Public Document Pack

A meeting of the

WECA Audit Committee

will be held on

Date: **Wednesday, 31 July 2019**

Time: **10.30 am**

Place: **The Library, Bristol City Council Offices**

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

Cllr Geoff Gollop, Bristol City Council
Cllr Andy Wait, Bath and North East Somerset Council
Cllr Tom Davies, Bath and North East Somerset Council
Cllr Tim Kent, Bristol City Council
Cllr Mark Bradshaw, Bristol City Council
Cllr Cleo Lake, Bristol City Council
Cllr Brenda Massey, Bristol City Council
Cllr Donald Alexander, Bristol City Council
Cllr Brian Allinson, South Gloucestershire Council
Cllr John Ashe, South Gloucestershire Council
Cllr John O'Neill, South Gloucestershire Council

Enquiries to:

West of England Combined Authority Office
Rivergate 3
Temple Way
Bristol, BS1 6ER
Email: democratic.services@westofengland-ca.gov.uk
Tel: 01174286210

West of England Combined Authority Committee
Agenda

YOU HAVE THE RIGHT TO:-

- Attend all WECA, Committee and Sub-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 and all WECA Committees and Sub-Committees for up to six years following a meeting.
- Inspect background papers used to prepare public reports for a period 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 WECA, Committees and Sub-Committees with details of the membership of all Committees and Sub-Committees.
- 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, Committees and Sub-Committees
- Have access to a list setting out the decisions making powers the WECA has delegated to their officers and the title of those officers.
- 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 Council works please contact Democratic Services, telephone 0117 42 86210 or e-mail: democratic.services@westofengland-ca.gov.uk

OTHER LANGUAGES AND FORMATS

This information can be made available in other languages, in large print, braille or on audio tape. Please phone 0117 42 86210

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 Democratic Services Officer named on the front of the agenda papers beforehand, so that all necessary arrangements can be made.

Some of our meetings are webcast. By entering the meeting room and using the public seating areas you are consenting to being filmed, photographed or recorded. At the start of the meeting, the Chair will confirm if all or part of the meeting is to be filmed. If you would prefer not to be filmed for the webcast, please make yourself known to the camera operators.

An archived recording of the proceedings will also be available for viewing after the meeting. The Combined Authority may also use the images/sound recordings on its social media site or share with other organisations, such as broadcasters.

To comply with the Data Protection Act 2018, we require the consent of parents or guardians before filming children or young people. For more information, please speak to the camera operator.

1. 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).

2. MEMBERSHIP OF COMMITTEE - TO NOTE

The Membership of the Committee is printed on the front sheet of the agenda and Members are asked to note the membership for 2019/20.

3. ELECTION OF CHAIR

The Committee to elect a Chair for municipal year 2019/20.

4. ELECTION OF VICE-CHAIR

Having elected a Chair, the Committee to elect a Vice-Chair for municipal year 2019/20.

5. APOLOGIES FOR ABSENCE

To receive apologies for absence from Members.

6. 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.

7. COMMITTEE TERMS OF REFERENCE - TO NOTE 5 - 6

The Audit Committee's Terms of Reference to be noted.

8. MINUTES OF PREVIOUS MEETING - TO CONFIRM AS A CORRECT RECORD 7 - 12

To consider and approve the minutes from 21 February 2019 of the West of England Combined Authority Audit Committee.

9. ITEMS FROM THE PUBLIC

If you wish to present a petition or make a statement at this meeting, you are required to submit this in writing by 12 noon on the working day before the meeting by email to democratic.services@westofengland-ca.gov.uk For this meeting, this means that your petition/statement must be received in this office by 12 noon on Tuesday 30 July 2019.

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 by 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 5:00pm on Thursday 25 July 2019.

In presenting any statements at the meeting, members of the public are generally permitted to speak for up to 3 minutes each. The total time available for this session is 30 minutes.

10. 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.

11. STATUTORY ACCOUNTS 2018/19 13 - 54

The purpose of this Report is to present to Members of the WECA Audit Committee the West of England Combined Authority Annual Statement of Accounts for 2018-19 for their review and approval.

12. TREASURY MANAGEMENT OUTTURN REPORT 2018/19 55 - 70

The CIPFA Treasury Management in the Public Services: Code of Practice requires the Authority to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report after the end of each financial year. This report provides a review of performance to 31st March 2019.

13. EXTERNAL AUDIT PROGRESS REPORT 71 - 98

Grant Thornton is the appointed external auditor for the West of England Combined Authority. Their audit plans, progress on delivery, key findings and recommendations and scale of fees are reported periodically to the audit committee.

14. INTERNAL AUDIT ANNUAL REPORT 18/19 99 - 106

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.

15. INTERNAL AUDIT PLAN 19/20 107 - 124

To present the Internal Audit Plan for 2019/20 for approval.

16. COUNTER FRAUD STRATEGY 125 - 142

The West of England Combined Authority, (WECA), is regularly reviewing and enhancing its corporate governance arrangements. In response to a recommendation by Internal Audit, we are proposing that the Audit Committee endorse the adoption of a Counter Fraud Strategy as detailed as Appendix 1 to this report.

17. DATES OF FUTURE MEETINGS

Audit Committee meets four times a year.

Members are asked to agree the future meeting dates for 2019/20.

Suggested for November 2019 and February 2020.

Next meeting: Date TBC

The West of England Combined Authority Audit Committee

The functions of the audit committee shall include:

(i) reviewing and scrutinising the authority's financial affairs;

(ii) reviewing and assessing the authority's risk management, internal control and corporate governance arrangements;

(iii) reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging the authority's functions; and

(iv) making reports and recommendations to the Combined Authority in relation to the reviews they have conducted.

(v) To consider and approve the Annual Statutory Accounts

Save for the provision in Section A – Standing Orders (Descriptions and Rules of Procedure), that can only apply to a meeting of the West of England Combined Authority, the rules of procedure will apply to meetings of the Audit Committee.

This page is intentionally left blank

West of England Combined Authority
WECA Audit Committee

Thursday, 21 February 2019, 10am
The Board Room, WECA Offices, 3 Rivergate, Temple Quay, Bristol BS1 6ER
3 Rivergate, Bristol BS1 6ER

Present:
Cllr Geoff Gollop, Bristol City Council
Cllr Will Sandry, Bath & North-East Somerset Council
Cllr Brian Simmons, Bath & North-East Somerset Council
Cllr Brenda Massey, Bristol City Council
Cllr Donald Alexander, Bristol City Council
Cllr Harriet Bradley, Bristol City Council
Cllr Charlie Bolton, Bristol City Council
Cllr Liz Radford, Bristol City Council
Cllr John O'Neill, South Gloucestershire Council

Officers In Attendance:
Mark Angus, Financial Services Manager
Jeff Wring, Audit West (Internal Audit)
Tim Milgate, Democratic Services

External Auditors in Attendance:
Michelle Burge, Engagement Manager, Grant Thornton
Barrie Morris, Engagement Lead, Grant Thornton

Apologies:
Cllr John Ashe, South Gloucestershire Council
Cllr Roger Avenin, South Gloucestershire Council

Minutes

1	**EVACUATION PROCEDURE** The Chair, Councillor Geoff Gollop, welcomed everybody to the meeting and the evacuation procedure was set out.
2	**APOLOGIES FOR ABSENCE** Apologies for absence were received from Councillors John Ashe and Councillor Roger Avenin.
3	**DECLARATIONS OF INTEREST UNDER THE LOCALISM ACT 2011** There were no declarations of interest declared under the Localism Act 2011.
4	**MINUTES OF THE PREVIOUS MEETING** The minutes of the meeting held on 8 November 2018 were agreed as a correct record and signed by the Chair.
5	**ITEMS FROM THE PUBLIC (PETITIONS; STATEMENTS; QUESTIONS)** There were two statements submitted by members of the public as follows: **1** David Redgewell Public funding for bus services

2	Christina Biggs, Friends of Suburban Bristol Railways and Transport for Greater Bristol Alliance

Mr Dave Redgewell was in attendance and addressed the meeting accordingly. Full copies of the statements received were made available on the Authority's website following the meeting.

6 **INTERNAL AUDIT UPDATE**

Jeff Wring, Audit West (the Authority's internal auditors) presented a report updating the Committee on Internal Audit work in 2018/19 and setting out the latest position of the Reasonable Assurance Model.

The Committee had considered the proposed Audit Plan at its meeting in April 2018. This was attached for information at Appendix 1. The table in section 4.5 of the report summarised the status of work as either completed, planned or work in progress. None of these items scored in level 1 or 2 (weak or poor). There were currently no areas or issues of concern.

An update on the work undertaken on the eight themes in the Authority's 'Reasonable Assurance Model' was given at the meeting via a presentation. The presentation was made available on the Authority's website following the meeting.

The following points were raised:

- It was queried whether WECA spoke to other Combined Authorities on the benchmarking exercise. The reply was that they did although not all had the same level of experience;
- It was asked what the capacity was within the procurement team. It was stated that there was one primary officer who worked closely with framework officers from the other Unitary Authorities;
- Bath and North East Somerset had given notice that they would no longer be providing IT support to the organisation. Although there was a level of risk involved in changing providers it was felt that there was also an opportunity in finding a supplier who could provide the appropriate IT function. The position on the risk matrix would be kept under review;
- Jeff stated that the work helped form an opinion on whether things were under control and this was his formal opinion on that. The ideal position was not everything be low risk but managing the risks correctly;
- It was very difficult to capture whether the Authority had failed to capture any funding or project opportunities and there was both a role for being proactive and reactive. Jeff's job was to try to provide an independent view of the Authority's position;
- The Committee felt that it should explore the possibility of attending meetings of the WECA Overview & Scrutiny Committee to get a better overall picture and 'dialling in' if necessary (venue facilities allowing). It was felt a more intense scrutiny of the accounts was needed. It was asked whether this could form part of the induction for new members following the elections in May 2019.

It was anticipated internal audit planned work would be completed by March 2019 and an update report would be brought to the next meeting. The full audit reports are available from Jeff Wring on request.

Resolved: That the report be noted.

7 **EXTERNAL AUDIT PLAN FOR THE YEAR ENDING 31 MARCH 2019**

	The External Auditor, Grant Thornton, provided the External Audit Plan for 2018/19 for consideration. Barrie Morris, Engagement Lead (Grant Thornton), attended the meeting and gave a full briefing on the plan. The External Audit Plan provided an overview of the planned scope and timing of the statutory audit of the West of England Combined Authority for consideration by the Audit Committee. The plan set out the Audit approach in relation to significant risks, materiality, value for money arrangements, audit logistics and independence. The following points were raised: • The 'materiality' figure had been raised to 2% this year from 1% last year. There would also be investigations into any figures out by more than £49,000 as a result of the testing; • The early work would be undertaken in March 2019. The final accounts would be signed-off in July 2019. As GT would also sign off Bath and North East Somerset's accounts, it would make sense to do both at once as the two authorities shared some of the same systems. However, this meant that the scheduling of the July 2019 Audit Committee meeting would have to be carefully managed; • As there had been a high profile case in the news media recently it was enquired as to whether the company could offer assurances as to the robustness of the audit industry. Barrie stated that the case had opened a debate on the expectations of auditors. Although things did sometimes go wrong the industry sought to learn from each of these. There had been a recent run of very good reviews on public sector organisations. Each auditor was personally liable for their actions; • It was asked what would happen if the firm had requested access to information but did not get a satisfactory response. Barrie replied that the firm could refuse to sign off the accounts. Last year 85% of local authorities were signed-off and 15% had queries. Although there was a deadline sign-off would not occur until the firm was satisfied. Any problems would be report to the Chair and a full report would be brought to Audit Committee. The auditors were entitled to access to all documents by law and any wilful obstruction could constitute a criminal offence. **Resolved: That the External Audit Plan for 2018/19 be noted.**
8	**EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE 2018/19** The Audit Committee were requested to consider and note the External Audit Progress Report and Sector Update attached as an appendix to the cover report. The appendix also provided references to a number of national initiatives, announcements and publications of potential interest to the Committee provided by Michelle Burge, Engagement Manager, Grant Thornton (the Authority's External Auditors) provided a general update to the Committee. The appendix set out the progress as at February 2019 but the bulk of the work on the interim audit would begin in March 2019. Any findings from the interim audit would be reported to the Committee in the auditor's Progress Report at the meeting on 11 April 2019. **Resolved: That the Progress Report and Sector Update be noted.**
9	**WECA TREASURY MANAGEMENT MID-YEAR REVIEW 2018/19** Mark Angus introduced a report reviewing the mid-year report for Treasury Management performance for 2018/19. It was noted that the CIPFA Treasury Management in the Public Services Code of Practice required the authority to approve a Treasury Management Strategy

	before the start of each financial year, review the performance during the year, and approve the annual report after the end of each financial year. This report provided a review of performance to 30 September 2018. The Authority's Prudential Indicators for 2018/19 were agreed by the WECA Committee at its revised meeting on 15 February 2018 and performances against the key indicators were shown in Appendix 1. All the indicators were within target levels. The Authority's investment position as at 30 September 2018 was set out in Appendix 2. This showed a change in Investment Balances to £198.2m at 30 September 2018 down from £203.3m at 30 June 2018 which reflected net payments made. The Authority currently has no External Borrowing as at 30 September 2018 as shown in Appendix 4. Appendix 5 showed the Authority's treasury management advisors' economic and market review for 2018/19. A breakdown of the revenue budget for interest and the year-end outturn position was included in Appendix 6. A summary guide to Credit Ratings was set out in Appendix 7. A short summary presentation was given at the meeting which was subsequently made available on the Authority's website. The following points were made: • It was asked whether further information could be shown regarding which organisations the major investments were with. It was stated that all investments were made in line with the approved Treasury Management Strategy and the Authority was predominantly investing with other local Authorities and UK banks and building societies. **Resolved:** **(1) That the Treasury Management report to 30 September 2018, prepared in accordance with the CIPFA Treasury Code of Practice be noted;** **(2) That the Treasury Management Indicators to 30 September 2018 be noted.**
10	**WECA TREASURY MANAGEMENT STRATEGY 2019/20** Mark Angus introduced a report asking the Committee to consider the Treasury Management Strategy for 2019/20. The Authority was required to produce such a strategy in accordance with CIPFA Treasury Management in Public Services Code of Practice 2011. The Treasury Management Strategy for 2019/20 was appended to the report at Appendix 1. A short accompanying presentation was given at the meeting and this was subsequently made available on the Authority's website. The following points were raised: • Treasury Management decisions were delegated to the Authority's S151 officer who reports to the Audit Committee; • A query was raised as to what would happen if the base rate fell further, maybe to a negative value. It was noted that although this would be unlikely it would mean that the government would be trying to stimulate spending. Any major variants would be reported to the Audit Committee and/or WECA Committee as appropriate; • It was also queried as to why the Authority was making long term investments at all

	when the funds should be being spent rather than accumulated. Mark Angus stated that this did not harm the Authority's ability to invest in projects but reflects the timing of grant funding being received from government in advance of the need to incur actual spend; • There was no current policy on ethical investment although it was reiterated that the majority of investments were with local authorities and only a limited number with commercial organisations; • Treasury Management would be wholly in-house from 1 April 2019 and the team was looking to increase its workforce capacity within current budget; • There was no derivatives trading unless this was embedded in pooled funds; **Resolved: That the 2019/20 WECA Treasury Management Strategy Statement be endorsed**.
	The next meeting would be held on Thursday, 11 April 2019, 10.00 am. The venue would be confirmed. There would be a meeting of Audit Committee towards the end of July 2019 on a date to be confirmed.

The meeting closed at 12:30pm.

This page is intentionally left blank

ITEM: 11

REPORT TO: **AUDIT COMMITTEE**

DATE: **31 JULY 2019**

REPORT TITLE: **STATUTORY ACCOUNTS 2018/19**

DIRECTOR: **MALCOLM COE, DIRECTOR OF INVESTMENT & CORPORATE SERVICES (s73 OFFICER)**

AUTHOR: **MALCOLM COE**

Purpose of Report

1. The purpose of this Report is to present to Members of the WECA Audit Committee the West of England Combined Authority Annual Statement of Accounts for 2018-19 for their review and approval.

Recommendations

That the committee:

(a) note the content of the External Auditor ISA 260 Audit Findings report and

(b) approve the West of England Combined Authority Annual Statement of Accounts for 2018-19.

Background / Issues for Consideration

2. The Accounts and Audit Regulations (England) 2015 require the Annual Statement of Accounts to be certified by the Chief Financial Officer no later than 31 May each year. This statutory deadline was met with the accounts placed on the WECA website on this date.

   https://www.westofengland-ca.gov.uk/wp-content/uploads/2019/05/WECA-financial-statements-31.3.19-310519-FINAL-Unaudited-V2.pdf

3. The Statutory Statement of Accounts have been produced in accordance with the CIPFA Code of Practice on Local Authority Accounting based on International Financial Reporting Standards.

4. Due to limited capacity, as per the previous financial year, PriceWaterhouseCoopers (PWC) were commissioned by WECA to prepare the primary financial statements, based on the transactional information and supporting documents provided, and support the overall accounts closedown process.

5. The audit of the Accounts by the Authority's external auditors, Grant Thornton, was carried out in July 19. The External Auditors report on audit findings (ISA 260 Report) is detailed in Appendix 1. Due to the timing of this year's audit, the ISA 260 reflects indicative findings up to and including Tuesday 23 July 2019. The committee will be notified should any further material findings arise beyond this date.

6. The draft accounts will be amended and updated to take account of the findings as detailed in Grant Thornton's ISA 260 report.

7. The Accounts and Audit Regulations 2015 require the Statement of Accounts to be approved by a resolution of a Committee of the relevant body and that following approval, the Statement of Accounts be signed and dated by the person presiding at the Committee.

Consultation

8. The draft accounts for 2018-19 were published on the West of England Combined Authority website on 31 May 2019 and made available for public inspection as required under the Accounts and Audit Regulations (England) 2015.

Risk Management/Assessment

9. The publication of the Authority's Financial Statements forms a core part of WECA's governance and risk management processes. As required by statue, an Annual Governance Statement has been published and is integrated within the core Statement of Accounts document.

10. The Authority's has been assessed as a viable 'going concern' although future uncertainty on volatile funding streams, such as 100% Business Rate Retention and Mayoral Capacity funding, remains a risk that is kept under regular review.

Public Sector Equality Duties

11. The public sector equality duty created under the Equality Act 2010 means that public authorities must have due regard to the need to:

    - Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the Act.
    - Advance equality of opportunity between people who share a protected characteristic and those who do not.
    - Foster good relations between people who share a protected characteristic and those who do not.

12. The Act explains that having due regard for advancing equality involves:

    - Removing or minimising disadvantages suffered by people due to their protected characteristics.
    - Taking steps to meet the needs of people from protected groups where these are different from the needs of other people.
    - Encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

13. The general equality duty therefore requires organisations to consider how they could positively contribute to the advancement of equality and good relations. It requires equality considerations to be reflected in the design of policies and the delivery of services, including policies, and for these issues to be kept under review.

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

Finance Implications, including economic impact assessment where appropriate:

15. The Statement of Accounts reflect the financial accounting position of the Combined Authority as at 31 March 2019 (as required by legislation). Management Accounting reports are published throughout the year evidencing progress and spend against the authority's set budget.

