

A meeting of the
WECA Audit Committee

will be held on

Date: Friday, 17 July 2020

Time: 10.00 am

Place: Zoom virtual meeting, to be broadcast on the WECA YouTube

Please note that the 17 July 2020 WECA Audit Committee will be broadcast via this link:
<https://youtu.be/WYOcPWIEpns>

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

Cllr Geoff Gollop, Bristol City Council
Cllr Tom Davies, Bath and North East Somerset Council
Cllr Andy Wait, Bath and North East Somerset Council
Mark Hatcliffe, Independent Member of WECA Audit Committee
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 Gary Hopkins, Bristol City Council
Cllr John Ashe, South Gloucestershire Council
Cllr John O'Neill, South Gloucestershire Council
Cllr Brenda Langley, South Gloucestershire Council

Enquiries to:

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Members of the public may –

- 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 clear working days before the date of the meeting.
- Inspect agendas, reports and minutes of WECA Committees and Sub-Committees for up to six years following a meeting.
- Inspect background papers used to prepare public reports for a period of up to four years from the date of the meeting.
- 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, democratic.services@westofengland-ca.gov.uk

1. APOLOGIES FOR ABSENCE

To receive apologies for absence from Members.

Apologies have been received in advance of the meeting from Cllr Tom Davies. The Committee is therefore invited to elect a Vice-Chair for this meeting only.

2. DECLARATIONS OF INTEREST UNDER THE LOCALISM ACT 2011

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

3. MINUTES

7 - 12

To consider and approve the minutes from 27 February 2020 of the West of England Combined Authority Audit Committee.

4. ITEMS FROM THE PUBLIC

Note: WECA virtual public committee meetings are currently being arranged as 'Zoom' video conferencing meetings, broadcast on the WECA YouTube channel.

Please note: the 17 July 2020 WECA Audit Committee will be broadcast at this link:

<https://youtu.be/WYOcPWIEpns>

WRITTEN PUBLIC QUESTIONS

1. Any member of the public can submit a maximum of two written questions to this WECA virtual public committee meeting.

2. The deadline for the submission of questions is 5.00 pm, at least 3 clear working days ahead of a meeting. For the 17 July 2020 meeting of the WECA Audit Committee the deadline for questions is 5.00 pm on Monday 13 July 2020.

3. Questions should be addressed to the Chair of the committee and e-mailed to democratic.services@westofengland-ca.gov.uk

4. Under the direction of the Chair, wherever possible, written replies to questions will be sent to questioners by the end of the working day prior to the meeting.

5. Please note - under WECA committee procedures, there is no opportunity for oral supplementary questions to be asked at committee meetings.

6. Questions and replies will be circulated to committee members in advance of the meeting and published on the WECA website.

PUBLIC STATEMENTS

1. Any member of the public may submit a statement (or petition) at a WECA virtual public committee meeting.

2. Please note that one statement per individual is permitted.

3. Statements must be submitted in writing and received by the deadline of 12 noon on

the working day before the meeting. For the 17 July meeting of the WECA Audit Committee, the deadline for statements is 12 noon on Thursday 16 July 2020.

Statements should be emailed to
democratic.services@westofengland-ca.gov.uk

4. Statements will be listed for the meeting in the order of receipt. All statements will be sent to committee members in advance of the meeting and published on the WECA website.

5. Please note – if any member of the public wishes to ‘attend’ the virtual meeting to orally present their statement, they are asked please to notify the WECA Democratic Services team of this by 12 noon on the working day before the meeting at latest.

6. In presenting a statement at the meeting, members of the public are generally permitted to speak for up to 3 minutes each if they so wish. The total time available for the public session at this meeting is 30 minutes. Within the time available, every effort will be made to enable individuals to verbally present their statements; at the discretion of the Chair, speaking time may sometimes be reduced depending on how many public items are received.

5. PETITIONS

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

6. INFORMING THE AUDIT RISK ASSESSMENT FOR WECA 2019/20 13 - 48

The purpose of this report is to contribute towards the effective two-way communication between the Combined Authority’s external auditors and Audit Committee (as those charged with governance). The report covers some important areas of the auditor risk assessment where Grant Thornton, WECA’s appointed auditors, are required to make inquiries of the Audit Committee under auditing standards.

7. (STATEMENT OF ACCOUNTS) DRAFT NARRATIVE REPORT 2019/20 49 - 72

It is the responsibility of the audit committee to formally approve the authority’s annual Statement of Accounts. This report contains the draft narrative report which is the important opening section of the accounts explaining the activities and performance throughout the 2019/20 financial year.

