

**Background Papers**

None.

# Audit Progress Report and Sector Update

West of England Combined Authority

10 April 2018



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# Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Combined Authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk).

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



# Progress at 10 April 2018

## Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2017/18 financial statements.

We commenced our interim audit in March 2018. Our interim fieldwork visit includes:

- Review of the Authority's control environment
- Understanding of financial systems
- Early work on emerging accounting issues
- Early substantive testing

The findings from our interim audit are summarised at page 6 to 9.

The statutory deadline for the issue of the 2017/18 opinion is 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on the 25 June with findings reported to you in the Audit Findings Report by the deadline of July 2018.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We made our initial risk assessment to determine our approach in January 2018 and reported this to you in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

## Other areas

### Meetings

We met with the Interim Director of Investment and Corporate Services in January and April 2018 as part of our quarterly liaison meetings to discuss the Authority's strategic priorities and plans, emerging financial reporting developments and to ensure the audit process is smooth and effective.

We have met with the finance team and PWC (who have been appointed to develop and deliver the financial statements) to discuss the preparation of the accounts and emerging issues to consider in advance of the final accounts audit.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. A member of your finance team attended our financial Reporting Workshop held in February at our Bristol office. Our workshops are designed and delivered by our highly experienced public sector assurance team and help officers prepare for the financial statements audit by highlighting potential risk areas and providing an opportunity for discussion and questions.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

# Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2017-18 financial statements.	January 2018	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit within our Progress Report.	April 2018	In Progress
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2018	Not yet due

# Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Combined Authority and that internal audit work contributes to an effective internal control environment.</p> <p>At the time of reporting internal audit's work on the Combined Authority's key financial systems have not been finalised. We will review these reports when finalised and report any significant weaknesses impacting on our responsibilities in the Audit Findings Report.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements.</p> <p>At the time of reporting we are still documenting our understanding of some elements of assignment of authority and responsibility.</p>

	<b>Work performed</b>	<b>Conclusions and recommendations</b>
<b>Review of information technology controls</b>	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>We have relied on some information from work undertaken as part of the audit of Bath and North East Somerset Council who host the Combined Authority's IT systems.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements.</p> <p>Our information system specialist will be undertaking a detailed review of the IT controls at Bath and North East Somerset Council (including controls applicable to the Combined Authority) which we shall report on in the Audit Findings Report.</p>
<b>Walkthrough testing</b>	<p>We have undertaken walkthrough tests of the Authority's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. These areas are Operating Expenditure and Employee Remuneration.</p> <p>We are waiting on further information in relation to Employee Remuneration to complete the walkthrough test for this risk area.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Combined Authority in accordance with our documented understanding.</p>	<p>At the time of reporting our work has not identified any weaknesses which impact on our audit approach.</p> <p>We will report on the results of the Employee Remuneration walkthrough in the Audit Findings report.</p>
<b>Journal entry controls</b>	<p>We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.</p>	<p>During our final audit visit we will extract 'unusual' journals from the full 12 months (including year-end adjusting journals) and further review these.</p>

	<b>Work performed</b>	<b>Conclusions and recommendations</b>
<b>Shared service arrangements</b>	<p>We have performed a high level review of the shared service arrangements with Bath and North East Somerset Council.</p> <p>Our work in this area has not identified any issues that we wish to bring to your attention.</p>	<p>Overall we have established that there are suitable arrangements in place for Bath and North East Somerset to supply financial and procurement services.</p>
<b>Early substantive testing</b>	<p>We have commenced substantive testing for months 1-10 on the following areas:</p> <ul style="list-style-type: none"> <li>• Operating expenditure (including £9.6m of concessionary fares expenditure)</li> <li>• Grant expenditure</li> <li>• Employee remuneration</li> <li>• Property, plant and equipment additions</li> </ul>	<p>Our audit work to date has not identified any significant issues for reporting.</p> <p>We will complete testing of months 11-12 transactions during our final visit in June 2018.</p>
<b>Value for Money</b>	<p>Our risk assessment regarding your arrangements to secure value for money identified the following VFM significant risks:</p> <ul style="list-style-type: none"> <li>• Financial planning and development of Medium Term Financial Plan to support the Combined Authority's strategic objectives.</li> <li>• Measuring and monitoring of the performance and progress of the Combined Authority in achieving it's priorities and objectives.</li> </ul>	<p>We made our initial risk assessment to determine our approach in January 2018 and reported this to you in our Audit Plan.</p> <p>We will report our detailed findings in our Audit Findings Report.</p>

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# Sector Update

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Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, local government and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit and general purposes committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

# Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

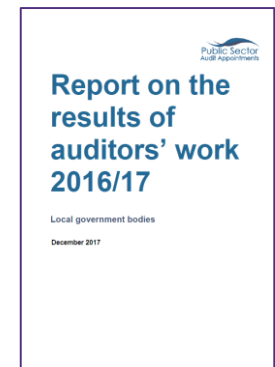
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



# Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

## Statutory Guidance on Local Authority Investments

**Transparency and democratic accountability** – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

**Principle of contribution** – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

**Introduction of a concept of proportionality** – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

**Borrowing in advance of need** – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

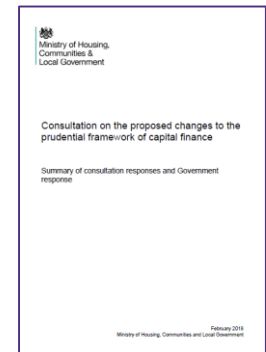
## Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

**Meaning of a charge to the revenue account** – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

**Impact of changing methods of calculating MRP** – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

**Introduction of a maximum economic life of assets** – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



## Changes to capital finance framework

### Challenge question:

Has your Chief Finance Officer briefed members on the impact of the changes to the prudential framework of capital finance?



# CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.



CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn

The Code is available in hard copy and online.

## CIPFA Publication

### Challenge question:

Has your Chief Finance Officer briefed members on the impact of the changes to the prudential code?



# Overview of the General Data Protection Regulation (GDPR)

## What is it?

The GDPR is the most significant development in data protection for 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

## What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25<sup>th</sup> May 2018.

### How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that can identify a living individual, either directly or indirectly. Various unique personal identifiers (including online cookies and IP addresses) will fall within the scope of personal data

### What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

## Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Some organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

## Notifications and Rights

- Organisations must notify significant data breaches to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

## Claims and Fines

- For the most serious data breaches, privacy regulators can impose penalties of up to €20 million on public sector organisations,
- Individuals and representative organisations can claim compensation for infringements of data protection law

## Questions for your organisation:

- Can your organisation erase personal data effectively?
- Have you appointed a Data Protection Officer if required to have one?
- How will your organisation ensure citizens know how their data is being used and whether it's being shared with other organisations?

# Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

## Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

[Click on the report cover to download and read more](#)



## Grant Thornton Publication

### Challenge question:

Is your Authority considering the risks and governance issues for its commercialisation agenda?



# Through a local lens: SOLACE summit 2017

The Industrial Strategy matters to places but places also matter to the Industrial Strategy.

This was a strong message coming out of discussions at the recent SOLACE (Society of Local Authority Chief Executives) summit where we facilitated 100 local authority CEOs and senior leaders to consider how the Industrial Strategy could be brought to life at a local level.

For some time now we have engaged in an ongoing and inclusive dialogue with communities and business, local authority and third sector leaders from across the country, to share aspirations, ideas and insight focused on building a vibrant economy for the UK. These discussions have helped to form the basis of our Vibrant Economy 'Blueprint for the UK' and they will go on to inform our recommendations to Government around a place-based approach to the Industrial Strategy.

This year's summit provided us with an invaluable opportunity to take this dialogue further.

We focused on the integral role local government will have in delivering the Industrial Strategy. Delegates applied a local lens to the national growth agenda, encouraging them to consider what strategies and approaches were already working in their place; what they could be doing more of to support growth in their area, and how they could steer the Industrial Strategy agenda from a local level.

Using the appreciative inquiry technique, we discussed the following questions:

What role would leaders and local institutions be playing if they were delivering positive outcomes from the industrial strategy?

Looking ahead and considering our diverse local authority agendas, the industrial strategy and surrounding policy landscape what aspects might work well for everyone?



You can see and hear what delegates thought on our [website](#)

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# Links

## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

## PSAA website links

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

## MHCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

## CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>



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3 April 2018

Dear Tim,

### **Planned audit fee for 2018/19**

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and has the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

From 2018/19 all grant work, including housing benefit certification, now falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Authority and ourselves and separate fees agreed with the Authority.

### **Scale fee**

PSAA published the 2018/19 scale fees for opted-in bodies in March 2018, following a consultation process. Individual scale fees have been reduced by 23 percent from the fees applicable for 2017/18. Further details are set out on the [PSAA website](#). The Authority's scale fee for 2018/19 has been set by PSAA at £18,634.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'.

The audit planning process for 2018/19, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### **Scope of the audit fee**

There are no changes to the overall work programme for audits of local government audited bodies for 2018/19. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2018/19 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

### **Value for Money conclusion**

The Code requires us to consider whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its latest guidance for auditors on value for money work in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

### **Billing schedule**

Fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
September 2018	4,658.50
December 2018	4,658.50
March 2019	4,658.50
June 2019	4,658.50
<b>Total</b>	<b>18,634.00</b>

### **Outline audit timetable**

We will undertake our audit planning and interim audit procedures in November 2018 to March 2019. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in July 2019 and work on the whole of government accounts return in July 2019.

<b>Phase of work</b>	<b>Timing</b>	<b>Outputs</b>	<b>Comments</b>
Audit planning and interim audit	November 2018 to March 2019	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Authority's accounts and VfM.



Final accounts audit	June to July 2019	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	January to July 2019	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July 2019	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September 2019	Annual audit letter to the Authority	The letter will summarise the findings of all aspects of our work.

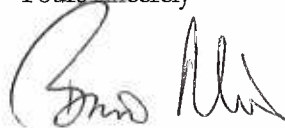
#### **Additional work**

The scale fee excludes any work requested by the Authority that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Authority.