Legal Implications:

16. The publication and audit of the Authority's Financial Statements is in accordance with the Accounts and Audit Regulations (England) 2015.

Appendices:

Appendix 1 – Grant Thornton (ISA 260) Audit Findings Report

Appendix 2 – Letter of Representation

Background papers:

WECA Draft Statement of Accounts 2018-19

https://www.westofengland-ca.gov.uk/wp-content/uploads/2019/05/WECA-financial-statements-31.3.19-310519-FINAL-Unaudited-V2.pdf

West of England Combined Authority Contact:
Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: democratic.services@westofengland-ca.gov.uk

This page is intentionally left blank

Grant Thornton

The Audit Findings for West of England Combined Authority

Year ended 31 March 2019

23 July 2019

Contents

Section	Page
1. Headlines	3
2. Financial statements	4
3. Value for money	14
4. Independence and ethics	19

Appendices

A. Action plan

B. Follow up of prior year recommendations

C. Audit adjustments

D. Fees

E. Audit Opinion

Your key Grant Thornton team members are:

Barrie Morris
Key Audit Partner
T: 0117 305 7600
E: barrie.morris@uk.gt.com

Michelle Burge
Engagement Manager
T: 0117 305 7886
E: michelle.burge@uk.gt.com

Rob Patterson
In Charge Auditor
T: 0117 305 7708
E: Rob.J.Patterson@uk.gt.com

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of West of England Combined Authority ('the Authority') and the preparation of Authority's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements: • give a true and fair view of the financial position of the Authority and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our audit work commenced on site during July 2019 and is currently still ongoing. Draft accounts were published in accordance with the statutory deadline by the 31 May 2019. However, when our audit visit began on the 15 July 2019, we identified that the published primary statements were not finalised and we are currently awaiting primary statements that both the Authority and accounts preparation team (PWC) have confidence in. We have not been able to agree the accounts to a working trial balance and whilst an updated version of the trial balance was supplied on 23 July, there are likely to be further amendments arising. The finance team and PWC are currently working on understanding potential errors within both the debtors, creditors and agency liability note which may also have an impact on the comprehensive income and expenditure statement (CIES) and other disclosures throughout the accounts.	Without a trial balance that agrees to the accounts, uncertainty in relation to debtors, creditors, the agency liability and the corresponding impact on the CIES we have been unable to progress our testing as much as we would have hoped, presenting a significant challenge to the achievement of the 31 July 2019 audit deadline. Our findings to date are summarised on pages 5 to 14. We have identified two adjustments to the financial statements to date that have resulted in a £529k adjustment to the Authority's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C including a number of adjustments made for disclosure errors identified. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is currently in progress and includes the following outstanding matters: • receipt and review of revised trial balance • review and testing of debtors and creditors note • completion of revenue and expenditure testing and grants received in advance • completion of testing on the Movement in Reserves Statements (MIRS) and Cashflow Statement • Review of NNDR appeals provision • review and testing agency liability note • review of financial instruments disclosure • review of related parties • review of updated actuary report in respect of the McCloud ruling regarding age discrimination including reviewing the adjustments to pension figures within the accounts • review of other information including Annual Governance statement and narrative statement to ensure consistent with the revised statement of accounts • receipt of management representation letter and • review of the final set of financial statements. We will provide a further update regarding progress made and any further amendments identified at the meeting of the Audit Committee on the 31 July 2019. These delays and additional audit work will require a variation to the scale fee to be charged to the Authority.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of West of England Combined Authority ('the Authority') and the preparation of Authority's financial statements for the year ended 31 March 2019 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that West of England Combined Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. **We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 15 to 19.**
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. However our audit work under the code is still ongoing and we will provide an update to the committee on the 31 July on whether we will be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- an evaluation of the Authority's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 21 February 2019.

Conclusion

Our audit of your financial statements is still ongoing. Our intention is still to provide an audit opinion by 31 July. However, this is dependent on the revised primary statements being received and reconciled to the trial balance, which will enable us to complete our testing, and all outstanding queries being resolved. We will provide a verbal update to the Audit Committee. Our proposed draft audit opinion is set out in Appendix E.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan We detail in the table below our determination of materiality for the Authority.

	Value £	Qualitative factors considered
Materiality for the financial statements	994k	Materiality determined equates to 2% of the Authority's total expenditure.
Performance materiality	696k	This is determined by applying 70% to headline materiality
Trivial matters	49k	This is determined by applying 5% to headline materiality
Materiality for senior officer remuneration	20k	We believe that these disclosures are of specific interest to the reader of the accounts. We consider that using an absolute materiality value is appropriate, rather than applying a % of any other benchmark, because the magnitude of the disclosures does not vary greatly with the size of the organisation or any similar factors.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper revenue recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors sets out in ISA 240 and the nature of the revenue streams at the Authority, we have determined the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of combined authorities, including West of England Combined Authority mean that all forms of fraud are seen as unacceptable.	**Auditor commentary** There are no changes to the assessment reported in the audit plan that we do not consider this to be a significant risk for West of England Combined Authority. Our audit work involving the substantive testing of revenue sources is still ongoing and we are awaiting evidence to support our testing of grants received in advance and grant income.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the main course of business as a significant risk.	**Auditor commentary** **We have:** • gained an understanding of the accounting estimates, critical judgements applied and decisions made by management and consider their reasonableness • evaluated the design effectiveness of management controls over journal entries for appropriateness • obtained a full listing of journal entries, identify and tested unusual journal entries for appropriateness and corroboration • evaluated the rationale for any changes in accounting policies or significant unusual transactions. Our audit work at the Authority has not identified any issues in respect of management override of control subject to the completion of our outstanding work in relation to gaining an understanding of the accounting estimates and critical judgements made by management and their reasonableness.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.6 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement	**Auditor commentary** We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuations; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing additional procedures suggested within the report. This has included: - review of the scope of the actuary's work; - review of the source data provided to the actuary to confirm its validity and completeness - performing checks on accounting policy disclosures in relation to IAS 19 - reviewing the duration of liabilities of the Authority to ensure assumptions used are appropriate to the asset and liability profile of the authority; - reviewing if there are any departures from the actuary's recommended assumptions –one departure noted for duration of liability (weighted average of when future cashflows will be paid), which is a measure of how mature the employer is. The actuary have used an assumption of 26 years which is outside of the normal range identified by our auditor's expert (PWC), however as the majority of WECA pension fund members are active rather than pensioners they will have a longer duration of liabilities and the assumption seems reasonable. See page 10 for consideration of other assumptions. - performing additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over roll forward valuation. - obtaining assurance from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. See also detailed review of estimation process in key judgement and estimates section. Our audit work has not identified any issues in respect of valuation of pension fund net liability, subject to the outstanding review of the impact of the McCloud judgment.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Potential impact of the McCloud judgement The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds but also for other pension schemes where they have implemented transitional arrangements on changing benefits.	**Auditor commentary** Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The Authority has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was a possible increase in pension liabilities of £99k and an increase in service costs for the 2019/20 year of £20k. A £35k adjustment will also be made to reflect the actual investment performance in the financial year of the fund (the original IAS 19 calculation was based on an estimate). The Authority has now received the updated IAS 19 report from its actuary and is incorporating the revised actuarial valuation into its 2018-19 financial statements. We are in the process of assessing the approach used by the Actuary and the assumptions used. We will provide an update on this to committee members at the meeting on the 31 July 2019.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals- £2.8m	Under the 100% Business Rate Retention Pilot, the Authority are responsible for repaying a proportion of successful rateable value appeals. The NNDR appeals provision is for appeals made to the Valuation Office Agency in respect of NNDR valuations. These estimate of reductions to NDR income are made by officers at the three billing authorities participating in the 100 % Business Rate Retention Pilot. The estimate has been made using Valuation Office Agency data and analysis of successful appeals. The provision has increased by £205k in 2018/19.	• We have agreed the amounts which make up the appeals provision to the NNDR3 return submitted by the three billing authorities • We are currently undertaking further testing on the reasonableness of these estimates.	**TBC**

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £2.6m	The Authority's net pension liability at 31 March 2019 is £2.6m (PY £1.7m) comprising the Avon Pension Fund Local . The Authority uses Mercer actuary to provide actuarial valuations of the Authority's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £0.9m net actuarial loss during 2018/19.	• We have assessed the Authority's actuary, Mercers, to be competent, capable and objective. • We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2018/19 roll forward calculation carried out by the actuary and have no issues to report. • We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions.	● Green

Assumption	Actuary Value	PwC range	PWC comments	Assessment
Discount rate	2.5	2.4% to 2.5%	Assumption is reasonable and towards the more optimistic end of expected range.	● Amber
Pension increase rate	2.3	2.2% to 2.3%	Assumption sits towards the higher, more optimistic end, of the range.	● Amber
Salary growth	3.7	3.1%-4.35%	Reasonable	● Green
Life expectancy – Males currently aged 45 / 65	26.3 / 23.7	24.8 – 26.3 / 22.2 - 23.7	Assumption is based on the CMI 2015 model and allowance is towards more prudent end of expect ranges. Overall we are comfortable they are reasonable	● Green
Life expectancy – Females currently aged 45 / 65	29.0 / 26.2	27.9 - 29.0 / 25.0 - 26.4	Assumption is based on the CMI 2015 model and allowance is towards more prudent end of expect ranges. Overall we are comfortable they are reasonable	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates (continued)

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £2.6m (continued)		• We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate. • We have confirmed there were not significant changes to the 2018/19 valuation method. • We conducted an analytical review to confirm reasonableness of the Authority's share of Avon Pension Fund's pension assets. • Our work confirms that the increase in IAS 19 estimate is reasonable. • Disclosure in respect of estimate in the financial statements is reasonable.	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Management's assessment concludes that the Combined Authority was established under the West of England Combined Authority Order 2017 and could therefore only be discontinued by Statutory prescription. Even if this were to occur, the statutory services it provides would need to continue to be provided to the local population and the assets would remain in the public domain. The Code is clear that in a similar scenario of Local Government reorganisation, where services are expected to transfer from one authority to another, the presumption that the authority is a going concern is not negated. Management has considered the Combined Authority's medium term financial plans and future cash flows to July 2020 in considering that no material uncertainties need to disclosed.	• Management's view is that the Combined Authority is a going concern with no material uncertainties that would require disclosure. We would concur with this view. • The Chief Finance officer has prepared the going concern assessment.

Work performed	Auditor commentary
We reviewed management's assessment of going concern provided to us, in conjunction with our knowledge and understanding of the Combined Authority.	We did not identify any material uncertainties that would require additional disclosure.

Concluding comments	
	We did not identify any issues with the Combined Authority's use of the going concern assumption. Management's assessment of the appropriateness of the going concern assumption concluded that the Combined Authority was a going concern with no material uncertainty. We concur with this judgement. Our audit opinion is unmodified in respect of going concern.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	We have previously discussed the risk of fraud with the Chair of the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	We are not aware of any related parties or related party transactions which have not been disclosed
3	**Matters in relation to laws and regulations**	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	A letter of representation has been requested from the Authority, which is included in the Audit Committee papers.
5	**Confirmation requests from third parties**	We requested from management permission to send confirmation requests to all the Authority's bank and investment counterparties. This permission was granted and the requests were sent. All requests received were returned with positive confirmation, however three requests were not received. In substitution of receiving these confirmations alternative procedures have been carried out to confirm these balances. We can conclude that these balances are accurately stated.
6	**Disclosures**	Our work in this area is still ongoing. A number of disclosure amendments have been identified and reported within Appendix B.
7	**Audit evidence and explanations/significant difficulties**	All information and explanations requested from management was provided.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We have not yet completed our work in this area.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have not yet completed our work in this area.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. However, we have not undertaken this work at the Combined Authority as it is not required as the Authority does not exceed the threshold.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audit of West of England Combined Authority in the audit opinion, as detailed in Appendix E.

Value for Money

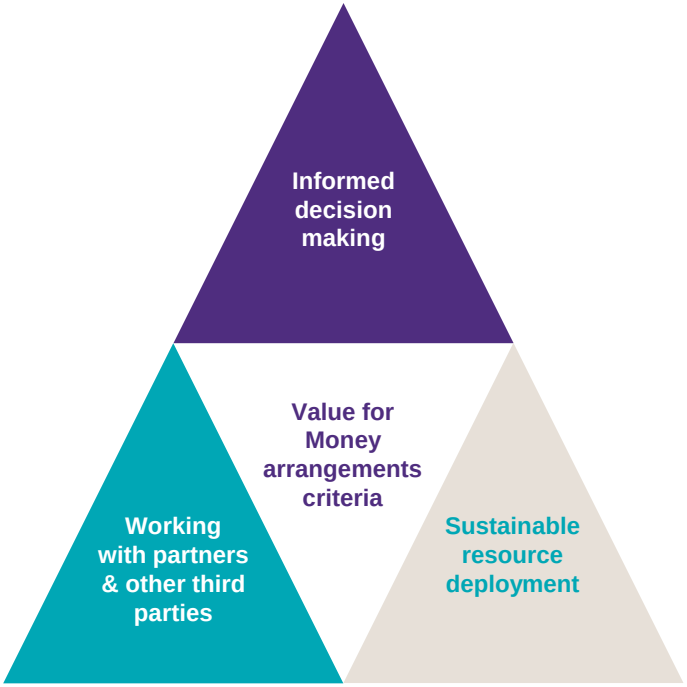
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out opposite:



Risk assessment

We carried out an initial risk assessment in January 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 8 February 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were:

- The development of the 2019/20 medium term financial plan (MTFP) (informed decision making and sustainable resource deployment)
- The progress made by the Authority measuring and monitoring performance (informed decision making)

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 17 to 20.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and Conclusion
Medium Term Financial Plan (MTFP) The Combined Authority is an evolving organisation taking on more responsibilities as it becomes more established and new opportunities arise. Consequently there are a number of emerging factors which will have an impact on it's financial sustainability and medium term financial plan. We will review the revised MTFP prepared as part of the 2019/20 budget process to assess the clarity of the information provided and the factors used to inform the assumptions that underpin the strategy	The proposed budget for 2019/20 and MTFP was presented to the West of England Combined Authority Committee in February 2019. This included a four year year capital programme of £118 million which includes both approved and proposed capital schemes. The indicative schemes will need to be brought back to the WECA committee for further approval before they can be progressed and enables officers a guide to prioritising resources to work up schemes for future consideration. At the same meeting approval was provided for a prioritisation process to develop an indicative 20 years financial allocation for capital investment. The mayoral budget also included a 5 year medium term forecast for running costs based on reasonable assumptions in respect of pay and inflation. Due to the uncertainty that surrounds the future funding and timing of responsibilities of the Combined Authority, in February 2018 a narrative MTFP was presented to the West of England Combined Authority Committee which detailed key assumptions and known increases in income and expenditure. This summarised the financial considerations for the next three years and included the sustainability of funding, alignment of investment proposals with the strategic plan and the key financial challenges and opportunities. This was not formally updated within the 2019/20 budget papers although financial considerations in terms of known income and expenditure for the medium term and were included along with known risks. The draft 2018/19 financial statements contain a narrative section in relation to WECA's medium term financial outlook highlighting the potential risks which could affect WECA finances over the short and medium term including the end of the 100% business rate retention pilot, housing capacity funding which has been allocated over three years to 2020/21 and £2m of funding which has only been allocated to 2019/20 to provide programme management and delivery capacity specifically within the Combined Authority. Nationally, a reformed system of Local Government Finance, including 75% Business Rates Retention and a review of Fairer Funding, will be introduced in 2020/21. Unless the Combined Authority is included in some way in that system of financing, the direct capital grants from DfT will need to be re-instated. The narrative statement also includes details of WECA's new responsibilities from 2019/20 and the relevant grant allocations for Adult Education and Public Transport policy and delivery across the next two years. Also outlined are details of future investment opportunities to bid for government funding aligned to WECA's priorities, including a £4.5m bid to the European Social Fund (ESF) to establish a Skills Innovation Fund with provisional allocation of £1m in 2019/20 and £3.5m in 2020/21. WECA have developed a four year prioritised Investment Programme to the period 2023, linked to both its Investment Fund and Transforming Cities Fund. Allocations are linked to WECA's strategic objectives and regional priority outcomes and objectives as set out in the WECA operating framework. In June 2019, allocations of Investment Programmes to 2023 total £253m, leaving a balance of £96m still to allocate. The report to be presented to the July WECA committee shows that £350m will be fully allocated subject to approval sought at this meeting. £20m is also set aside to respond to future opportunities and challenges. **Conclusion** • We recognise that WECA is an evolving organisation meaning that there are a number of emerging factors which will have an impact on it's financial sustainability and medium term financial plan. • Now that plans are being developed to prioritise resources and develop detailed projects, WECA should look to formalise a MTFP which reflects known and agreed projects and associated funding streams once they are confirmed. The plan should remain flexible as new opportunities for projects and funding are identified.

Key findings (continued)

Significant risk	Findings and Conclusion
2 **Measuring and Monitoring Performance** Recognising 2017/18 was the first full year of operation, good progress was made to develop priorities, objectives and tasks from which the performance of the Combined Authority can be measured in future years. The Authority should ensure that it monitors the performance of the Combined Authority through the performance management framework. The performance management framework should ensure that all objectives have measurable metrics, either based on inputs, outputs or outcomes, against which the Authority can measure its impact and effectiveness and be accountable to stakeholders and tax payers.	The Authority has published an Operating Framework and business plan centred around WECA's objectives of: - Driving inclusive growth; - Supporting the region's businesses to grow; - Fostering innovation; and - Investing in infrastructure. The activities that will be performed to achieve the objectives are set out in detail in the Authority's Annual Report. This provides a summary of key projects and activities delivered during 2018/19 and includes a detailed section on each of the activities included in the 2018/19 business plan, outlining progress made against individual projects. It also includes details of the LEP delivery plan focused on specific metrics for LEP-funded activity including Local Growth Fund, Growth Hub and Invest in Bristol and Bath. The LEP delivery plan references relevant indicators for LEP funded activities including businesses supported, jobs created, funding provided and leveraged. The Authority's Business Plan sets out the activities that WECA will deliver over the 2018-2020 period, including plans to bring further investment into transport, infrastructure to enable more homes, businesses and skills to ensure the West of England is at the forefront of growth and innovation. The 2019/20 business plan was agreed by WECA and the Joint Committee in February 2019. Progress in delivering the business plan is reported quarterly to WECA and Joint Committee. A monitoring and evaluation framework has been updated during 2018/19 which was presented to the November 2018 Audit Committee. This sets out WECA's overall approach to monitoring and evaluation. This updated document brings together all of WECA's reporting requirements into one place and to provide a clear structure for reporting focused on three levels: • Delivery of Annual Business Plan. This includes in-year activities that support WECA, the LEP, implementation of the devolution deal and elements of longer term project and programme delivery delivered through the Investment Fund and One Front Door Programme. • Project and Programme delivery, which focuses on schemes funded through the WECA Investment Fund and West of England One Front Door Programme. Evaluation criteria is established for each project/programme, progress is monitored during project and evaluation undertaken once projects are completed. • Longer Term Organisational Impact. Measured through five-year gateway reviews. WECA's fist Gateway Review is due in December 2020. As the Authority's main source of funding, the Investment Fund is the most flexible in terms of timing and availability of both revenue and capital. The process of prioritisation has been more involved and a substantial focus of the fund so far has been on feasibility and business case development work across a number of projects and programmes, it is therefore difficult at this stage to monitor performance through measurable metrics.