8. ANNUAL GOVERNANCE STATEMENT 2019/20 73 - 86

It is the responsibility of the audit committee to formally approve the authority’s annual Statement of Accounts. This report contains the Annual Governance Statement which is an integral section of the accounts detailing the framework, and effectiveness, of the authority’s governance arrangements.

9. INTERNAL AUDIT ANNUAL REPORT 2019/20 87 - 96

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

10. INTERNAL AUDIT PLAN 2020/21 97 - 108

To present the Internal Audit Plan for 2020/21 for approval.

11. FEE SCALE FOR THE AUDIT 2020/21 AND UPDATE ON 2019/20 109 - 116

Public Sector Audit Appointments, (PSAA), commissions auditors to provide audits that are compliant with the National Audit Office’s Code of Audit Practice (‘the Code’). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the

Regulations) to set the scale fees by the start of the financial year, and they published the 2020/21 scale fees on their website on 31 March 2020. The PSAA letter attached to this report provides key updates and information on audit matters in response to Covid.

12. IN-DEPTH INSIGHT INTO THE IMPACT OF COVID-19 ON FINANCIAL REPORTING IN THE LOCAL GOVERNMENT SECTOR 117 - 142

Grant Thornton's report on the impact of Covid-19 on financial reporting in the local government sector.

Attached for information only

Next meeting: Friday, 18 September 2020

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Agenda Item 3

West of England Combined Authority WECA Audit Committee

Thursday, 27 February 2020, 10.30 am
Board Room, 3 Rivergate BS1 6EW

Present:

Cllr Geoff Gollop, Bristol City Council (Chair)
Cllr Tom Davies, Bath and North East Somerset
Council
Cllr Andy Wait, Bath and North East Somerset
Council
Cllr Mark Bradshaw, Bristol City Council

Cllr Cleo Lake, Bristol City Council
Cllr Brenda Massey, Bristol City Council
Cllr John O'Neill, South Gloucestershire Council
Cllr Brenda Langley, South Gloucestershire
Council

Officers In Attendance:

Malcolm Coe, Director of Investment and
Corporate Services
Steve Finnegan, Financial Accountant
Selonge Russell, Head of Finance

Lynda Bird, Head of Performance, Planning and
Projects (for Items 13 & 14)

Also Present:

Jeff Wring, Audit West (Internal Audit)
Barrie Morris, Grant Thornton (External Audit)
Michelle Burge, Grant Thornton (External Audit)

Apologies:

Cllr Tim Kent, Bristol City Council
Cllr Donald Alexander, Bristol City Council

Cllr John Ashe, South Gloucestershire Council

Minutes

1	EVACUATION PROCEDURE The Evacuation Procedure was set out.
2	APOLOGIES FOR ABSENCE Apologies for absence were received from Councillor Tim Kent, Councillor Donald Alexander and Councillor John Ashe.
3	DECLARATIONS OF INTEREST UNDER THE LOCALISM ACT 2011 There were no declarations of interest declared under the Localism Act 2011.
4	MINUTES The Minutes of the meeting held on 16 October 2020 were agreed as a correct record and signed by the Chair. The Chair reported that he, the Vice-Chair and the Director of Investment and Corporate Services had held interviews prior to the meeting for an Independent Member for the WECA Audit Committee and would be making an offer to the successful candidate shortly.
5	ITEMS FROM THE PUBLIC