#### **Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Jon Roberts, our Public Sector Assurance regional lead partner, via [jon.roberts@uk.gt.com](mailto:jon.roberts@uk.gt.com).

Yours sincerely



Barrie Morris

Engagement Lead

For Grant Thornton UK LLP



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21 March 2018

Dear Geoffrey

**West of England Combined Authority Financial Statements for the years end  
 31 March 2017 & 31 March 2018  
 Understanding how the Audit Committee gains assurance from management**

To comply with International Auditing Standards, each year we need to refresh our understanding of how 'Those Charged with Governance' (which for West of England Combined Authority is the Audit Committee) obtain assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as Chair of the Audit Committee with your responses to the following questions.

- 1 How does the Audit Committee oversee management's processes in relation to:
  - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
  - identifying and responding to the risk of breaches of internal control
  - identifying and responding to risks of fraud in the Authority (including 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)
  - communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does the Audit Committee gain assurance that all relevant laws and regulations have been complied with?
- 4 Are you aware of any actual or potential litigation or claims that would affect the financial statements?

I have enclosed a separate schedule which explores these areas in more detail.

For information, we are also required to make enquiries of management and recently sent a letter and schedule of question to Tim Richens.

If you have any queries in respect of this letter, please contact Michelle Burge on [Michelle.Burge@uk.gt.com](mailto:Michelle.Burge@uk.gt.com).

Yours sincerely

A handwritten signature in cursive script that reads "Grant Thornton UK LLP".

Grant Thornton UK LLP

## Response from Audit Committee Chair

### Fraud risk assessment

Auditor Question	Response
Has the Authority assessed the risk of material misstatement in the financial statements due to fraud?	
What are the results of this process?	
What processes does the Authority have in place to identify and respond to risks of fraud?	
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	
Are internal controls, including segregation of duties, in place and operating effectively?	
If not, where are the risk areas and what mitigating actions have been taken?	
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	
Are there any areas where there is a potential for misreporting?	
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	
What arrangements are in place to report fraud issues and risks to the Audit Committee?	
How does the Authority communicate and encourage ethical behaviour of its staff and contractors?	
How does the Audit Committee encourage staff to report their concerns about fraud? Have any significant issues been reported?	
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Authority as a whole or within specific departments since 1 March 2017?	

## Law and regulation

Auditor Question	Response
What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?	
How does management gain assurance that all relevant laws and regulations have been complied with?	
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 March 2017?	
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	
Is there any actual or potential litigation or claims that would affect the financial statements?	
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	

**ITEM: 9**

**REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE**

**DATE: 26 APRIL 2018**

**REPORT TITLE: OUTTURN BUDGET REPORTING**

**AUTHOR: TIM RICHENS – DIRECTOR OF INVESTMENT AND CORPORATE SERVICES (S151 OFFICER)**

**Purpose of Report**

1. To set out the Outturn Budget Reporting arrangement for the WECA and the Joint Committee (where WECA acts as the accountable body for funding and budgets).

**Issues for Consideration**

2. The WECA Financial Regulations requires that the WECA Committee considers the revenue and capital monitoring position at regular intervals throughout the financial year and a similar provision is in place for the budgets falling under the remit of the Joint Committee.

2.1. The key areas of budget reporting are as follows:

- **WECA Committee** – Mayoral Budget and WECA Budget
- **Joint Committee** – Local Enterprise Partnership Budget and Invest in Bristol & Bath Budget

2.2. Budget Outturn monitoring reports are published accordingly at regular intervals the most recent of which were presented to the WECA and Joint Committee meetings on 18<sup>th</sup> April 2018. Copies of the reports are available as follows:

- <https://www.westofengland-ca.gov.uk/wp-content/uploads/2018/04/Item-13-Mayoral-and-WECA-Budget-Outturn-Report-Revised-Version-09.04.18-1.pdf>
- <https://www.westofengland-ca.gov.uk/wp-content/uploads/2018/04/Item-14-Joint-Committee-Outturn-Report-1-1.pdf>

2.3. It is suggested that in line with its Term of Reference, the Audit Committee may wish to consider the Outturn Budget reporting in assessing the WECA's financial reporting arrangements, making recommendations to the WECA as appropriate.

**Consultation:**

3. Consultation is carried out with the Chief Executives, S151 Officers and Monitoring Officer as part of the Outturn Budget reporting process.

**Public Sector Equality Duties:**

4. There are no direct implications arising from this report – further specific details are set out in the Outturn Budget reports as appropriate.

**Economic Impact Assessment:**

5. There are no direct implications arising from this report.

**Finance Implications:**

6. The financial implications are contained within the body of the reports.

**Legal Implications:**

7. The Outturn Budget reports are prepared in accordance with the WECA Order 2017 and the Combined Authorities Financial Order 2017.

**Human Resources Implications:**

8. There are no direct implications arising from this report.

**Recommendation:**

9. **To note the Outturn Budget reporting process and make any recommendations to the WECA as may be agreed by the Committee.**

**Report Author:**

**West of England Combined Authority Contact: Tim Richens – Director of Corporate Services, Tel: 0117 428 6210**

**Background Papers**

As set out in paragraph 2.2 of the report.