Key findings (continued)

Significant risk	Findings and Conclusion
2 **Measuring and Monitoring Performance (continued)**	WECA have recently produced a four year, prioritised investment programme, each approved scheme business case has it's own monitoring and evaluation plans. An economic model has been developed which will enable different types of investment (transport, housing, employment land, and other land use changes) or a programme of investment to be considered on a consistent basis, against the criteria of economic output, as measured by the GVA generated by the investment alongside other 'balancing' social, environmental and geographic metrics. WECA's overall aim of achieving clean economic growth will require longer term measurement which takes into account the impact of key schemes that are yet to be delivered. WECA has commissioned an economic model which is providing a baseline against which to evaluate longer term progress and which can be used to evaluate the economic impact of potential schemes. A baseline has been developed in a number of areas although some are in the process of being identified. It will be important to be able to provide some robust evidence of outputs both to the public and as part of the first government gateway review scheduled to report in December 2020 on the impact achieved by the Investment Fund. Three projects have been identified including a £2m Bristol Temple Meads Masterplan which will provide the focus for the first gateway review. **Conclusion** Progress has been made during 2018/19 to develop a performance framework and regular performance reporting. The emphasis of the main source of WECA funding has been on feasibility and business case development for various programmes and projects. It is now important that a baseline is formalised and SMART objectives developed against key projects and key metrics against which the Authority can measure its impact and effectiveness and be accountable to stakeholders and taxpayers.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Authority's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Authority's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No non-audit services were identified which were charged from the beginning of the financial year to end of July 2019.

Action plan

We have identified four recommendations for the Authority as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	Red	• Draft accounts that the Authority or accounts preparation team (PWC) had confidence in was not available from the start of the audit and has not yet been provided as at 23 July 2019. • This has resulted in delays in the progress of the audit and a significant number of queries currently remain outstanding.	The 2019/20 account closedown process should be improved to ensure the draft accounts published by 31 May 2020 are complete and have been subject to review by senior officers. The structure of the General Ledger (Chart of Accounts) should be reviewed to enable the accounts to be prepared directly from the general ledger. **Management response** We fully recognise this issue. The substantial growth in transactions within the ledger during 18/19 has also affected the ability to produce the statement of accounts. As a priority both the close down process and the current chart of accounts and mapping to the ledger will be reviewed to ensure the processes going forward are improved and streamlined.
2	Amber	• A detailed MTFP has not yet been developed. We recognise that WECA is an evolving organisation meaning that there are a number of emerging factors which will have an impact on its financial sustainability and medium-term financial plan. • Plans have been developed to prioritise resources to 2022/23 and detailed projects are developing.	WECA should look to formalise a MTFP which reflects known and agreed projects and associated funding streams once they are confirmed. The plan should remain flexible as new opportunities for projects and funding are identified. **Management response** The Investment Fund report to the 19 July 2019 WECA committee details a regional investment programme of £350m up to March 2023. Having finalised this, WECA will revise its future funding assumptions and formalise an MTFP as an integral part of setting the 2020/21 budget (at which point we are expecting more clarity/certainty on future revenue streams)

Key

- High priority – Significant effect on Authority's control systems or financial environment that requires urgent attention
- Medium priority – There is some impact on Authority's control systems or financial environment that requires attention to address in the medium term
- Low priority – To move the Authority to best practice

Action plan (continued)

	Assessment	Issue and risk	Recommendations
3	Amber	Progress has been made during 2018/19 to develop a performance framework and regular performance reporting. The emphasis of the main source of WECA funding has been on feasibility and business case development for various programmes and projects this has meant that SMART objectives have not yet been developed.	It is now important that a baseline is formalised and SMART objectives developed for key projects and key metrics against which the Authority can measure its impact and effectiveness and be accountable to stakeholders and taxpayers. **Management response** Each individual project is evaluated and prioritised against defined assessment criteria. Outcomes and metrics are in place at individual project level. In addition, longer term metrics are specified in core strategic documents such as the Joint Spatial Plan and Local Industrial Strategy. What we now need to develop is SMART objectives and planned outcomes linked to our £350m Investment Programme up to March 2023 – demonstrating the forecasted impact of a combination of projects against each strategic theme. This will be developed by the end of 2019.
4	Amber	The memorandum of understanding which sets out the operation and allocation of risk for the IBB has not been formally updated to reflect the fact that the West of England Combined Authority is now the accountable body. A 'deed of novation of contract' is currently in the process of being drafted by the Authority's legal department.	The novation of contract between the IBB, the Combined Authority, Bristol City Council and Bath and North East Somerset Council should be finalised to reflect the fact the West of England Combined Authority is now the accountable body. **Management response** This is currently with our legal team.

Key

- High priority – Significant effect on Authority's control systems or financial environment that requires urgent attention
- Medium priority – There is some impact on Authority's control systems or financial environment that requires attention to address in the medium term
- Low priority – To move the Authority to best practice

Follow up of prior year recommendations

We identified the following issues in the audit of West of England Combined Authority's 2017/18 financial statements, which resulted in four recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations and note three are still to be completed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	Due to the uncertainty that surrounds the future funding and timing of responsibilities of the Combined Authority, a narrative MTFP has been presented to the West of England Combined Authority Committee which details key assumptions and any known increases in income and expenditure for the next three years including a three year capital programme. A more detailed medium term financial should be developed based on current knowledge and existing funding streams – with potential future schemes and funding separately identified once funding streams and responsibilities are agreed.	• A detailed MTFP has not yet been developed. We recognise that WECA is an evolving organisation meaning that there are a number of emerging factors which will have an impact on its financial sustainability and medium-term financial plan. • Now that plans have been developed to prioritise resources to 2022/23 and develop detailed projects, WECA should look to formalise a MTFP which reflects known and agreed projects and associated funding streams once they are confirmed. The plan should remain flexible as new opportunities for projects and funding are identified. See page 18.
2	✓	The risk management framework continues to be developed The risk management framework should become embedded across the Authority.	• Further work has been undertaken during 2018/19 to embed risk management arrangements within the organization. A risk management framework is now in place. • Risk management is embedded both at a strategic and operational levels with a Corporate Risk Register, Directorate Risk Registers are reviewed and updated on a regular basis. • Risk management is an integral part of all activities and is considered as a standing item in all committee reports and decision making. • Risk management is regularly considered and updated at Directorate and Senior Management team meetings.

Assessment
✓ Action completed
X Not yet addressed

Follow up of prior year recommendations

We identified the following issues in the audit of West of England Combined Authority's 2017/18 financial statements, which resulted in four recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations and note three are still to be completed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3	In progress	The performance management framework is being developed and whilst some of the Authority's objectives have clear measurable targets and metrics, others have yet to be defined. Work is underway, through a process of consultation with key stakeholders, to develop appropriate measures for each of the objectives The performance management framework should ensure that all objectives have measurable metrics, either based on inputs, outputs or outcomes, against which the Authority can measure its impact and effectiveness and be accountable to stakeholders and tax payers.	Progress has been made during 2018/19 to develop a performance framework including regular performance reporting. It is now important that a baseline is formalised and SMART objectives developed for key projects and key metrics against which the Authority can measure its impact and effectiveness and be accountable to stakeholders and taxpayers. (see p 18-19)
4	In progress	The West of England partnership agreement and memorandums of understanding which set out the operation and allocation of risks for the LEP and IBB should be updated to reflect the fact that the West of England Combined Authority is now the accountable body.	A 'deed of novation of contract' in relation to the IBB is currently in the process of being drafted by the Authority's legal department. See action plan at Appendix A. The West of England partnership agreement has formally novated to the Combined Authority. The accountable body responsibility has been incorporated within the revised Assurance Framework which has been approved via the joint committee.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	Pooled property fund has been misclassified as 'Fair value Other Comprehensive Income and expenditure' rather than as Fair Value through profit and loss' as required by IFRS 9	141 – Other comprehensive income and expenditure (141)- Financing and Investment Income and expenditure	9,621 – Financial Assets at Fair Value - P&L (9,621) – Financial Assets at Fair Value – Other Comprehensive Income and Expenditure'	0
2	A transfer to earmarked reserves of £388k for election costs has been incorrectly transferred to reserves via the Comprehensive Income and Expenditure Account (CIES) rather than directly from the general fund via the Movement in Reserves statement (MIRS)	(388) Mayoral Fund	388 – General Fund (388) General Fund	(388)
3	Accrued interest in respect of short term investments, long term investments and cash equivalents had been incorrectly allocated.	0	(63) - Long term investments (139) - Short term investments 202 - Cash and cash equivalent	0
	Overall impact	£(529)	£0	£(388)

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Narrative report	The narrative report did not include any detail in relation to the performance of the Authority. The narrative report should provide balanced performance as well as financial information.	Narrative report expanded to provide detail in relation to the performance of the Authority.	TBC
Senior officer remuneration	Note 11 does not disclose the costs of all expected senior officers and Directors.	Expand note 11 to include disclosure in respect of all senior officers/Directors.	TBC
Movement in Reserves Statement – total column	The Movement in Reserves Statement does not include a total usable reserves and total unusable reserves column as required by the CIPFA code.	Include a total useable and total unusable reserves column within the Movement in reserves statement.	TBC
Note 5, Expenditure and income analysed by nature	Expenditure relating to temporary staff, seconded staff and recharges from LEP totalling £844k were incorrectly classified as 'Other Service Expenditure' rather than 'Employee Benefits Expenses' within note 5	Amend note 5 to ensure expenditure analysed by nature is correctly classified across employee benefits and other services expenditure	TBC
Note 5, Expenditure and income analysed by nature	We received an updated trial balance on July 19 that included substantial reclassification of amounts disclosed in note 5. Most notable items were a reduction in other service income of £5.587m with majority (£4.724m) being reclassified as 'Local authorities business rates growth and contributions', and £1.54m netting off 'other service expenses' as were expenditure credits and not gross income.	Note 5 income and expenditure be reclassified to reflect updated trial balance	TBC
Note 18 and 20	Note 18 and 20 should be disclosed as debtors and creditors rather than trade receivables and trade payables per the CIPFA code.	The final statement of accounts and notes will be amended to reflect classification used within the CIPFA code.	TBC
Note 22, Provisions	The note does not provide detail as required by the CIPFA code.	Note 22 should be expanded to disclose; - Increase in existing provisions; - Amounts used in year; and - Unused amounts reversed	TBC

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 28, Financial Instrument	The interest income disclosed are incorrectly split between investment assets and cash and cash equivalent.	Note 28 should be updated to reflect the misclassification of investment income in relation to investment assets and cash and cash equivalent.	TBC
Critical Judgements	Grants and contributions are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement, except to the extent that the grant or contribution has a condition that the Combined Authority has not satisfied. The critical judgements note does not include details of the judgement made by the Authority in relation to the recognition of Investment fund income (Gainshare – revenue and capital). .	The critical judgement note should be expanded to disclose the basis for determining when to recognise Investment Fund (Gainshare) income.	TBC
Various	There were a number of other minor presentational adjustments made to improve the quality of disclosure in the accounts.	Presentational adjustment identified should be corrected in the final version of the statement of accounts.	TBC

Fees

We confirm below our fees charged for the audit. We will discuss with officers whether the final fee will be amended to reflect additional time spent delivering the audit due to delays in receiving final draft accounts.

Audit Fees

	Prior Year (2017/18) Fee	Planned (2018/19) Fee	Final (2018/19) Fee
Authority Audit – scale fee	24,200	18,634	TBC
Pensions – IAS 19 The financial reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and covering in respect of IAS 19 this year.			1,500
Additional fees due to delayed information The scale fee is based on the assumption that a full statement of accounts is available together with appropriate supporting schedules at the commencement of the audit. As identified earlier in this report, this has not been the case for the Authority in 2019-20 and additional audit work has been undertaken to progress the audit within a reasonable timescale and ensure that sufficient evidence has been gained to provide assurance over the accuracy of the figures within the financial statements. This work is above and beyond the expectations set out within the Audit Fee Letter. Consequently, additional audit fees will be levied in respect of this additional work. This will be determined once the quantum of work has been finalised. The additional fee is subject to approval by PSAA Ltd.			TBC
Total audit fees (excluding VAT)	**24,200**	**£18,634**	**£TBC**

Non Audit Fees

No non-audit or audited related services have been undertaken for the Authority.

Audit opinion

We anticipate we will provide the Authority with an unmodified audit report

Independent auditor's report to the members of West of England Combined Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of West of England Combined Authority (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Investment and Corporate Services and Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Investment and Corporate Services and Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Audit opinion

Other information

The Director of Investment and Corporate Services and Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Audit opinion

Responsibilities of the Authority, the Director of Investment and Corporate Services and Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 13 the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Investment and Corporate Services and Chief Finance Officer. The Director of Investment and Corporate Services and Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Investment and Corporate Services and Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Investment and Corporate Services and Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Audit opinion

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the West of England Combined Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature to be added}

Barrie Morris, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

[Date to be added]

© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

This page is intentionally left blank

Our ref: WECA/1819/LoR
Your ref:

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
BRISTOL
BS2 0EL

31 July 2019

Dear Sirs

West of England Combined Authority
Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of West of England Combined Authority for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Authority financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Authority's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Authority and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Authority has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vi. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent
b. none of the assets of the Authority has been assigned, pledged or mortgaged
c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Authority financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We believe that the Authority's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Authority's needs. We believe that no further disclosures relating to the Authority's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xiv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Authority financial statements such as records, documentation and other matters;
b. additional information that you have requested from us for the purpose of your audit; and
c. unrestricted access to persons within the Authority from whom you determined it

necessary to obtain audit evidence.

xv. We have communicated to you all deficiencies in internal control of which management is aware.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii. xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:

a. management;
b. employees who have significant roles in internal control; or
c. others where the fraud could have a material effect on the financial statements.

xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi. We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

xxii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxiv. The disclosures within the Narrative Report fairly reflect our understanding of the Authority's financial and operating performance over the period covered by the Authority financial statements.

Approval

The approval of this letter of representation was minuted by the Authority’s Audit Committee at its meeting on 31 July 2019.

Yours faithfully

Name……

Position…….

Date…….

Name……

Position…….

Date…….

REPORT TO: **WECA AUDIT COMMITTEE**

DATE: **31 JULY 2019**

REPORT TITLE: **TREASURY MANAGEMENT OUTTURN REPORT 2018/19**

DIRECTOR: **MALCOLM COE, DIRECTOR OF INVESTMENT AND CORPORATE SERVICES**

AUTHOR: **MALCOLM COE**

Purpose of Report

1 The CIPFA Treasury Management in the Public Services: Code of Practice requires the Authority to approve a Treasury Management Strategy before the start of each financial year, review performance during the year, and approve an annual report after the end of each financial year. This report provides a review of performance to 31st March 2019.

Recommendations

The WECA Audit Committee is recommended to:

a) Note the Treasury Management Report to 31st March 2019, prepared in accordance with the CIPFA Treasury Code of Practice.

b) Note the Treasury Management Indicators to 31st March 2019.

Background / Issues for Consideration

2 The CIPFA Code of Practice requires that the WECA Committee considers the treasury management outturn report after the end of each financial year. The report was considered by WECA Committee at its meeting on 19 July 2019. The report has now been brought to the WECA Audit Committee for their consideration.

Summary

2.1 The average rate of investment return for 2018/19 was 0.97%, which is 0.41% above the benchmark rate.

2.2 The Authority's Prudential Indicators for 2018/19 were agreed by the Authority at its

meeting on 2nd February 2018 and performance against the key indicators is shown in **Appendix 1**. All indicators are within target levels.

Summary of Returns

2.3 The Authority's investment position as at 31st March 2019 is detailed in **Appendix 2**. This shows a change in Investment Balances to £169.5m at 31st March 2019 from £198.2m at 30th September 2018, which reflects a net reduction due to project spend.

2.4 The Authority is the Accountable Body for the West of England Revolving Investment Fund, (RIF), a role previously undertaken by B&NES who received grant funding of £57 million at the end of the 2011/12 financial year. The balance at 31st March 2019 was £17.9m and this sum, prior to distribution, is being invested in line with the Authority's Treasury Management Strategy, with the interest earmarked to the RIF.

2.5 The Authority also acts as Accountable Body for the West of England Local Enterprise Partnership, (LEP). In 2018/19 £45.4m of Local Growth Fund (LGF) grant was received from Central Government, along with the remaining sums, provided a balance at 31st March 2019 of £60.3m. This sum, prior to distribution, is being invested in line with the Authority's Treasury Management Strategy with interest earmarked to fund associated operating and governance costs.

2.6 Gross interest earned on all investments for April to March 2018/19 was £1,852k. Interest earned for RIF and LGF is ringfenced to those funds, giving rise to an income outturn for WECA activities of £1,137k. **Appendix 3** details the investment performance, showing the average rate of interest earned over this period being 0.97%, which was 0.41% above the benchmark rate of average 7 day LIBID +0.05% (0.56%).

Summary of Borrowings

2.7 The Authority's currently has no external borrowing. Any future borrowing requirement would be subject to the Authority's decision making process and HM Treasury negotiations. For reference only, the Prudential Indicators that provide a framework for Borrowing is set out in **Appendix 1.**

Strategic & Tactical Decisions

2.8 As shown in the charts at **Appendix 2**, the investment portfolio has been diversified across UK Banks and Building Societies and Local Authorities, which totalled £136m. The Authority also uses AAA rated Money Market funds to maintain very short-term liquidity with £23.6m invested in Money Market Funds as at 31st March 2019.

2.9 The Authority retains units in the CCLA Property Fund with an investment of £9.9m. This investment seeks to enhance yields, provide diversification and is intended to be held for higher returns over a long period of time.

2.10 The Authority does not hold any direct investments with banks in countries within the Eurozone reflecting both on the underlying debt issues in some Eurozone countries and the low levels of interest rates. The Authority's investment counterparty list does not currently include any banks from Portugal, Ireland, Greece, Spain and Italy.

Future Strategic & Tactical Issues

2.11 The Authority's treasury management advisors have provided an economic and market review for 2018/19 – attached at **Appendix 5**.

2.12 After rising to 0.6% in the third calendar quarter of the year, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase the Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

Consultation

3 Consultation has been carried out with the Chief Executives, S151 Officers across the region and the Monitoring Officer.

Other Options Considered

4 None.

Risk Management/Assessment

5 The Authority's lending & borrowing list is regularly reviewed and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits, with approved institutions. Investment and Borrowing advice is provided by our Treasury Management consultants Arlingclose.

The CIPFA Treasury Management in the Public Services: Code of Practice requires the Authority nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The WECA Audit Committee carries out this role.

Public Sector Equality Duties

6 The public sector equality duty created under the Equality Act 2010 means that public authorities must have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

6.1 The Act explains that having due regard for advancing equality involves:

- Removing or minimising disadvantages suffered by people due to their protected characteristics.
- Taking steps to meet the needs of people from protected groups where these are different from the needs of other people.

- Encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

6.2 The general equality duty therefore requires organisations to consider how they could positively contribute to the advancement of equality and good relations. It requires equality considerations to be reflected in the design of policies and the delivery of services, including policies, and for these issues to be kept under review.

Finance Implications, including economic impact assessment where appropriate:

7 A breakdown of the revenue budget that was set for interest income and the year-end outturn position is included in **Appendix 6**. There are no Economic Impacts arising as a result of this report.

Advice given by: Malcolm Coe, Director of Investment & Corporate Services

Legal Implications:

8 The Prudential Code and CIPFA's Code of Practice on Treasury Management requires regular monitoring and reporting of Treasury Management activities.

Advice given by: Shahzia Daya, Director of Legal Services

Appendices & Background papers:

Appendix 1 – Performance Against Prudential Indicators
Appendix 2 – The Authority's Investment Position at 31 March 2019
Appendix 3 – Average monthly rate of return for 2018/19
Appendix 4 – The Authority's External Borrowing Position at 31 March 2019
Appendix 5 – Arlingclose's Economic & Market Review for 2018/19
Appendix 6 – Interest & Capital Financing Budget Monitoring 2018/19
Appendix 7 – Summary Guide to Credit Ratings

Background Papers : Treasury Management Strategy Statement & Investment Strategy 2018/19 – As reported to WECA Committee on 2nd February 2018.

West of England Combined Authority Contact:
Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: democratic.services@westofengland-ca.gov.uk

APPENDIX 1

Performance against Treasury Management Indicators (as approved in the Treasury Management Strategy Statement)

1. Authorised limit for external debt

These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

	2018/19 Prudential Indicator	**Actual as at 31st March 2019**
	£'000	£'000
Borrowing	0	0
Other long term liabilities	0	0
Cumulative Total	**0**	**0**

2. Operational limit for external debt

The operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements.

	2018/19 Prudential Indicator	**Actual as at 31st March 2019**
	£'000	£'000
Borrowing	0	0
Other long term liabilities	0	0
Cumulative Total	**0**	**0**

3. Upper limit for fixed interest rate exposure

This is the maximum amount of total ***borrowing*** which can be at fixed interest rate, less any investments for a period greater than 12 months which has a fixed interest rate.

	2018/19 Prudential Indicator	**Actual as at 31st March 2019**
	%	%
Fixed interest rate exposure	**100**	**0**

4. Upper limit for variable interest rate exposure
While fixed rate ***borrowing*** contributes significantly to reducing uncertainty surrounding interest rate changes, the pursuit of optimum performance levels may justify keeping flexibility through the use of variable interest rates. This is the maximum amount of total borrowing which can be at variable interest rates.

	2018/19 Prudential Indicator	**Actual as at 31st March 2019**
	%	%
Variable interest rate exposure	**10%**	**0%**

5. Upper limit for total principal sums invested for over 364 days
This is the maximum amount of total ***investments*** which can be over 364 days. The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

	2018/19 Prudential Indicator	**Actual as at 31st March 2019**
	%	%
Investments over 364 days	**30**	**25.4**

6. Maturity Structure of borrowing
This indicator is set to control the Authority's exposure to refinancing risk.

	Upper Limit	**Lower Limit**	**Actual as at 31st March 2019**
	%	%	%
Under 12 months	50	Nil	0
12 months and within 24 months	75	Nil	0
24 months and within 5 years	75	Nil	0
5 years and within 10 years	100	Nil	0
10 years and above	100	Nil	0

7. Average Credit Rating
The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio. A summary guide to credit ratings is set out at **Appendix 7**. The figure excludes the Property Fund Investment.

	2018/19 Prudential Indicator	**Actual as at 31st March 2019**
	Rating	Rating
Minimum Portfolio Average Credit Rating	**A-**	**AAA-**

APPENDIX 2

The Authority's Investment position at 31st March 2019.

The term of investments are as follows:

	Balance at 31st March 2019 £000s
Notice (instant access funds)	**23,620**
Up to 1 month	**0**
1 month to 3 months	**20,000**
4 to 6 months	**15,000**
6 to 12 months	**58,000**
More than 12 months	**43,000**
Property Fund	**9,957**
Total	**169,577**

The Authority had a total average net positive balance of £190.2m during the period April 2018 to March 2019 .

Chart 1 : WECA Investments by Funding Source (£169.5m) at 31st March 2019

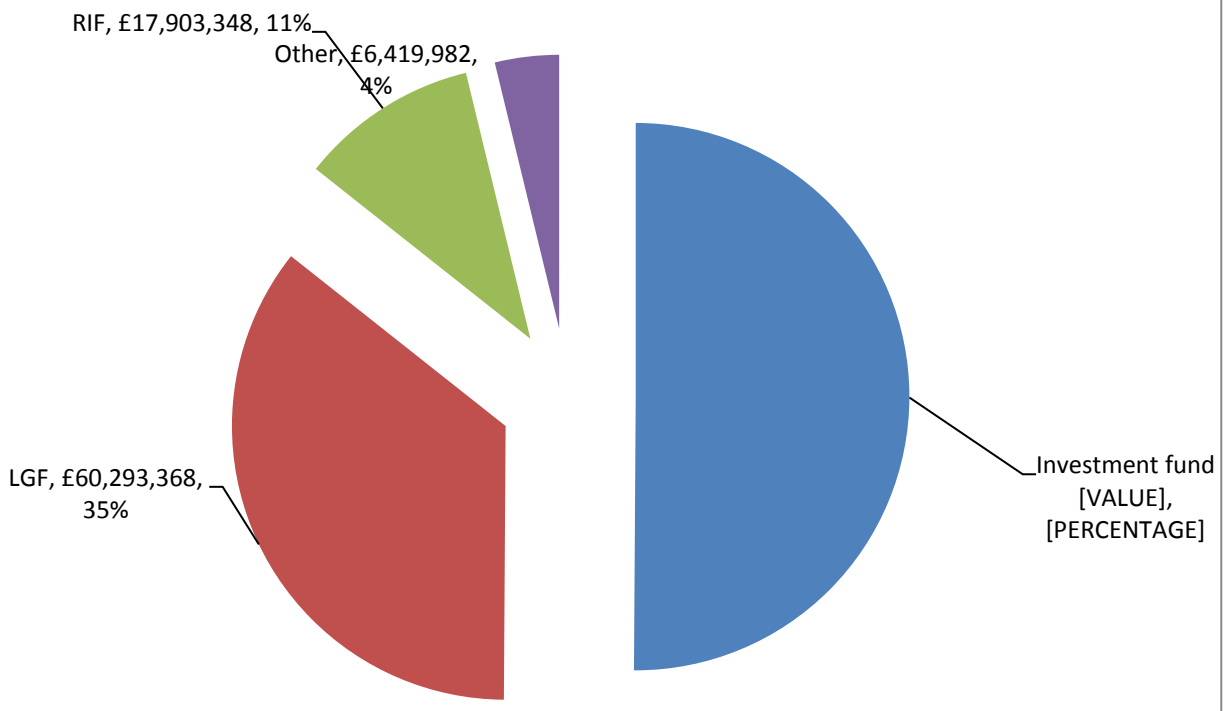


Chart 2 : WECA Investments by Funding Source (£198.2m) at 30th September 2018

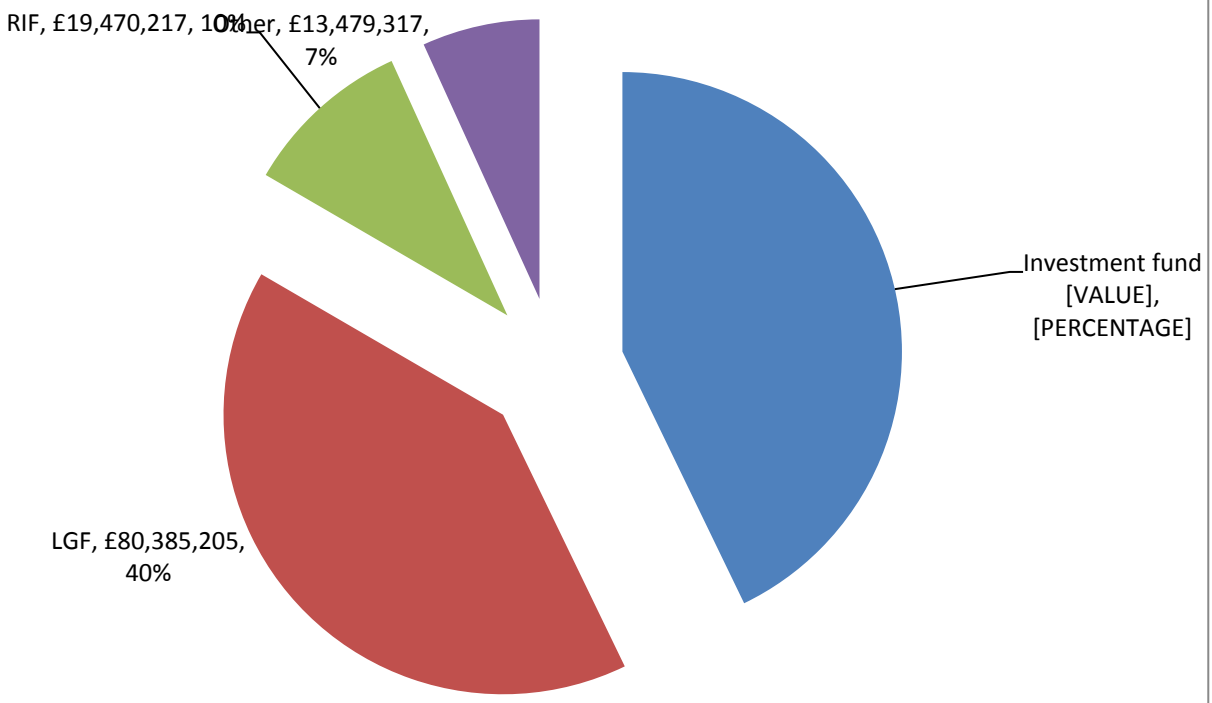


Chart 3: WECA Investments by Type (£169.5m) as at 31st March 2019

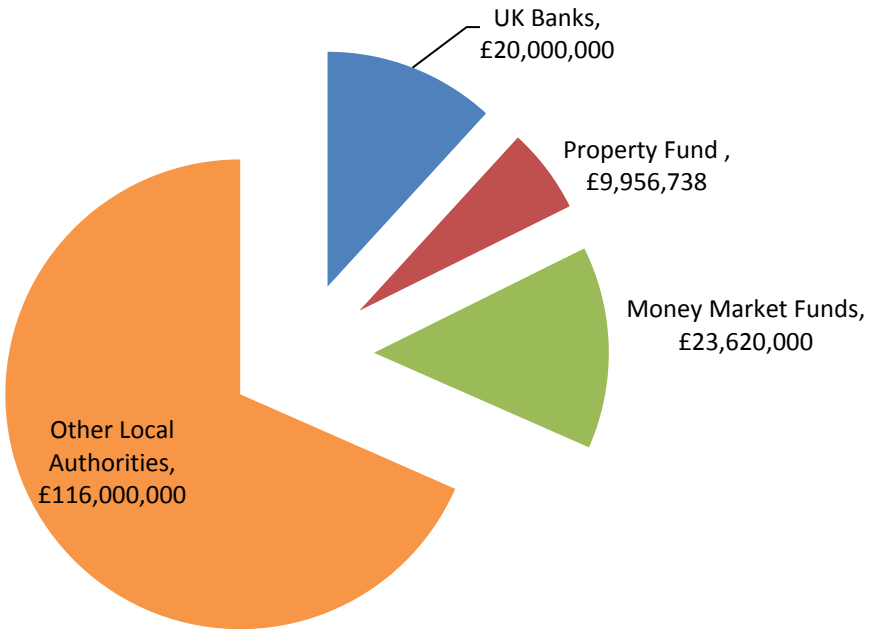


Chart 4: WECA Investments by Type (£198.2m) as at 30th September 2018

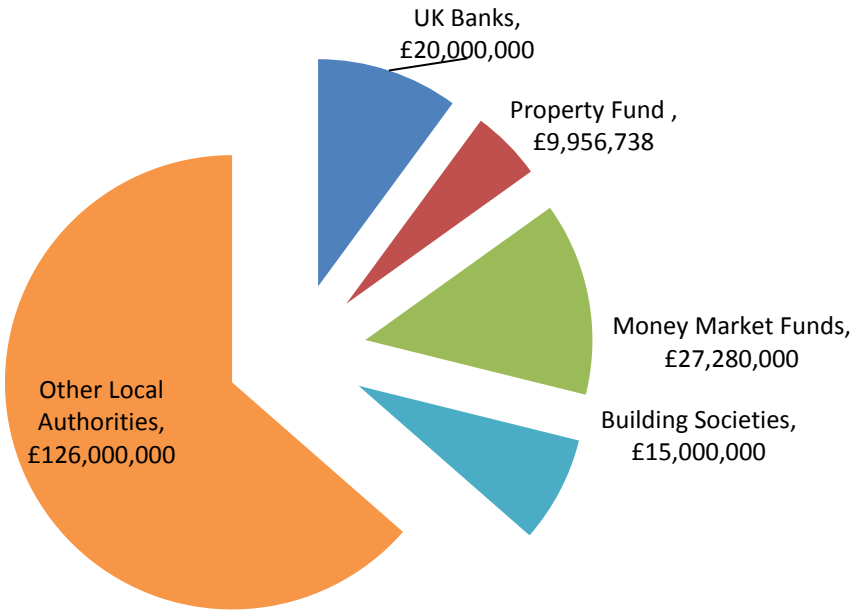


Chart 5: WECA Investments per lowest equivalent Long Term credit rating (£169.5m) at 31st March 2019

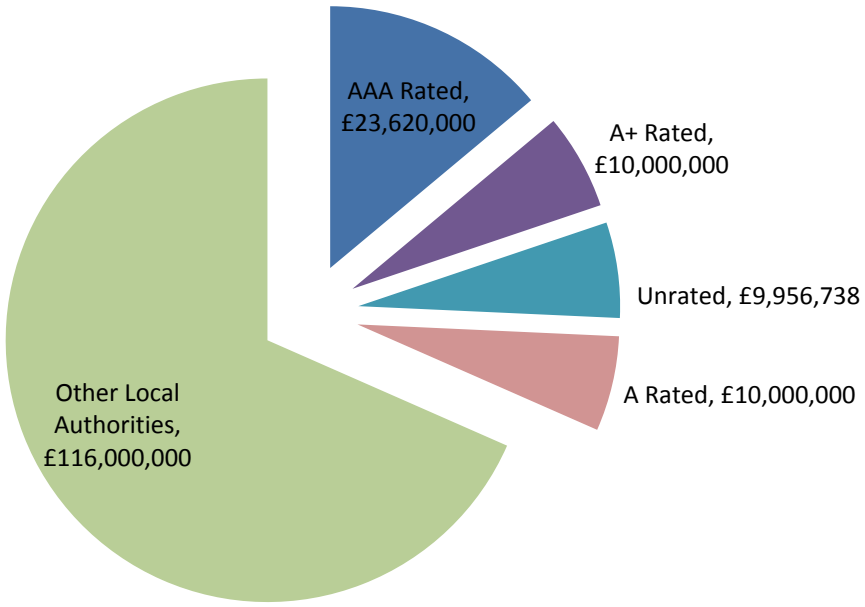
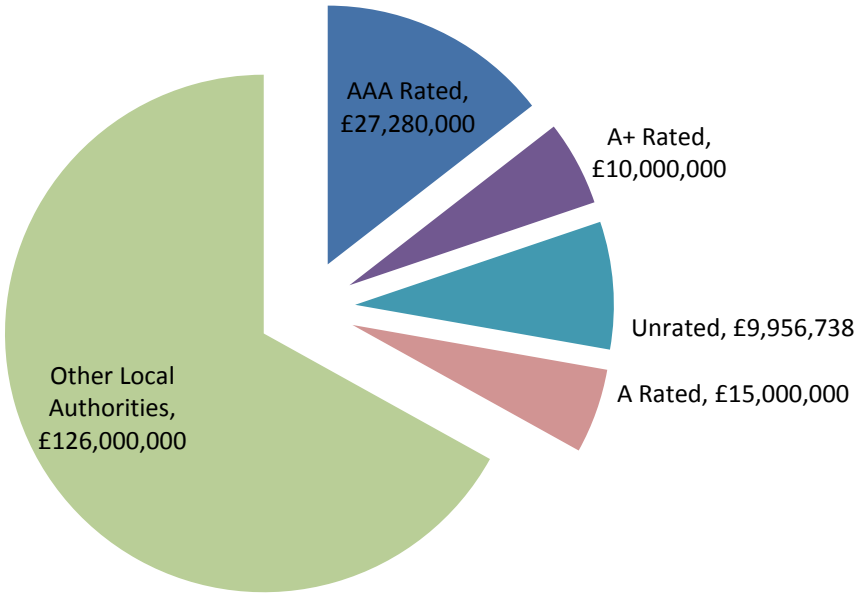


Chart 6: WECA Investments per lowest equivalent Long Term credit rating (£198.2m) at 30th September 2018



APPENDIX 3

Average rate of return on investments for 2018/19

	Apr %	May %	Jun %	Jul	Aug	Sep
Average rate of interest earned	0.79	0.84	0.85	0.88	0.90	0.97
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	0.41	0.41	0.41	0.41	0.63	0.64
Difference from Benchmark %	+0.38	+0.43	+0.44	+0.47	+0.27	+0.33

	Oct %	Nov %	Dec %	Jan	Feb	Mar	Average %
Average rate of interest earned	0.99	1.02	1.06	1.07	1.17	1.18	0.97
Benchmark = Average 7 Day LIBID rate +0.05% (source: Arlingclose)	0.63	0.64	0.63	0.63	0.62	0.62	0.56
Difference from Benchmark %	+0.36	+0.38	+0.43	+0.44	+0.55	+0.56	+0.41

APPENDIX 4

Authorities External Borrowing at 31st March 2019

*There is no current borrowing.

APPENDIX 5

Economic and Market Review for 2018/19

Economic background: After spiking at over $85/barrel in October 2018, oil prices fell back sharply by the end of the year, declining to just over $50 in late December before steadily climbing toward $70 in April 2019. UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.

After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March.

While the domestic focus has been on Brexit's potential impact on the UK economy, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering misfires from downturns in manufacturing alongside continued domestic/populist unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial markets: December was a month to forget in terms of performance of riskier asset classes, most notably equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls

in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. During March the US yield curve inverted (10-year Treasury yields were lower than US 3 month money market rates) and German 10-year Bund yields turned negative. The drivers are a significant shift in global economic growth prospects and subsequent official interest rate expectations given its impact on inflation expectations. Further to this is world trade growth which collapsed at the end of 2018 falling by 1.8% year-on-year. A large proportion of this downturn in trade can be ascribed to the ongoing trade tensions between the US and China which despite some moderation in January does suggest that the International Monetary Fund's (IMF) and Organisation for Economic Co-Operation & Development's (OECD) forecasts for global growth in 2019 of 3.5% might need to be revised downwards.