	<p>Two questions had been received by the deadline as follows:</p> <ol style="list-style-type: none"> 1. Cllr Clive Stevens, Risk Management Update (Item 13) 2. Cllr Clive Stevens, Risk Management Update (Item 13) <p>and the responses had been provided and circulated. The full text of the questions and replies were published on the Authority's website following the meeting.</p>
6	<p>PETITIONS</p> <p>No petitions had been received.</p>
7	<p>CHANGES MADE TO THE 2018/19 STATEMENT OF ACCOUNTS</p> <p>The Committee received a report informing it of a few minor narrative changes that had been made to the published Statement of Accounts for the 2018/19 financial year.</p> <p>The report stated that the 2018/19 draft Statement of Accounts were published on the Authority's website by the statutory deadline of 31 May 2019. Final approval of the accounts was given by the Committee at its meeting on 16 October 2019.</p> <p>Subsequent to the meeting a number of minor changes were made to the narrative text, and were approved in consultation with the Chair. These changes were set out in Appendix 1.</p> <p>Agreed: That a small number of narrative changes to the 2018/19 Statement of Accounts, as detailed in Appendix 1, be noted.</p>
8	<p>GRANT THORNTON ANNUAL AUDIT LETTER FOR YEAR ENDING 31 MARCH 2019</p> <p>The Committee received a report detailing the Annual Audit Letter which summarised the key findings arising from the external audit work that Grant Thornton had carried out at the West of England Combined Authority for the year ended 31 March 2019. The Annual Audit Letter was appended at Appendix 1.</p> <p>The following points were raised:</p> <ul style="list-style-type: none"> • GT had issued its opinion on the 2018/19 Statement of Accounts on 25 October 2019. There were a number of minor changes to the accounts, which were contextual in nature, after the accounts had been approved by the Audit Committee. It was noted that several authorities had not reached this stage at the present time; • GT were satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019; • It was reported that the Authority had now its own Finance team in place and would be using a new financial system from April 2020. The Committee asked that an update on the new system, highlighting any potential teething problems going forward, be brought to the next meeting. <p>Agreed: That the (Grant Thornton) Annual Audit Letter for year ended 31 March 2019 be noted.</p>
9	<p>EXTERNAL AUDIT PLAN FOR YEAR ENDING 31 MARCH 2020</p> <p>The Committee received a report on the External Audit Plan which detailed the key industry</p>

	<p>and local risks that fed into the planned external audit work that would be undertaken by Grant Thornton for the year ended 31 March 2020.</p> <p>The following points were raised:</p> <ul style="list-style-type: none"> • The Financial Reporting Council had now set a 100% target for all audits to reach a “2a” standard whereas before a “2b” had been considered acceptable. Therefore more audit work would be required and the previous scale of fees would no longer be adequate. One of the major changes would be around Value for Money requirements, which could lead potentially to a further 15% increase (around £4,000); • Members asked that CIPFA be lobbied around the stricter requirements around pension fund balances as the additional work now required did not match the potential benefit; • In terms of the statutory audit plan for year ending 31 March 2020, the Auditors had determined planning materiality to be £1.50m for the Authority, which equated to 1.5% of its forecast gross expenditure for the year.; • A new standard would come in on 1 April 2020 around peppercorn rents, although leases were not a big issue for Combined Authorities; • The new payroll system introduced by the Authority in November 2019 would be monitored; • It was noted that it would not be achievable to complete the Audit of the accounts by 31 July 2020, instead it would be during September 2020, and this would impact the planned Committee date; • It was noted that the Combined Authority did not have any building assets and leased the building at 3 Rivergate; <p>Agreed:</p> <p>That the (Grant Thornton) External Audit Plan for year ended 31 March 2020 be agreed.</p>
10	<p>EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE</p> <p>This Committee received a report providing an update on the delivered, and planned, work from WECA’s external auditors, Grant Thornton. A sector update was also provided which summarised emerging national issues and developments which may have an impact on WECA, the wider local government sector and/or the public sector as a whole.</p> <p>The following points were raised:</p> <ul style="list-style-type: none"> • Particular attention was focussed on the progress to date around the financial statements audit and the value for money work which began in January 2020. More detailed work would be carried out from March 2020; • All the deliverables for 2018/19 were now marked as complete; • Grant Thornton’s Sustainable Growth Index Report sought to define and measure the components that created successful places. It was noted that Bristol City, Bath & North East Somerset and South Gloucestershire had all scored well on this index; <p>Agreed: That the (Grant Thornton) external audit progress report and sector update be noted.</p>
10A	<p>INTERNAL AUDIT UPDATE</p> <p>The Committee received a report on the Internal Audit work during 2019/20. The Committee was asked to note the areas under review and progress against the plan as at 31 December</p>