Credit background: Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.

The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/Natwest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.

In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

APPENDIX 6

Interest & Capital Financing Costs – Outturn Position for 2018/19

April 2018 to March 2019	YEAR END FORECAST			ADV/FAV
	Budgeted (Income) £'000	Outturn (Income) £'000	Forecast over or (under) spend £'000	
Interest & Capital Financing				
- Debt Costs	0	0	0	
- Interest on Balances	(520)	(1,137)	(617)	FAV
Sub Total - Capital Financing	**(520)**	**(1,137)**	**(617)**	**FAV**

APPENDIX 7

Summary Guide to Credit Ratings

Rating	Details
AAA	Highest credit quality – lowest expectation of default, which is unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality - expectation of very low default risk, which is not likely to be significantly vulnerable to foreseeable events.
A	High credit quality - expectations of low default risk which may be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good credit quality - expectations of default risk are currently low but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative - indicates an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time.
B	Highly speculative - indicates that material default risk is present, but a limited margin of safety remains. Capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk - default is a real possibility.
CC	Very high levels of credit risk - default of some kind appears probable.
C	Exceptionally high levels of credit risk - default is imminent or inevitable.
RD	Restricted default - indicates an issuer that has experienced payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating.
D	Default - indicate san issuer that has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

This page is intentionally left blank

ITEM: 13

REPORT TO: **AUDIT COMMITTEE**

DATE: **31 JULY 2019**

REPORT TITLE: **EXTERNAL AUDIT PROGRESS REPORT**

DIRECTOR: **MALCOLM COE, DIRECTOR OF INVESTMENT & CORPORATE SERVICES (s73 OFFICER)**

AUTHOR: **MALCOLM COE**

Purpose of Report

1 Grant Thornton is the appointed external auditor for the West of England Combined Authority. Their audit plans, progress on delivery, key findings and recommendations and scale of fees are reported periodically to the audit committee.

Recommendation

- To note the updates provided from the external auditor.

Background / 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 2019/20
iii. Appendix 3 – IAS 240 letter and Audit Chair response

2.1 The External Auditor will provide a full briefing on these items at the meeting

Consultation

3 The External Audit plan for 2018/19 and 2019/20 was produced in consultation with the WECA s73 Officer and the appointed internal audit provider (Audit West).

Risk Management/Assessment

4 An effective external, and internal, audit function is crucial in securing strong corporate governance arrangements and managing organisational risk.

Public Sector Equality Duties

5 The public sector equality duty created under the Equality Act 2010 means that public authorities must have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

5.1 The Act explains that having due regard for advancing equality involves:

- Removing or minimising disadvantages suffered by people due to their protected characteristics.
- Taking steps to meet the needs of people from protected groups where these are different from the needs of other people.
- Encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

5.2 The general equality duty therefore requires organisations to consider how they could positively contribute to the advancement of equality and good relations. It requires equality considerations to be reflected in the design of policies and the delivery of services, including policies, and for these issues to be kept under review.

5.3 The are no direct implications arising from this report.

Finance Implications, including economic impact assessment where appropriate:

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 2019/20 external audit work is included in the update provided.

Advice given by: Malcolm Coe

Legal Implications:

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

Advice given by: Shahzia Daya, Director of Legal Services

Human Resources Implications:

8 There are no direct implications arising from this report.

Advice given by: Head of Human Resources

Appendices:

List any appendices to the report:

Appendix 1 – Progress report and sector update

Appendix 2 – Fees letter 2019/20

Appendix 3 - IAS 240 letter and Audit Chair response

Background papers:

None

West of England Combined Authority Contact:
Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 456 6982; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: democratic.services@westofengland-ca.gov.uk

This page is intentionally left blank

Grant Thornton

An instinct for growth™

Audit Progress Report and Sector Update

West of England Combined Authority
Year ending 31 March 2019

June 2019

Contents

Section	Page
Introduction	3
Progress at 11 June 2019	4
Audit Deliverables	5
Sector Update	6
Links	8

© 2019 Grant Thornton UK LLP.

Introduction

Barrie Morris

Engagement Lead

T 0117 305 7708
M 07771 976684
E barrie.morris@uk.gt.com

Michelle Burge

Engagement Manager

T 0117 305 7886
M 07825 028 771
E michelle.burge@uk.gt.com

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

The paper also includes emerging national issues and developments that may be relevant to you as a combined authority.

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 www.grantthornton.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.

PSAA Contract Monitoring

The West of England Combined Authority opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

© 2019 Grant Thornton UK LLP.

Progress at 11 June 2019

Financial Statements Audit

We have undertaken planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2018/19 financial statements.

We commenced our interim audit in March 2019. Our interim fieldwork included:

- Updated review of the Authority's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

There are no issues that we need to bring to the Committee's attention from the work we have completed to date.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We have discussed our plan and timetable with officers.

The final accounts audit is due to begin in July with findings reported to you in our Audit Findings Report. We will present our report at the July Audit Committee meeting and issue our audit opinion by the 31 July deadline.

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

Details of our initial risk assessment to determine our approach were included in our Audit Plan. We identified two significant Value for Money risks including; the development of a detailed medium term financial plan to support the Combined Authority's strategic objectives and development of performance management framework against which the Authority can measure its impact and effectiveness and can be accountable to stakeholders and tax payers. Our audit work in this area is ongoing.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Meetings

We met with Finance Officers in March as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Combined Authority. Your officers attended our Financial Reporting Workshop in February, which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

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

© 2019 Grant Thornton UK LLP.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan 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 2018-19 financial statements.	February 2019	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Combined Authority responsibilities

In our Audit Plan presented to the Audit Committee in February 2019 we have communicated our expectations around the Authority's responsibilities for timely production of the draft accounts supported by appropriate working papers. Should delays be experienced in the provision of these requirements or should additional work be required on our part due to complex technical issues, new arrangements and delays in response to queries additional costs will be incurred.

Any additional fees are subject to approval by PSAA.

© 2019 Grant Thornton UK LLP.

Sector Update

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, the wider local government sector 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 committee members, as well as any accounting and regulatory updates.

- **Insights from local government sector specialists**
- **Reports of interest**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

© 2019 Grant Thornton UK LLP.

National Audit Office – Planning for new homes

The National Audit Office (NAO) has recently published a report on *Planning for new homes.* This report is part of a series on housing in England, including *Housing in England: overview (2017)* and *Homelessness (2017).* The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes a year on average.

The report recognises that increasing the supply of new homes is a complex task and one of the measures MHCLG has introduced to help achieve the objective is reforming the planning system. The report notes that the planning system is fundamental to providing new homes and it assesses how effectively MHCLG supports the planning regime to provide the right homes in the right places through:

- supporting local authorities to produce plans for how the supply of new homes will meet need in their area;
- supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and
- working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

The report finds that at present, the system is not providing value for money and that the supply of new homes has failed to meet demand. It notes that a number of factors have contributed to the planning system not working and some of these include:

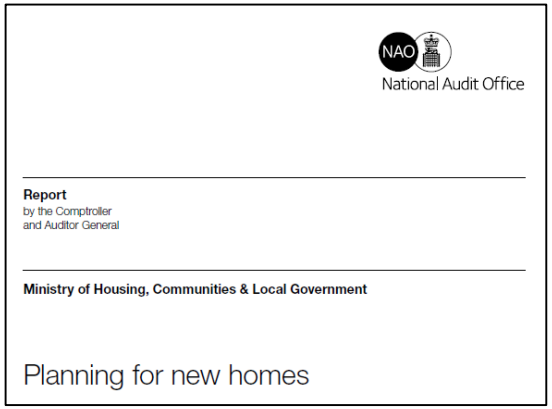
- the process of setting the need for new homes;
- the reductions in local authority capability;
- the under-performing Planning Inspectorate; and
- failures in the system to ensure adequate contributions for infrastructure.

The report recognises that MHCLG's new National Planning Policy Framework is an important step, but it is too early to tell whether the changes it introduces will be effective. The report also makes a number of recommendations for MHCLG to implement alongside the framework to help the planning systems work more effectively.

The report concludes that the Department and government more widely need to take this much more seriously and bring about improvement if they are to meet their ambition of 300,000 new homes per year by the mid-2020s.

The report is available on the NAO website:

https://www.nao.org.uk/report/planning-for-new-homes/#


NAO
National Audit Office

Report
by the Comptroller
and Auditor General

Ministry of Housing, Communities & Local Government

Planning for new homes

© 2019 Grant Thornton UK LLP.

Links

Grant Thornton

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

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

National Audit Office

https://www.nao.org.uk/report/planning-for-new-homes/#

© 2019 Grant Thornton UK LLP.

Grant Thornton

An instinct for growth™

grantthornton.co.uk

© 2019 Grant Thornton UK LLP. Confidential and information only.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL).GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement. The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

This page is intentionally left blank

Our ref: WECA/201920 fee

Malcolm Coe
Director of Investment and Corporate Services
West of England Combined Authority
3 Rivergate
Bristol
BS1 6ER

Grant Thornton UK LLP
2 Glass Wharf
Temple Quay
Bristol
BS2 0EL

T +44 (0)117 305 7600

F+44 (0)117 955 4934

26 April 2019

Dear Malcolm

Planned audit fee for 2019/20

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 had the power to make auditor appointments for audits of opted- in local government bodies from 2018/19.

For opted- in bodies PSAA's responsibilities also include setting fees and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the PSAA website.

All grant work 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 2019/20 scale fees for opted-in bodies at the end of March 2019, following a consultation process. Individual scale fees have been maintained at the same level as in 2018/19, unless there were specific circumstances which required otherwise. Further details are set out on the PSAA website. The Authority's scale fee for 2019/20 has been set by PSAA at £18,634 which is the same as in 2018/19. As the Authority continues to take on new roles and responsibilities and the complexity of the financial statements and the audit of them increases, we are discussing with officers whether this scale of fee remains appropriate. We will conclude these discussions once the extent of any changes are known during the year and will review and agree the fee prior to the detailed work for the 2019-20 audit commencing. Any changes will be agreed with the Authority and PSAA and communicated to those charged with governance.

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 2019/20, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Chartered Accountants. Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grantthornton.co.uk for further details.

Scope of the audit fee

There are no changes to the overall work programme for audits of local government audited bodies for 2019/20. 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 2019/20 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:

Main Audit fee	£
September 2019	4,658.50
December 2019	4,658.50
March 2020	4,658.50
June 2020	4,658.50
Total	**18,634.00**

Outline audit timetable

We will undertake our audit planning and interim audit procedures in November 2019 to March 2020. 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 and work on the whole of government accounts return in July 2020.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	November 2019 to March 2020	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of

Phase of work	Timing	Outputs	Comments
			the Authority's accounts and VfM.
Final accounts audit	June to July 2020	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 2020	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July 2020	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	August 2020	Annual audit letter to the Authority	The letter will summarise the findings of all aspects of our work.

Our team

The key members of the audit team for 2019/20 are:

	Name	Phone Number	E-mail
Engagement Lead	Barrie Morris	0117 305 7708	barrie.morris@uk.gt.com
Engagement Manager	Michelle Burge	0117 305 7886	michelle.burge@uk.gt.com
In Charge Auditor	Rob Patterson	0117 305 7767	rob.j.patterson@uk.gt.com

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 j.roberts@uk.gt.com.

Yours sincerely

Barrie Morris
Engagement Lead
Grant Thornton UK LLP

This page is intentionally left blank

Grant Thornton

Mr G Gollop
Audit Committee Chair
West of England Combined Authority
3 Rivergate
Temple Quay
Bristol
BS1 6ER

Grant Thornton UK LLP
2 Glass Wharf
Bristol BS2 0EL

T +44 (0)117 305 7600
F +44 (0)117 305 7784
DX 78112 Bristol
www.grant-thornton.co.uk

19 February 2019

Dear Geoffrey

West of England Combined Authority Financial Statements for the year end March 2019
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.

Chartered Accountants
Member firm within Grant Thornton International Ltd
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton UK LLP, 30 Finsbury Square, London EC2A 1AG
A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

For information, we are also required to make enquiries of management and recently sent a letter and schedule of question to Malcolm Coe. I would be grateful if you could provide a response by 29 March 2019

If you have any queries in respect of this letter, please contact Michelle Burge on Michelle.Burge@uk.gt.com.

Yours sincerely

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 April 2018?	

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 April 2018?	
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?	

Michelle Burge
Audit Manager
Public Sector Assurance
Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

31 March 2019

Dear Michelle

West of England Combined Authority Financial Statements for the year end March 2019
Understanding how the Audit Committee gains assurance from management

Thank you for your letter of the 19 February 2019.

Throughout the second year of the Combined Authority, and that of the operation of the Audit Committee, we have continued to assess and examine the assurances in place for WECA as the organisation develops, grows in complexity and takes on further devolved functions.

While good progress has been made in ensuring adequate arrangements are in place, my intention, in my role as Chair of the Committee, is to continue to ensure such governance controls are developed, tested through regular internal audit and Committee scrutiny and assessment by management of material risks.

The Committee is also due at its next meeting to review and approve the Authority's Counter Fraud Strategy and Response Plan. This will take place prior to the conclusion of the 2018/19 Statements' external audit, so I hope will further demonstrate the role of the Committee in assuring that WECA management processes and arrangements identify and respond to the risk of breaches of internal control.

In terms of my role and that of the Committee I have not been informed or become aware of any frauds or fundamental breakdowns in internal control. However, I can continue to offer the assurance that we have confidence that the arrangements developed to date by officers and reviewed by Audit West are adequate and appropriate.

In that respect, I once again refer you to the reports and discussions we have had at the Audit Committee which you have witnessed and had access to and the appendix to your letter which is attached and provides you with further information regarding the assurances the Committee is able to rely on.

Yours sincerely

Cllr Geoff Gollop (Bristol CC) – Chair of WECA Audit Committee

Tel: +44 (0)117 428 6210
Email: info@westofengland-ca.gov.uk
3 Rivergate, Temple Quay, Bristol, BS1 6EW
www.westofengland-ca.gov.uk

The West of England Combined Authority (WECA) covers Bath & North East Somerset, Bristol and South Gloucestershire.
WECA also supports the Local Enterprise Partnership, which includes North Somerset.

Response from Audit Committee Chair, WECA

Fraud risk assessment

	Auditor Question	Response
1	Has the Council assessed the risk of material misstatement in the financial statements due to fraud?	The work of the finance service and internal audit provides assurance that material misstatement due to fraud is not occurring.
2	What are the results of this process?	S151 Officer & Internal audit have provided assurance that appropriate arrangements are operated to deter and detect fraud which include the provision of appropriate internal controls.
3	What processes does the Council have in place to identify and respond to risks of fraud?	Audit plan which is agreed by the Audit Committee includes a Counter Fraud Plan and most audit reviews consider Fraud & Corruption risks. Fraud Risk is acknowledged to be low based on WECA's operations and Internal Audit have focussed their work on the areas that are assessed of highest risk, i.e. Procurement and Contract arrangements.
4	Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	To my & the Committee's knowledge (and as informed by management and the Head of Audit West) I am not aware of any specific frauds (risks), or areas with a high risk of fraud where fraud has been identified. I refer to the answer in question 3 regarding the level of risk.
5	Are internal controls, including segregation of duties, in place and operating effectively?	I and the Committee have received assurances through our formal meetings from internal audit that internal controls are operating satisfactorily through their reports.
6	If not, where are the risk areas and what mitigating actions have been taken?	I and the Committee have been informed by the Head of Audit West through our formal meetings of the outcomes from the Reasonable Assurance Model assessment and the specific areas of audit work where improvements have been recommended and the progress in implementing such improvements.

	Auditor Question	Response
7	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)?	I and the Committee have not been made aware through the formal meetings of any such areas. I and the Committee rely on internal audit to bring such issues to the attention of the Audit Committee.
8	Are there any areas where there is a potential for misreporting?	I and the Committee have been briefed by the S151 Officer at our formal meetings that the Financial Reporting process and internal controls and governance processes minimise the potential for misreporting.
9	How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	It receives reports from the Head of Audit West to the Committee and I refer again to the answer given to question 3.
10	What arrangements are in place to report fraud issues and risks to the Governing Body?	The Audit Committee can receive reports from the Head of Audit West which highlight any fraud issues, if any exist, none in this year and I refer to the answer given in question 3.
11	How does the Council communicate and encourage ethical behaviour of its staff and contractors?	All staff have been told of the relevant HR policies and will be reminded of this periodically and the need to declare any relationships (financial and non-financial) which staff may have with contractors employed by the council. The Employee Code of Conduct outlines the responsibilities of staff in relation to personal and financial interests, gifts and hospitality and bribery and corruption. The Whistle blowing policy applies to staff, members, suppliers, contractors, volunteers and anybody acting on behalf of the council.
12	How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Through my role as Chair both at Committee and in my other roles as a Member. A whistle-blowing policy and procedure is in place and communicated to staff. Various options are set out within the policy to make reporting easier and

	Auditor Question	Response
		allegations can be made anonymously. No significant issues have been reported.
13	Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	I and the Committee have not been informed of any such relationships or transactions but each year the Mayor, all Chief Officers and Statutory Officers are required to make declarations regarding such issues as part of the closure of the accounts. Officers and Members are governed by their respective Codes of Conduct and obliged to complete documents about their interests and Members are required to declare any interests at all relevant meetings.
14	Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2016?	I and the Committee have not been informed or made aware – through assurances from the Head of Audit West - of any specific fraud which would require specific reporting to the Audit Committee or to the External Auditor.

Law and regulation

	Auditor Question	Response
15	What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	The Committee has been advised that decision reports require legal and financial implications to be signed off. The work of Statutory Officers and Internal Audit includes a focus on compliance with law and regulation and the Annual Governance Statement covers this area in detail. Many key decisions are also approved by constituent authorities as part of their own governance arrangements, who therefore share responsibility for reviewing compliance.
16	How does management gain assurance that all relevant laws and regulations have been complied with?	The Committee has been advised that the assurance is gained through decision reports to WECA and Joint Committee. In addition, it takes assurance through S151 Reports, Internal audit reports, Whistle

		blowing procedures and the Annual Governance Statement and Assurance Framework. Staff are employed in critical posts with the relevant professional qualifications, skills and knowledge.
17	How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	The Committee has been advised by the S151 Officer and Monitoring Officer that there are no issues. Additional assurance is obtained through Internal Audit Reports and the Annual Governance Statement, which communicates the principle of respect for the rule of law and fulfilling all responsibilities in accordance with legislative and regulatory requirements.
18	Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2018?	I and the Committee have not been made aware of any instances by the Statutory Officers.
19	What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	The Committee is advised that this is obtained through general monitoring of legal work i.e. we receive 'letters before action' and would refer to the Monitoring Officer.
20	Is there any actual or potential litigation or claims that would affect the financial statements?	I and the Committee have been made aware of one instance by Statutory Officers relating to NDR Charitable Relief. We are aware through our constituent councils that 20 NHS foundation trusts are involved in litigation to claim NDR charitable relief affecting 49 local authorities including Bath and North East Somerset Council. The LGA is acting for the affected authorities and it is confident that the claim will be unsuccessful. Our assessment is that the risk of success of the claim is low and therefore no financial provision or contingent liability has been included in the accounts. A hearing window of between 1/10/19 and 31/12/19 has been set.

		In addition, I am informed that one employment matter may be taken to Tribunal for determination.
21	Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	I and the Committee have not been made aware of any instances by Statutory Officers.

ITEM: 14

REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 31st JULY 2019

REPORT TITLE: INTERNAL AUDIT ANNUAL REPORT 2018/19

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 2018/19 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

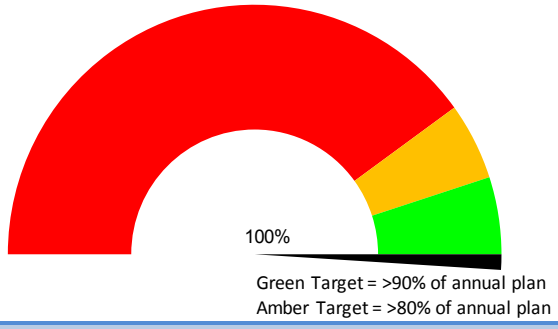
4.1 The Annual Internal Audit Plan for 2018/19 was presented to the West of England (WECA) Audit Committee on the 26th April 2018. This approach involved a mixture of formal audit work along with an assessment of the internal control framework to inform the plan for future years. The Plan forms the principal 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 in November 2018 and February 2019. This report builds upon that update and the chart overleaf records the position as at the end of the year.

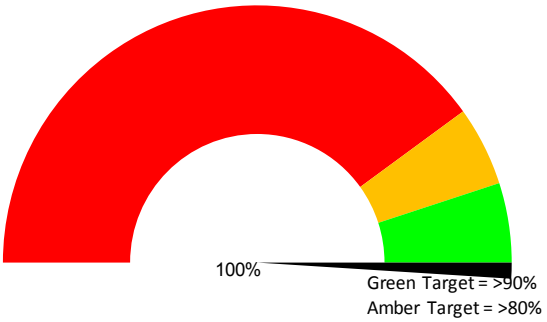
PERFORMANCE DASHBOARD - INTERNAL AUDIT

Client - WECA	Period - April 2018 - March 2019

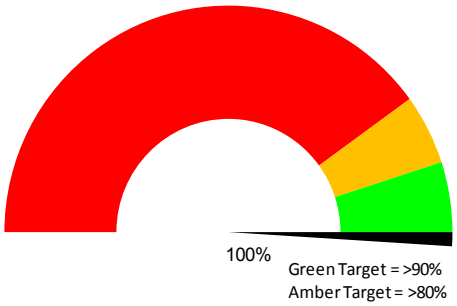
1. AUDIT PLAN COMPLETED



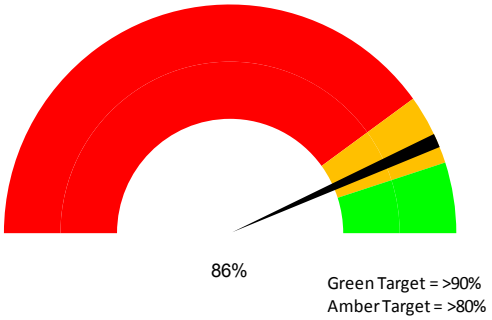
2. AUDITS COMPLETED IN PLANNED TIME



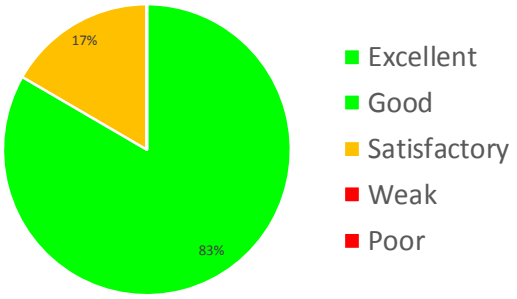
3. CUSTOMER SATISFACTION

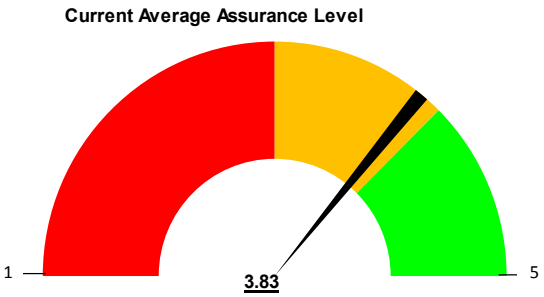


4. IMPLEMENTATION OF RECOMMENDATIONS



5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED





Previous Years Average Assurance

2017/18	3.50
2016/17	0

6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR

7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD

Equating to 0.0 Audit Days 2018/19

8. NEW UNPLANNED WORK

Equating to 0.0 Audit Days 2018/19

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 2018/19 Audit Plan at the end of the year.

4.3.3 This records that 6 formal audit reviews have been finalised along with 7 follow-up audits and 11 further pieces of targeted audit work.

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 or 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 Some of the comments received from this completed questionnaire are recorded below:

"*This Audit builds upon those previously undertaken and has supported the progressive strengthening of arrangements'*

'Good Report and fair recommendations'

'Recommendations were very fair and balanced and reflective of the fact that we had a reasonably new arrangement

'Very professional'

'Always felt well informed and engaged'

4.6 IMPLEMENTATION & FOLLOW UP OF RECOMMENDATIONS

4.6.1 The dashboard records the implementation of recommendations at the time the audit was 'Followed-Up' at 86%. Of this only 1 high risk recommendation had not been implemented as at the time of the follow-up but has subsequently been completed and 4 out of 30 medium risk recommendations had not been implemented. Due to the change in service provider these recommendations will be followed through in the implementation process of the new financial systems provision as they relate to Payroll, Creditors and Debtors.

4.7 INVESTIGATIONS/ WHISTLEBLOWING

4.7.1 During 2018/19 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 Appendix 1 details all the work undertaken and a summary of our opinions with a slightly improved position on last year. There were six audit reviews substantially completed of which five have recorded an assurance level of good (Level 4) and one recorded an assurance level of satisfactory (Level 3). Please see Appendix 2 for a description of our assurance levels.

4.8.2 In addition to this formal work we also reviewed Counter Fraud arrangements as a separate piece of work to support good governance and help WECA establish appropriate arrangements - so this was not formally rated - and 8 recommendations were made to help form a sound framework to manage the risks in this area.

4.8.3 Further to this we also supported the production of the Annual Governance Statement by reviewing all the sources of assurance and independently assessed the evidence with no significant issues identified for the statement. This was also validated by the work on our reasonable assurance model which independently assesses eight key themes of organisational health and rates them based on levels of assurance and risk. Again there were no significant findings and a summary of our views were presented in detail at the last meeting.

4.8.4 Finally we also carried out some limited grant certification work on the Growth Hub and we anticipate grant certification work to increase in 2019/20 as more expenditure is incurred on delivery of key outcomes for WECA. Yet again there were no significant issues from this work and the grant return signed off.

4.9 UNPLANNED AUDITS / WORK

4.9.1 There were no unplanned pieces of work during 2018/19.

4.10 FORMAL OPINION ON THE INTERNAL CONTROL FRAMEWORK

4.10.1 The Service Director – One West (Acting as Chief Audit Executive for WECA) is required to give an opinion on the internal control framework.

4.10.2 Statement of the Service Director – One 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 and did not identify any systemic failures;

- There were no fundamental system failures or control breakdowns to business critical functions or any identified fraud;

- There were no poor or weak ratings from Audit Work

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

Recommendation:

12 To note the report, statutory opinion on the Internal Control framework and outcome of Internal Audit work undertaken in 2018/19.

Report Author:

Audit West – Jeff Wring

West of England Combined Authority Contact: Malcolm Coe – Director of Investment & Corporate Services

Background Papers

Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: democratic.services@westofengland-ca.gov.uk

Audit Plan End of Year Position Statement – 2018/19 **Appendix 1**

Audit Area	Assurance Level or Risk Rating	Rec's Made	Rec's Agreed
Accounting Ledger – Control A/C Reconciliation	Assurance Level 4 - Good	2 Medium	All
Bank Account Reconciliation	Assurance Level 4 - Good	2 Medium	All
Risk Management	Assurance Level 3 - Satisfactory	1 Medium	All
Adult Education	Assurance Level 4 - Good	1 High 3 Medium	All
Future Bright	Assurance Level 4 - Good	1 High 4 Medium	All
Grant Funding	Assurance Level 4 - Good	3 Medium	All
Counter Fraud Arrangements	Satisfactory	8	All
Annual Governance Statement - Review	Satisfactory	-	-
Grant Certification – Growth Hub	Satisfactory	-	-
Reasonable Assurance Model – Corporate Governance	Assurance & Risk Rating - Amber	-	-
Reasonable Assurance Model – Financial Management	Assurance & Risk Rating - Amber	-	-
Reasonable Assurance Model – Risk Management	Assurance & Risk Rating - Amber	-	-
Reasonable Assurance Model – Performance Management	Assurance & Risk Rating - Amber	-	-
Reasonable Assurance Model – Procurement	Assurance & Risk Rating - Amber	-	-
Reasonable Assurance Model – Information Management	Assurance & Risk Rating - Amber	-	-
Reasonable Assurance Model – Asset Management	Assurance & Risk Rating - Green	-	-
Reasonable Assurance Model – Project Management	Assurance & Risk Rating - Amber	-	-
Follow – Up Area	**Original Assurance Level**	**Rec's Made**	**Rec's Implemented**
Follow – Up – Local Growth Fund	Assurance Level 3 - Satisfactory	3 Medium	All
Follow – Up – Accounts Receivable	Assurance Level 3 – Satisfactory	8 Medium	7 Medium
Follow – Up – Accounts Payable	Assurance Level 4 – Good	7 Medium	5 Medium
Follow – Up – Payroll	Assurance Level 4 – Good	4 Medium	3 Medium
Follow – Up – Treasury Management	Assurance Level 4 - Good	3 Medium	All
Follow – Up – Procurement (IEB)	Assurance Level 2 - Weak	5 High 2 Medium	4 High 2 Medium
Follow – Up – Grant Funding	Assurance Level 4 - Good	3 Medium	All

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 are a number of areas detailed in the Assurance Summary which require 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

This page is intentionally left blank

ITEM: 15

REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 31st JULY 2019

REPORT TITLE: WECA - INTERNAL AUDIT PLAN (2019/20)

AUTHOR: JEFF WRING – AUDIT WEST (INTERNAL AUDIT)

Purpose of Report

1. To present the Internal Audit Plan for 2019/20 for approval.

Issues for Consideration

2. To consider the areas included within the Audit Plan 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.

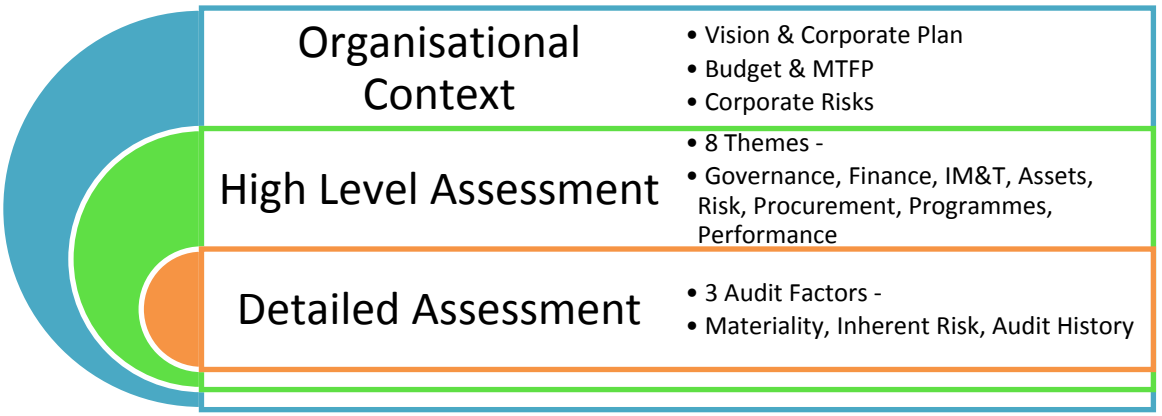
Report Narrative / Main Content

Internal Audit Annual Plan 2019/20 (Appendix 1)

4.1 The Public Sector Internal Audit Standards require Internal Audit to prepare a risk-based plan. This is the third year of WECA's operation and most of the key foundations of good governance are now in place and have been reviewed as part of our planned activities.

4.2 However following changes in Senior Management during the year and decisions of existing service providers some core financial and corporate governance activities will change during 2019/20 as certain functions are insourced or are replaced with a different provider. The Audit Plan attached reflects this along with an assessment of our assurances and risk facing WECA as outlined in detail at the last Audit Committee meeting.

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 90 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 advice on request on WECA'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 WECA'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 & Professional Standards

4.8 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1st 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 1st 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 part of best practice we always present the Charter annually to the Audit Committee (which you approved last year) so that they are aware of how Internal Audit delivers its services and derives its authority and to re-confirm our independence.

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 once every 5 years.

4.12 We were externally assessed in 2018 and 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.

Report Author:

West of England Combined Authority Contact: Malcolm Coe – Director of Corporate Services

Audit West – Jeff Wring

Background Papers

West of England Combined Authority Contact:

Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: democratic.services@westofengland-ca.gov.uk

WEST OF ENGLAND
Combined Authority

Internal Audit Plan 2019/20

Page 111

Audit West

Delivering Independent Assurance to the Public Sector

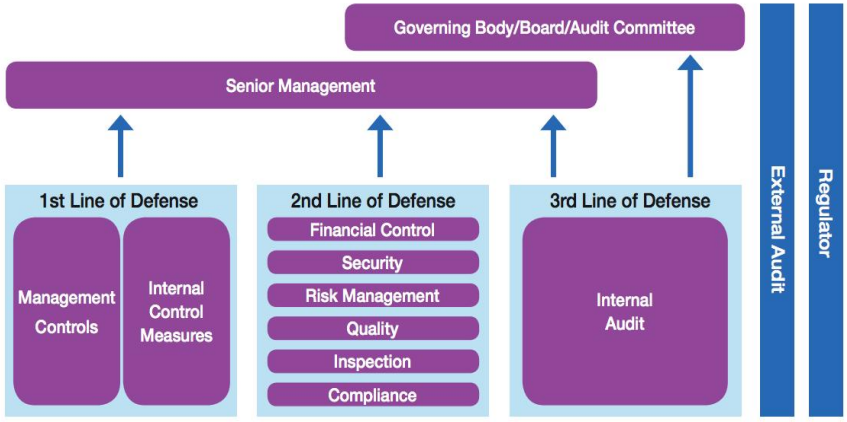
1. Our Role

Introduction

The West of England Combined Authority is striving to be a driving force for clean and inclusive economic growth in the West of England with the aim to ensure that people benefit from more job opportunities, a stronger economy and a higher quality of life. To achieve this the Authority has recognised the importance of excellence in resource management and sound governance as fundamental to achieving these priorities.

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 2019/20.

2. Your Priorities & Plans

OPERATING FRAMEWORK

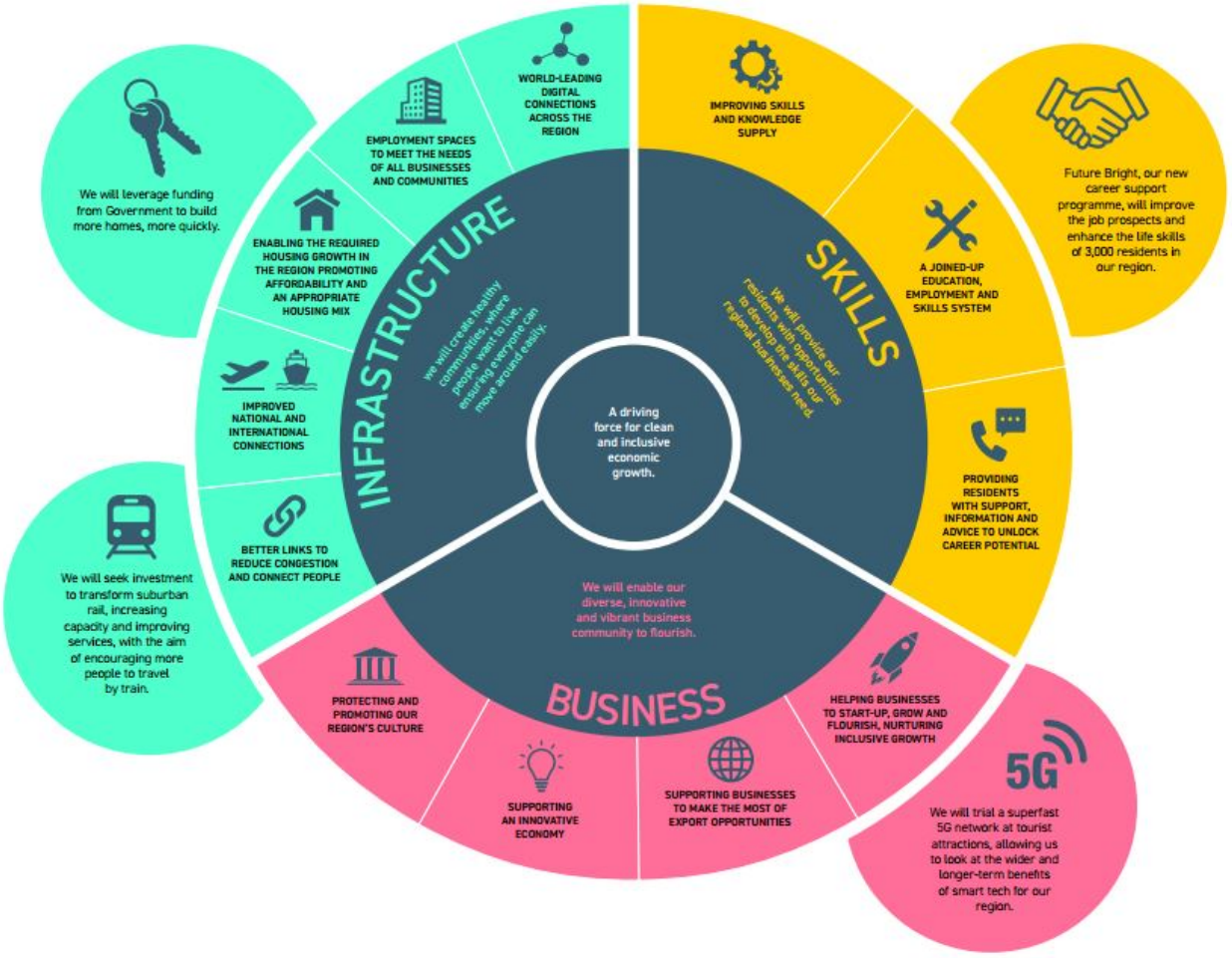
Our operating framework sets out our priorities for clean and inclusive economic growth in the West of England.

OUR AMBITIONS

The West of England is a place of growth and innovation, where economic, cultural and environmental diversity is celebrated and forms the foundation of prosperity for all.

We are investing in people and places – including jobs, skills, transport, homes, and digital connections – to ensure we are creating healthy communities where people want to live, work and visit.