	<p>2019.</p> <p>A summary of the main items of audit work and the status of each was set out in a table in the report.</p> <ul style="list-style-type: none"> IT issues had been identified as a potential risk going forward and it was noted that Audit West is represented on the WECA IT Programme Board ; <p>The next report to WECA Audit Committee would be the Annual Report to its next meeting.</p> <p>Agreed: That the report be noted.</p>
11	<p>AUDIT PLAN CONSULTATION - 2020/21</p> <p>The Committee received an update the on the methodology used to create the Internal Audit Plan and was asked to support an increase in the level of coverage and any comments on areas or themes they would like to be considered within the plan for 2020/21.</p> <p>The following points were raised:</p> <ul style="list-style-type: none"> This shifting arena impacts on the risk and control framework and directly into the level of coverage from an Internal Audit perspective. The Audit Committee’s views were sought to support an increase in the level of audit coverage so that it receives the right level of assurances to fulfil its role from 80 days to 100 days per annum; If coverage was maintained at the current level of 80 days for any sustained period then a limited level of assurance could only be provided; For 2020/21 based on a new level of 100 days this would entail a focus on the following areas: LEP – 10 Days Corporate Governance – 15 Days Core (Financial) Systems – 15 Days Core Grant Audit Certification – 10 Days IT Audit – 5 Days Counter Fraud & Corruption – 5 Days Risk Management – 5 Days Follow-Up Audits – 5 Days with 30 Days available for allocation through the plan process; Some of the unallocated days would look at the Adult Education Budget proposals, and Metrowest; <p>Agreed:</p> <p>(1) That an increase in the level of Internal Audit coverage to 100 days from 2020/21 be supported;</p> <p>(2) That the following areas or themes be considered in relation to the Internal Audit Plan for 2020/21:</p> <ul style="list-style-type: none"> An overarching report on the Agresso implementation; A six-monthly report on implementation and year end compliance covering payroll, receivables and payables; A report on AEB including the commissioning process for courses and products; A larger piece on benchmarking performance against other combined authorities
12	<p>TREASURY MANAGEMENT STRATEGY 2020/21 AND UPDATE ON CURRENT PERFORMANCE</p> <p>The Chartered Institute of Public Finance and Accountancy’s, (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. The 2020/21 Strategy was approved by the WECA Committee, (as part of the Capital Strategy), on 31 January 2020 and was now presented to the Committee for consideration and review.</p>

	<p>The following points were raised:</p> <ul style="list-style-type: none"> • The Committee asked in terms of pooled funds what had been invested, for how long and what the likely return was. This information was provided; • Assumptions had been made that the base-rate would remain static until around 2022; • No fees were incurred by lending money to other local authorities but some fees are incurred by the borrowers; • The Authority had been looking at increasing ethical investment opportunities through a possible arrangement with the Responsible Investment Association; • Possible investment opportunities with Creedos or credit unions could be explored although all institutions needed to be secure and match with the investment criteria as prescribed in the WECA Treasury Management Strategy ; • In terms of governance it was noted that day to day responsibility for transactions lay with the Authority’s chief financial officer, the Director of Investment and Corporate Services within a framework approved by the Committee, with Internal Audit checking any controls; • It was asked whether next year’s Treasury Management Strategy could be added to the Committee’s work programme and any work programme be circulated with the committee papers at subsequent meetings. <p>Agreed:</p> <p>That WECA Treasury Management Strategy for 2020/21 and update on the current investment portfolio and performance be noted.</p>
13	<p>RISK MANAGEMENT UPDATE</p> <p>The Committee received its annual update to Audit Committee on WECA’s approach to risk management.</p> <p>The following points were raised:</p> <ul style="list-style-type: none"> • It was noted that the internal audit matrix and the risk management matrix showed different profiles of risk but the reasonable assurance model was distinctly different; • It was noted that the Auditor’s findings were presented as reported at the point of the audit being completed and the findings should not be subsequently altered. <p>Agreed: That the updated risk management framework be endorsed.</p>
14	<p>WECA MONITORING & EVALUATION FRAMEWORK 2020</p> <p>The Committee was presented with an updated WECA Monitoring & Evaluation Framework for Audit Committee approval.</p> <p>The following points were raised:</p> <ul style="list-style-type: none"> • The Government’s feedback on the Framework included some specific recommendations around specific project metrics but was largely positive; • The Climate Emergency Framework would be published along with its own Monitoring and Evaluation framework; • Some frustration was reported that ward councillors had been unaware of projects affecting their areas; • A query was raised regarding the baseline figures for bus passengers and whether

	<p>this figure could be made available.</p> <p>Agreed: That the Monitoring & Evaluation Framework for 2020 be approved.</p>
15	<p>WOE LOCAL GROWTH ASSURANCE FRAMEWORK</p> <p>A report was submitted that informed the committee of the West of England Local Growth Assurance Framework, an overarching document that governs the allocation of WECA and Local Enterprise Partnership (LEP) growth funding.</p> <p>The following points were made:</p> <ul style="list-style-type: none"> • Some of the projects originated prior to the Authority being formed and were a legacy of LEP funding; • Some funding streams are time limited in nature; • The WECA funded projects were listed within WECA Committee reports with all LEP funded projects listed in the Joint Committee reports. Some WECA funded projects are carried out and implemented by the constituent authorities; • The Local Growth Fund was overprogrammed so there was only a small chance of funds not being spent by the required March 2021 deadline. • Business Cases, setting out what will be delivered, are required to access any LEP or WECA funding stream; • • Each funding stream was slightly different and all projects were under constant review; • It was confirmed that for every scheme there were criteria of how it could be assessed which is transparent and reported in the public domain. <p>Agreed: That the Committee note the West of England Local Growth Assurance Framework (as detailed in Appendix 1).</p>
	<p>Next meeting: Date to be arranged.</p>

The meeting closed at 12:33pm.