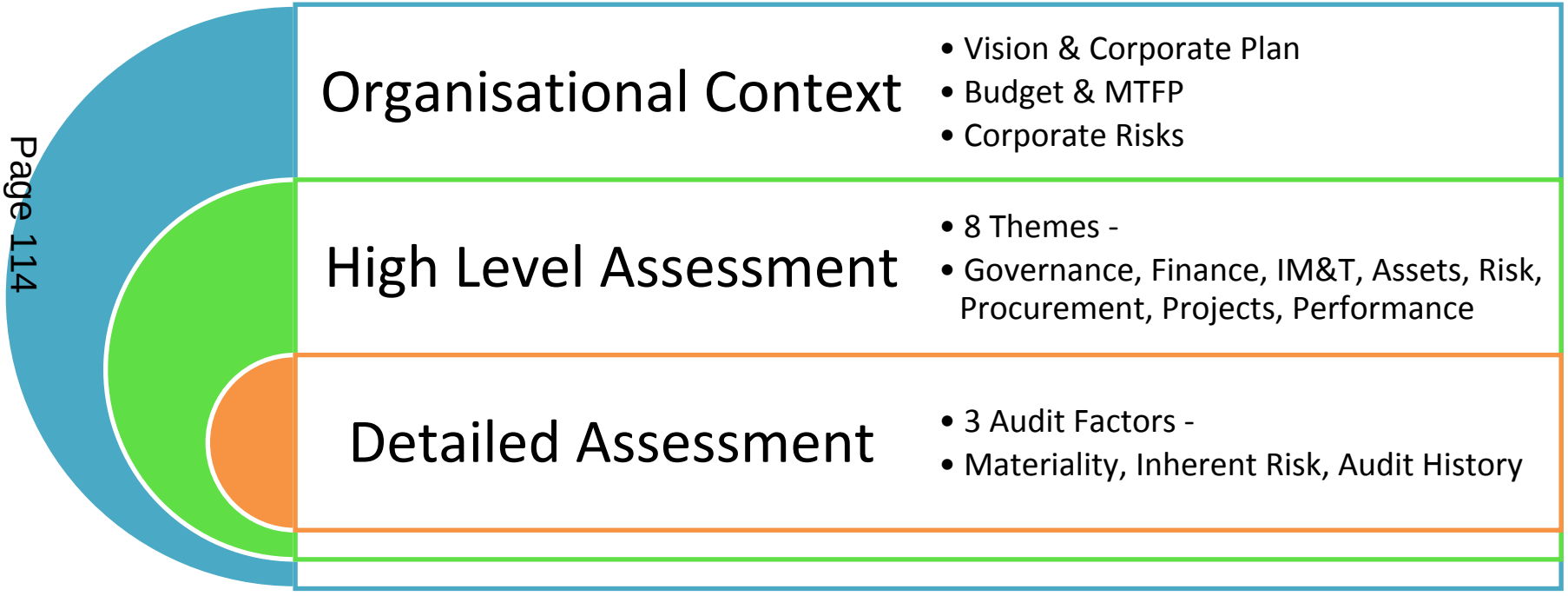
We will achieve our ambitions by investing in three priority areas: infrastructure, skills and business.



3. 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.

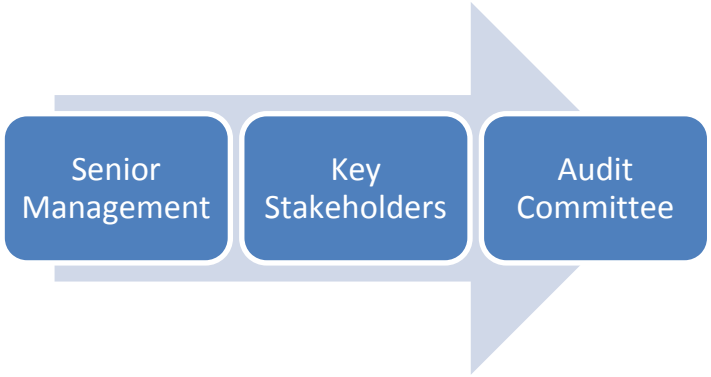
This involves considering current context of the Authority, what a 'healthy organisation' requires to operate effectively and then assessing independently against this in a staged process as follows –



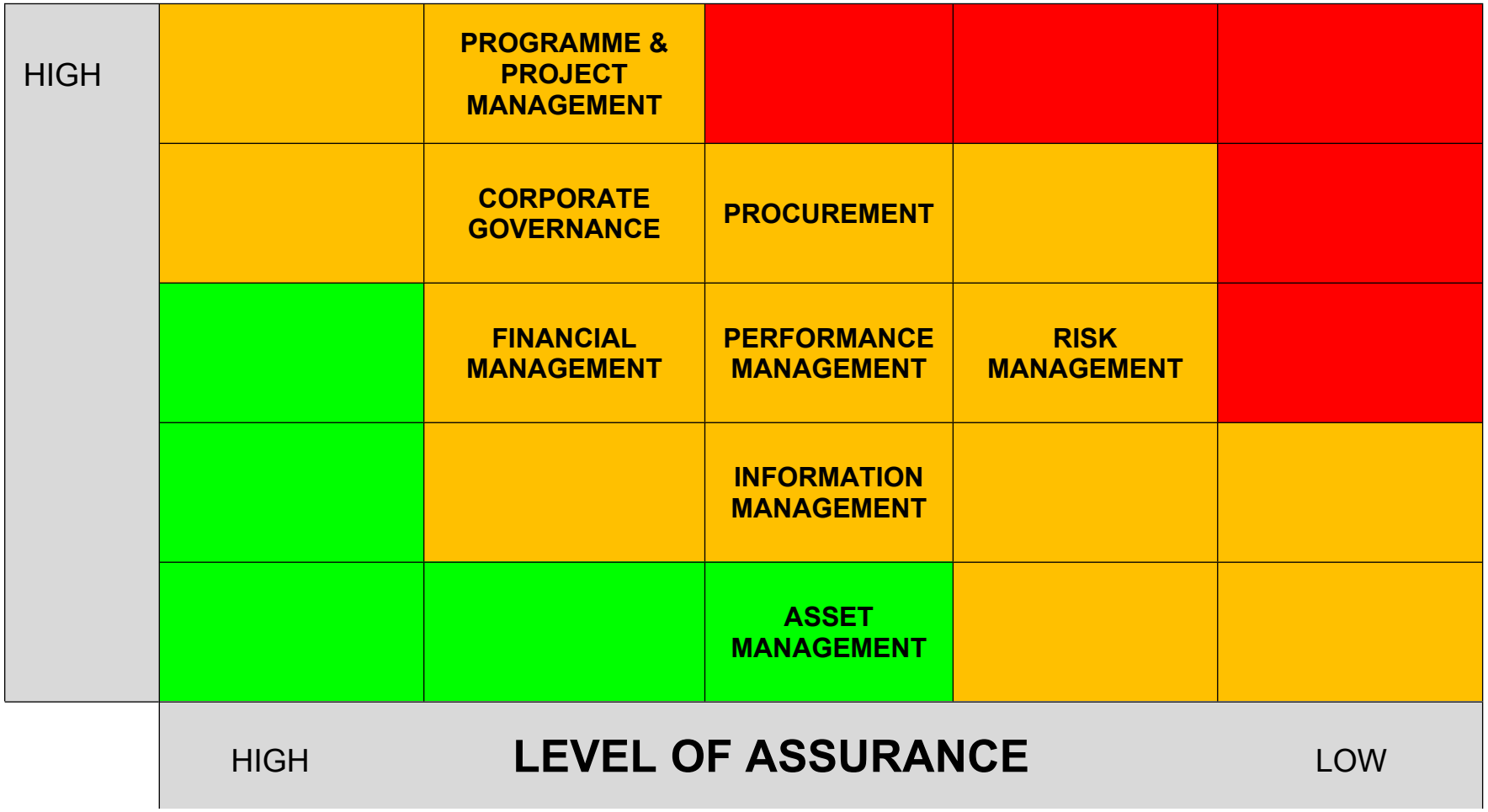
HIGH LEVEL ASSESSMENT AREAS – REASONABLE ASSURANCE

DETAILED CRITERIA – AUDIT PLAN LISTING

CONSULTATION & APPROVAL



Results of our Reasonable Assurance Model Risk Assessment –



4 Areas for Review – 2019/20

Internal Audit Areas	Reasonable Assurance Theme
Infrastructure & Investment (50 Days)	
Treasury Management	Financial Management/Corporate Governance
ICT & Financial Systems Programme	Financial Management/Programme & Project Management/ Corporate Governance
Land Acquisition Fund	Financial Management/ Programme & Project Management/ Corporate Governance
Housing Infrastructure Fund	Financial Management/ Programme & Project Management/ Corporate Governance
Corporate Governance (20 Days)	
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
Follow-Up Reviews (10 Days)	
Accounting Ledger – Control A/C Reconciliation	Financial Management
Bank Account Reconciliation	Financial Management
Risk Management	Risk Management
Counter Fraud Arrangements	Risk Management
Adult Education Budget	Risk & Performance Management
Future Bright	Risk & Performance Management
Grant Funding (i.e. Local Growth Fund)	Financial Management
Grant Certification – LEP/Accountable Body (10 Days)	
West of England – Local Growth Fund - (LEP/Accountable Body)	Financial Management/ Corporate Governance
West of England - Growth Hub Grant Claim – Certification	Financial Management
West of England - Enterprise Network Adviser Grant Claim - Certification	Financial Management
West of England - Apprenticeship Grant Claim – Certification	Risk Management
West of England - Careers Enterprise Grant Claim - Certification	Risk Management

5 Contact Details

Engagement Lead –	Jeff Wring 01225 477323 jeff_wring@bathnes.gov.uk
Audit Manager -	Mark Wheeler 01225 477286 Mark_wheeler@bathnes.gov.uk
Address	One West Bath & North East Somerset Council 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 Service Director – One West (representing 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 Service Director – One West (representing 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 Service Director – One West (representing 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 Service Director – One West (representing 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 Service Director – One West (representing 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 Service Director – One West (representing 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 as necessary 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 Service Director – One West (representing 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: 16

REPORT TO: **AUDIT COMMITTEE**

DATE: **31 JULY 2019**

REPORT TITLE: **COUNTER FRAUD STRATEGY**

DIRECTOR: **MALCOLM COE, DIRECTOR OF INVESTMENT & CORPORATE SERVICES (s73 OFFICER)**

AUTHOR: **MALCOLM COE**

Purpose of Report

1 The West of England Combined Authority, (WECA), is regularly reviewing and enhancing its corporate governance arrangements. In response to a recommendation by Internal Audit, we are proposing that the Audit Committee endorse the adoption of a Counter Fraud Strategy as detailed as Appendix 1 to this report.

Recommendation

- That the committee endorse the attached Counter Fraud Strategy for WECA.

Background / Issues for Consideration

2 The Internal Audit Plan, as agreed by Audit Committee on 26/04/2018, identified Counter Fraud Arrangements as a priority for review in 2018/19. A number of recommendations were subsequently made through this audit, one of which was for WECA to develop, and adopt, a Counter Fraud Strategy.

3 Compared to the operations of a unitary council, the risk of fraud occurring through WECA's activities is relatively low (not being responsible for multiple front-facing public services). However, it is envisaged that WECA will progress over the coming months to be much more involved in the client management and delivery of multi-million pound capital projects. As such, it is important to have a robust and transparent Counter Fraud Strategy in place.

Consultation

4 We have utilised Counter Fraud strategies across the region to adapt the proposed strategy for WECA. Consultation has taken place with Internal Audit, the WECA Monitoring Officer and WECA (S73) Statutory Finance Officer. The draft strategy was

also reviewed and enhanced by the WECA Senior Management Team prior to submission to the Audit Committee.

Risk Management/Assessment

5 Robust Corporate Governance arrangements are essential for the effective management of organisational risks. The Counter Fraud Strategy is the latest addition to the suite of corporate governance documents that WECA has developed, and implemented, over the last two years.

Public Sector Equality Duties

6 The public sector equality duty created under the Equality Act 2010 means that public authorities must have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

6.1 The Act explains that having due regard for advancing equality involves:

- Removing or minimising disadvantages suffered by people due to their protected characteristics.
- Taking steps to meet the needs of people from protected groups where these are different from the needs of other people.
- Encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

6.2 The general equality duty therefore requires organisations to consider how they could positively contribute to the advancement of equality and good relations. It requires equality considerations to be reflected in the design of policies and the delivery of services, including policies, and for these issues to be kept under review.

6.3 The are no direct implications arising from this report.

Finance Implications, including economic impact assessment where appropriate:

7 There are no direct financial implications arising from this report. However, by its very nature, a Counter Fraud Strategy is a core document which is designed to protect the public purse.

Advice given by: Malcolm Coe

Appendices:

Appendix 1 – Draft WECA Counter Fraud Strategy

Background papers:

None

West of England Combined Authority Contact:
Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: democratic.services@westofengland-ca.gov.uk

This page is intentionally left blank

Counter-Fraud, Bribery, and Corruption Strategy

Contents of this document

Statement of support from Strategic Leadership Team

A. Counter-Fraud, Bribery and Corruption Strategy

B. Counter-Fraud, Bribery and Corruption Policy

1. Purpose

2. Underlying Principles

3. Definitions

4. Responsibilities

5. Reporting Fraud

6. Investigation of Fraud

7. Actions Taken when Fraud is Established

8. Data-matching and Data-sharing

9. Review

C. Responsibilities under this Strategy & Policy

Statement on Fraud by the Strategic Leadership Team, West of England Combined Authority

The Strategic Leadership Team are committed to implementing and maintaining the highest standard of corporate and financial governance and ethical behaviour. We recognise the threats of fraud and corruption and the resulting harm to the citizens of the West of England (WoE) and for that reason, fraud, bribery and corruption against the Authority will not be tolerated and all such occurrences will be investigated. Every pound should be invested in delivery of high quality services and programmes for local communities and businesses, and actively identifying fraud and embedding a counter fraud culture is a priority.

We fully support the investigation of allegations of fraud, the continued development of a robust anti-fraud culture and framework within the Authority and a strong stance being taken where fraud is found. The policies and procedures we already have in place in support of our Local Growth assurance framework for the WoE LEP and WECA funding streams give us a firm grounding in building fraud resilience into our systems. We will

DRAFT

ensure we understand the main fraud risks we face and set out how we protect against through active risk management as set out in our risk registers. We will strive to ensure that we have robust processes in place to prevent fraud in the first instance and that we do not forget the risk of fraud when introducing new services or programmes as they are devolved or funded by Central Government in the drive to improve the economic well-being of the region.

Counter-Fraud, Bribery and Corruption Strategy

1. The Government has made it clear that it expects both central and local government departments to take the issue of fraud seriously and do more to tackle the losses to fraud from public sector funding.

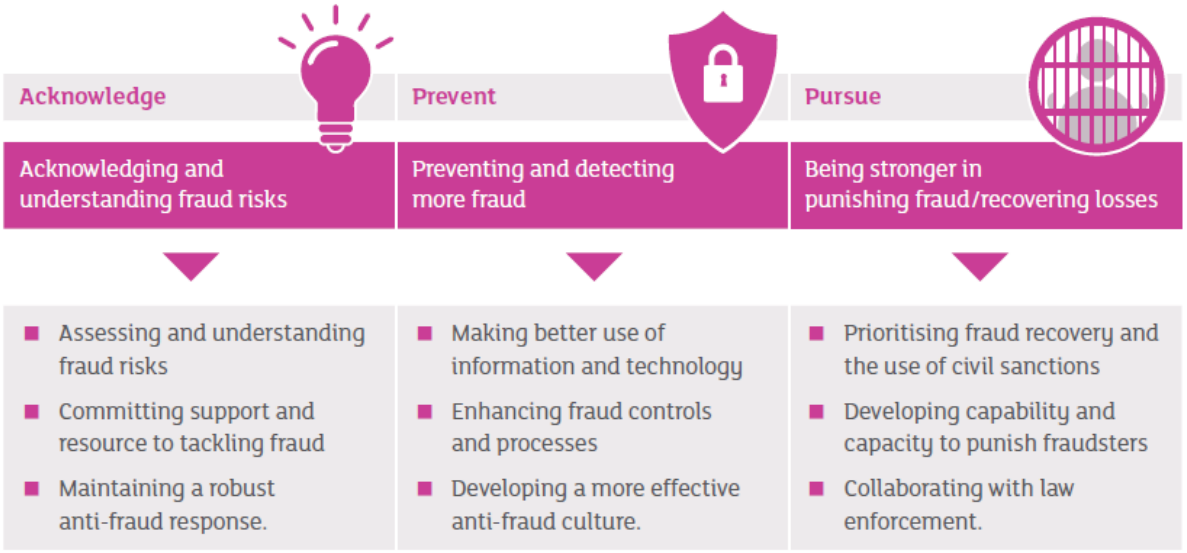
2. The 2016-19 National Fraud Strategy for Local Government - 'Fighting Fraud Locally' set out the principles for central and local government to tackle fraud based around six key themes:

   - Culture - a zero tolerance approach to fraud.
   - Capability – ensuring measures deployed are proportionate to risks.
   - Capacity – deploying right level of resources to deal with risks.
   - Competency – right skills and standards
   - Communication – raising awareness, deterrence, sharing information.
   - Collaboration - working together with colleagues, other authorities and agencies.

3. Additionally, it identifies three key areas in countering fraud and corruption as detailed below.

DRAFT

The Principles - Acknowledge, Prevent and Pursue



Fighting Fraud Locally official NFA Board Slides

Acknowledging and Understanding the Fraud Risks Faced by the Authority:

- Ensuring awareness of, and clear responsibility for fraud risks and how they are managed, including new and emerging risks.
- Determining the Authority's fraud loss profile and ensuring the appropriate levels of resource is invested in counter-fraud work.
- Improving reporting, recording and measurement of fraud and irregularity affecting the Authority.
- Ensuring awareness training is provided to new staff and at various intervals throughout their employment, particularly staff working in areas of high risk.
- Ensuring that counter-fraud staff in key positions of higher risk are adequately trained to undertake their roles effectively.
- Supporting collaborative working and information sharing about fraud and fraudsters between departments, other Local Authorities and other enforcement agencies.

An assessment of the scope of fraud and corruption risks facing the Authority is set out at **Appendix 1**. In a fast-changing landscape of further service devolution, the Authority will scan its forward programme for emerging risks.

Improving Fraud Prevention and Detection Measures:

- Making better use of data held by the Authority, and technology to prevent and detect fraud.
- Developing data and intelligence sharing protocols.
- Ensuring risk registers are reviewed regularly and that there is clear responsibility for the fraud risks.

- Undertaking fraud prevention reviews of key fraud risk areas.
- Setting in place controls that prevent fraudsters from accessing services and employment.
- Targeting proactive fraud work at high risks areas that are likely to generate good returns for the resource invested.
- Developing a stronger anti-fraud culture across the Authority and other delivery agents.
- Making use of publicity opportunities as a deterrent to fraudsters.
- Reviewing the impact of new legislation on fraud and fraud prevention/detection.
- Targeting new and emerging areas of fraud risk and developing sound systems that mitigate the risks.
- Assessing the Authority's arrangements annually against best practice toolkits/assessments and benchmarking.

Pursuing Fraudsters and Recovering Losses

- Using legislation available to prosecute any serious cases of fraud.
- Investigating other possible avenues of restitution other than prosecution, including asset and civil recovery.
- To ensure Managers involved are given regular updates on progress of fraud investigation work (as far as confidentiality permits).

4. An overview of the Authority's arrangements to demonstrate our alignment to these core strands of the national strategy can be seen in the Counter Fraud, Bribery and Corruption Policy. The progress against and effectiveness of this strategy will be reviewed annually and performance assessed by the Audit Committee.

B. Anti-Fraud, Bribery and Corruption Policy

1. Purpose

1.1. The purpose of this Policy is to set out clearly to the public and also to Members, employees, contractors, and organisations who work with the Authority:

- The Authority's commitment to tackling fraud, bribery, and corruption.
- The responsibilities of Members and employees to report any suspicions they have.

1.2. Other relevant policies include:

- Anti-Money Laundering Policy and Guidance
- Whistleblowing Policy
- Members' Code of Conduct
- Employees Code of Conduct

- Financial Regulations
- Procurement Regulations

2. Key Principles

2.1 The Authority will not tolerate fraud, bribery or corruption and if proved employees will face possible dismissal and/or prosecution.

2.2 The Authority expects that Members and officers at all levels will lead by example to ensure high standards of propriety, integrity and accountability.

2.3 The Authority will endeavour to raise fraud awareness among employees both at induction and periodically throughout the period of employment.

2.4 The Authority expects Members and Senior Officers to emphasise the importance of anti-fraud work and to actively promote the fight against fraud.

2.5 The Authority expects that all employees and Members will support the fight against fraud and that individuals and organisations with whom it comes into contact will act with integrity towards the Authority.

2.6 The Authority understands the fraud risks it faces and will implement policies and procedures to identify and prevent fraud, bribery and corruption, but will also take all action necessary to identify it.

2.7 The Authority will take appropriate action against those responsible for fraud and where possible recover losses incurred.

2.8 Members of the public are asked to contribute to the Authority's fight against fraud by remaining vigilant to the potential for fraud and reporting it where they suspect the Authority is being targeted. Employees and Members have a duty to do so, and concerns should be raised when it is reasonably believed that one or more of the following has occurred, is occurring or is likely to occur:

- A criminal offence.
- A failure to comply with a statutory or legal obligation.
- Improper or unauthorised use of public or other official funds.

2.9. Investigators must be fair, independent and objective. They must not let any political views or personal views about ethnic or national origin, sex, religious beliefs, or the sexual orientation of the suspect, victim or witness influence their decisions. They must not be affected by improper or undue pressure from any source.

3. Definitions - What is Fraud, Bribery and Corruption?

3.1 The Fraud Act 2006 (which became effective on 15 January 2007) created a general criminal offence of fraud and identified three main ways it can be committed:

- Fraud by false or misleading representation.

DRAFT

- Fraud by failing to disclose to another person information which he is under a legal duty to disclose.
- Fraud by abuse of a position of trust.

3.2 The Act also created four related criminal offences of:

- Possession of articles for use in frauds.
- Making or supplying articles for use in frauds.
- Participating in fraudulent business.
- Obtaining services dishonestly.

3.3 The Theft Act 1968 and the Forgery and Counterfeiting Act 1981 define offences of:

- Theft
- False Accounting
- Forgery

3.4 The Bribery Act 2010 contains two general offences:

- Section 1 - the offering, promising or giving of a bribe (active bribery);
- Section 2 - and the requesting, agreeing to receive or accepting of a bribe (passive bribery) it also sets out two further offences which specifically address commercial bribery:
- Section 6 - creates an offence relating to bribery of a foreign public official in order to obtain or retain business or an advantage in the conduct of business;
- Section 7 - creates a new form of corporate liability for failing to prevent bribery on behalf of a commercial organization.

4. Responsibilities

4.1 The Accounts and Audit Regulations (England) 2011 require the Authority to have appropriate control measures in place to enable the prevention and detection of inaccuracies and fraud. The Authority is committed to an effective counter-fraud approach designed to reduce losses to fraud by:

- Acknowledging and understanding fraud risks faced.
- Preventing fraud happening and detecting it when it does occur.
- Pursuing and punishing fraudsters and recovering losses.

4.2 Detailed roles and responsibilities in relation to fraud are set out in Section C.

5. Reporting Fraud

5.1 The ultimate aim is to prevent fraud at the outset; however, despite our best attempts determined fraudsters may succeed.

5.2 If fraud, bribery or corruption is suspected, it should be reported without delay to a line manager or other senior officer, or to Internal Audit.

DRAFT

5.3 Information can be reported by raising the issue with your Manager or via the confidential Whistleblowing procedure. This can be done anonymously if required.

5.4 The investigation process will follow the procedure set out in Internal Audit's Investigation Protocol. The Authority will respond effectively to reports of corruption.

5.5 Useful contact numbers for reporting fraud are as follows;

- Chief Internal Auditor 01225 xxxxxx
- Monitoring Officer (Director of Legal Services) 0117 xxxxxx
- Chief Finance Officer (Director of Investment & Corporate Services) 0117 xxxxxx
- Outside bodies e.g. Public Concern at Work will give free and independent advice on how to proceed 020 31172520

5.6 The Investigation Protocol is designed to ensure that Internal Audit:

- Applies a consistent approach.
- Assigns appropriately experienced staff to investigate fraud depending on the type and nature of the fraud.
- Maintains records of all fraud experienced to inform an assessment of the Authority's fraud risks.

5.7 The confidential nature of fraud investigations mean that updates cannot usually be provided to those who have reported allegations. All allegations will be taken seriously and where there is evidence to support an allegation, will be fully investigated. Police will be involved where appropriate.

5.8 Updates on progress will be provided to Managers where investigations have been commissioned internally. Updates cannot be provided to the public for reasons of confidentiality.

6. Investigation of Fraud

6.1 The investigation of fraud, bribery and corruption is a complex and specialist area and will usually be undertaken by staff in Internal Audit or, for less complicated cases, managers, under advice from Internal Audit.

6.2 To facilitate audit work and investigations, Internal Audit staff are accorded rights, by the Accounts and Audit Regulations (England) 2011, to access all necessary documents, records, information and explanations from any member of staff. These access rights are confirmed in Financial Regulations.

6.3 The investigation process is set out in the Investigations Protocol.

7. Actions Taken When Fraud is Established

7.1 Disciplinary, civil and criminal sanctions will be used, as appropriate to each case, in punishing fraud and recovering losses.

DRAFT

7.2 Fraud, bribery, corruption and theft by Members or staff will be regarded as gross misconduct. Disciplinary action will be taken against staff. Allegations of Members' misconduct will be referred to the Monitoring Officer for investigation and, should the allegation warrant, further action, including referral to the Police.

7.3 One option available to the Authority is criminal prosecution. The decision to refer cases for prosecution may involve Audit Management, Legal Services and Directorate Management.

7.4 The ultimate decision on prosecution will be taken by the prosecuting body, which in some cases will be the Authority or the Crown Prosecution Service. A Financial Investigator and/or the Police will be utilised in cases where their additional powers are required to secure evidence or recovery of funds, or where the matter cannot be fully pursued in-house.

7.5 In determining whether to prosecute each case will be considered on its own facts and merits.

7.6 Where necessary, the Authority will work in co-operation with other organisations such as the Police, Department for Work and Pensions, Home Office, Her Majesty's Revenue and Customs and other Local Authorities.

7.7 When considering a case for prosecution it is generally accepted that there are two "tests" to be applied – the evidential test and the public interest test. These are set out in The Code for Crown Prosecutors.

- Evidential Stage Test - Prosecutors must be satisfied that there is sufficient evidence to provide a realistic prospect of conviction against each suspect on each charge. A case will not go forward for prosecution if it fails this test.
- Public Interest Test - A prosecution will usually take place unless the prosecutor is sure that there are public interest factors tending against prosecution which outweigh those tending in favour, or is satisfied that the public interest may be properly served by offering the offender the opportunity to have the matter dealt with by an out-of-court disposal.

7.8 All avenues for recovering losses will be considered, including confiscation under the proceeds of crime act, civil claims, recovery from accrued pensions and appropriate insurance claims.

7.9 Publicity will be used as a deterrent and wider circulation of investigative reports and lessons learned will be an on-going consideration. Public statements and press releases must be made through the Authority's Communications Team.

7.10 WECA's Fraud Response Plan is shown at **Appendix 2**.

8. Data-matching and Data-sharing

8.1 The Authority will use information provided by Members, employees, service users and suppliers in the prevention and detection of fraud. Data matching and analysis exercises are undertaken, both internally, locally and nationally to facilitate investigation of fraud.

DRAFT

8.2 All data extraction and use adheres to Data Protection legislation, and has regard to the confidentiality of information.

9. Review

9.1 These arrangements will be reviewed annually to ensure the Authority remains resilient to the changing and growing fraud threat.

C. Responsibilities under this Strategy & Policy

Group/ Individual Responsibilities;

1. Mayor & Members

- A duty to the citizens of the WoE to protect the Authority and public money from any acts of fraud and corruption.
- Compliance with the Code of Conduct for Members, the Authority's Constitution, including Financial Regulations and Procurement Regulations, in particular, the requirements regarding interests, gifts, and hospitality.
- Avoid situations where there is a potential for a conflict of interest.
- Report fraud, bribery or corruption where it is reasonably suspected that the Authority is being targeted.

2. Audit Committee

- Provide assurance on the counter-fraud arrangements to the Authority and sign off the Annual Governance Statement regarding fraud issues specifically.
- Approval of the Counter-Fraud, Bribery and Corruption Strategy and Policy.
- Monitor performance against the fraud strategy.

3. Chief Executive & Directors

- Support the maintenance of a strong culture where fraud, bribery and corruption is unacceptable.
- Notify the Chief Internal Auditor immediately of any fraud or irregularity.

4. Director of Investment & Corporate Services (S151 Officer)

- Ensure that effective procedures are in place for the prompt investigation of any fraud or irregularity.
- Ensure awareness of fraud risks is maintained through training, publicity, risk registers and fraud prevention work.
- Meet the annual publication requirements of details of the Authority's counter fraud work under the Transparency Code.
- Ensure that arrangements are in place to actively pursue fraud.

5. Managers

- Ensure that they, and their staff, understand the fraud risks faced in delivering services by maintenance of a fraud risk assessment.
- Implement and maintain an effective control environment to prevent fraud, commensurate with the level of risk identified.

DRAFT

- Communicate the requirements of this and related policies (see paragraph 1.2) in their work area
- Create an environment in which staff feel able to report concerns of suspected fraud.
- Advise Internal Audit of any suspected cases of fraud and carry out or assist in the investigation of it as required. Advise Internal Audit of the outcome of any cases investigated.
- Ensure fraud prevention controls are built in to new service delivery methods, systems and processes.

7. All Employees irrespective of status

- Be aware of the possibility that fraud, bribery, corruption and theft may exist in the workplace and report it where they reasonably suspect the Authority is being targeted.
- Avoid situations where there is a potential for a conflict of interest
- Comply with the Authority's policies and codes as detailed in paragraph 1.2.

8. Internal Audit

- Maintain an overall fraud risk assessment on behalf of the Authority and review the effectiveness of the Authority's response to the risks faced.
- Deliver an opinion to the S151 Officer and the Audit Committee on the Authority's fraud risk management, control and governance arrangements.
- Undertake an annual programme of pro-active fraud work designed to prevent and detect fraud, as agreed in the Annual Audit Plan.
- Ensure cases of suspected irregularity, fraud or corruption are effectively investigated and punished by appropriate sanctions in liaison with the Police, Legal Services and Human Resources.
- Instigate recovery action wherever possible to recoup the losses on behalf of the Authority.
- Advise management on procedural improvements required to prevent occurrence or recurrence of fraud.
- Develop and encourage the exchange of information on national and local fraud and corruption activity in relation to local authorities with external agencies.

9. Human Resources

- Provide timely advice and guidance on Authority Policies and procedures during investigations and any disciplinary action
- Ensure recruitment procedures to be applied by Managers are effective in the verification and validation of information submitted by applicants prior to appointment, e.g. eligibility to work, verification of qualifications and employment history, Disclosure & Barring Service checks where appropriate.

10. Director of Legal Services

- Advise Members of new legislative or procedural requirements regarding conduct and ethical matters.

DRAFT

- Maintain a register of Members and Officers interests, gifts and hospitality declared.
- Maintain and operate a Whistleblowing Policy and Procedure, including monitoring for take-up.
- Take criminal and civil actions to ensure appropriate sanctions are applied.
- Provide advice on potential criminal cases.

DRAFT

Appendix 1

Known Fraud Risks remaining significant

Fraud Risk	Prevention Measures
Procurement • Tendering issues, split contracts (value disaggregated to circumvent thresholds), double-invoicing, price-fixing, bid rigging, cartels. Spanning whole period from agreeing a project to contract monitoring, extensions and re-letting. Inflated claims by consultants.	• Create a procurement fraud map, defining stages that fraud can happen and highlighting low, medium and high potential risks. Suppliers' Code of Practice. Monitoring patterns of spending with suppliers. Authorised staff to sign contracts.
Payroll • False employees, fraudulent overtime, allowance and expenses claims.	• Strict controls on setting up of new staff, use of Authorised Signatories list, monthly payroll pre-checked & authorised prior to payment run.
Grants • Work not carried out, funds diverted, ineligibility not declared. False application or payment of grants to any person, agency or organisation.	• Regular monitoring of progress and outputs. Audit reports to confirm funds expended in line with Grant Offer Letters.
Internal fraud • Any employee might perpetrate fraud against his or her employer and delegation of responsibilities to officers brings inherent risks. Diverting monies to a personal account, accepting bribes, working elsewhere while claiming to be off sick, wrongfully claiming benefit while working, failing to declare conflicts of interest or acceptance of gifts and hospitality. Staff pre-employment fraud, where false information given to gain employment. Stealing property and selling it on for personal gain.	• Proper and adequate vetting, strong management-led anti-fraud culture. Managers should be made aware of their role in preventing and identifying employee fraud, ensuring clear controls and separation of duties. Employee Code of Conduct signposted as part of induction process.
Debt fraud • Fraudulently avoiding a payment of debt to the Authority.	• Official Write Off policy and procedure.

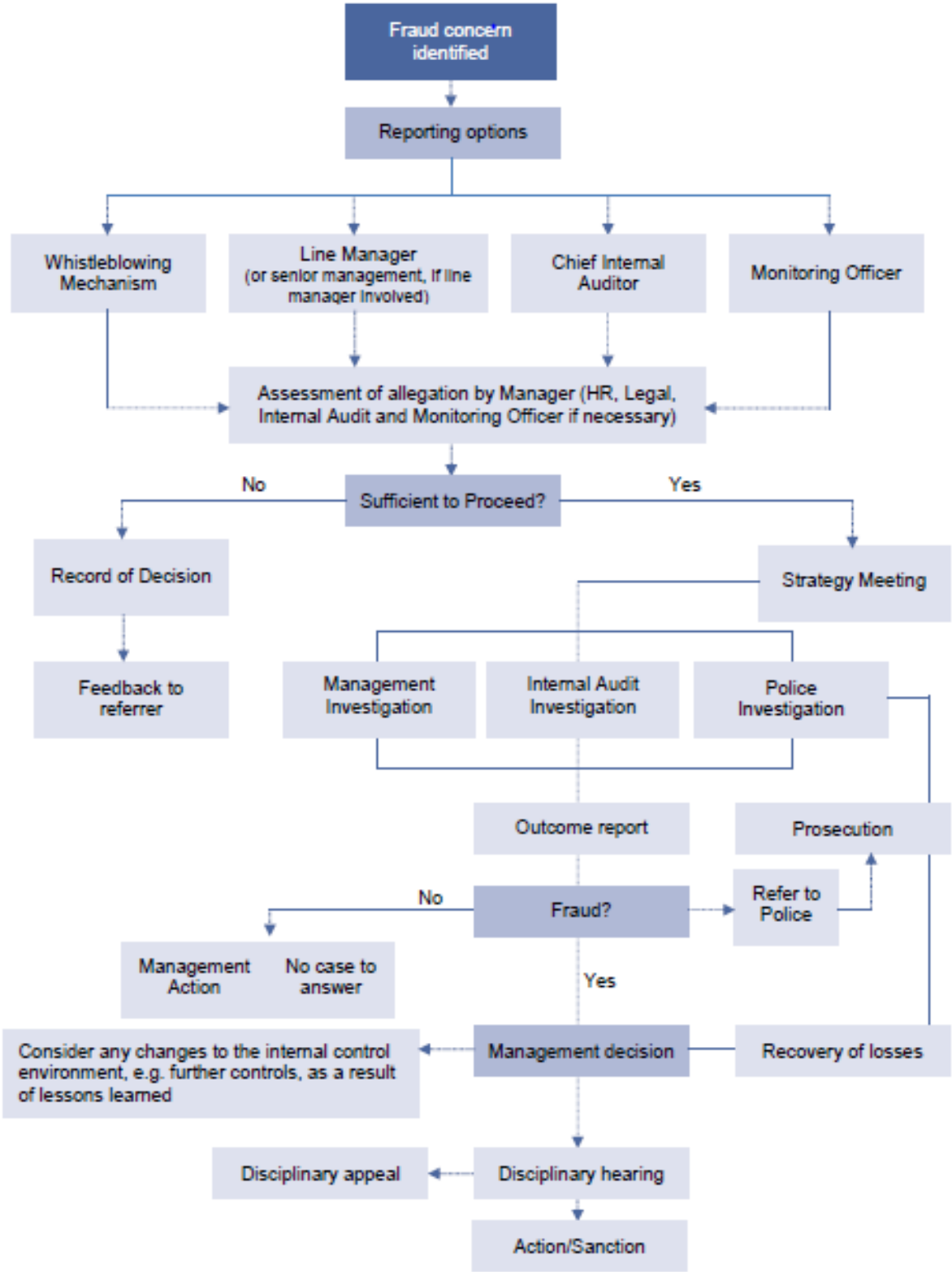
DRAFT

Mandate fraud • Change to a direct debit or bank transfer mandate by fraudster purporting to be an organisation you make regular payments to, for example, a subscription or membership organisation or business supplier.	• Centralised supplier maintenance team responsible for creating, validating and reviewing new supplier set-up. Strict controls over authority to set up new suppliers and approve same-day payments. Purchasing permission levels to raise purchase orders.
Manipulation of data fraud • Most commonly, employees changing data in order to indicate better performance than actually occurred and staff removing data from the organisation.	• Employee's Code of Conduct & Data Protection/Security Policies and training.
Concessionary travel scheme • Use of concession by ineligible person, bus operator claims.	• Prevention measures undertaken using data analytics where possible.

Emerging / Increasing Fraud Risks

Cyber dependent crime • Enables a range fraud types resulting in diversion of funds, creation of false applications for payments.
Money laundering • Exposure to suspect transactions.
Insurance fraud • False claims made against the Authority or its insurers.
Commissioning of services • Including joint commissioning, third sector partnerships – conflicts of interest, collusion
Adult Education Budget • Significant new expenditure on grants/commissioned services

DRAFT

Appendix 2

WECA's Fraud Response Plan