ITEM: 6

REPORT TO: AUDIT COMMITTEE

DATE: 17 JULY 2020

REPORT TITLE: INFORMING THE AUDIT RISK ASSESSMENT FOR WECA 2019/20

DIRECTOR: MALCOLM COE, DIRECTOR OF INVESTMENT AND CORPORATE SERVICES

AUTHOR: MALCOLM COE

Purpose of Report

1 The purpose of this report is to contribute towards the effective two-way communication between the Combined Authority's external auditors and Audit Committee (as those charged with governance). The report covers some important areas of the auditor risk assessment where Grant Thornton, WECA's appointed auditors, are required to make inquiries of the Audit Committee under auditing standards.

Recommendation

The committee is requested to confirm that the WECA management response to the auditor risk assessment is a true reflection of the authority's management processes.

Background / Issues for Consideration

- 2 The West of England Combined Authority, (WECA), like all other public sector bodies, has to produce statutory accounts on an annual basis. These accounts have to be formally approved by those charged with governance, being the audit committee.
- 2.1 To help inform the external audit opinion of the accounts, our auditor, Grant Thornton, undertake an initial risk assessment, to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:
- General Enquiries of Management
 - Fraud,
 - Laws and Regulations,
 - Going Concern,
 - Related Parties, and
 - Accounting Estimates.
- 2.2 This report includes a series of questions on each of these areas and the response that Grant Thornton has received from West of England Combined Authority's management as detailed in Appendix 1. The Audit Committee should consider whether

these responses are consistent with its understanding and whether there are any further comments it wishes to make.

- 2.3 The full set of Statutory accounts have been drafted and are currently being quality checked and reviewed by CIPFA. These will be presented to the audit committee in September 2020 for approval following the external audit review which is programmed for August 2020.

Consultation

- 3 Consultation has taken place on this particular element of the accounts between Grant Thornton and various financial management staff within WECA. The report, as presented to this committee, is another important element of the consultation process.
- 3.1 The Accounts and Audit Regulations (England) 2015 require the Annual Statement of Accounts to be certified by the Chief Financial Officer and made available for public inspection. WECA will issue a full copy of the draft 2019/20 accounts on the authority's website in advance of the statutory deadline of 31 August 2020.

Other Options Considered

- 4 WECA could have waited for the entire accounts to be available for review by the Audit Committee in September 2020, but chose the option of presenting various elements of the process early in order to obtain initial feedback and direction prior to publication of a draft on the authority's website.

Risk Management/Assessment

- 5 The publication of the Authority's Financial Statements forms a core part of WECA's governance and risk management processes. As required by statute, an Annual Governance Statement, (AGS), has been produced, (considered as a separate item on this committee agenda), and is integrated within the core Statement of Accounts document.
- 5.1 The AGS and narrative statement both detail the framework that the authority has developed, and implemented, for governing, managing and reporting risks.
- 5.2 This report reflects our external auditor's initial risk assessment in order to obtain an understanding of management processes.

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 There are no direct implications arising from this report.

Finance Implications, including economic impact assessment where appropriate:

- 7 The Statement of Accounts reflect the financial accounting position of the Combined Authority as at 31 March 2020. Management Accounting reports are published throughout the year evidencing progress and spend against the authority's set budget. The management accounting 2019/20 outturn positions for WECA, Mayoral Fund and LEP budgets are detailed within the draft narrative statement which is considered elsewhere on this committee agenda.

Legal Implications:

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

Climate Change Implications

- 9 On 19 July 2019, the West of England Combined Authority declared a climate emergency, recognising the huge significance of climate change and its impact on the health, safety and wellbeing of the region's residents. The Combined Authority is committed to taking climate change considerations fully into account as an integral part of its governance and decision making process.

Each report/proposal submitted for Combined Authority / Joint Committee approval is assessed in terms of the following:

Will the proposal impact positively or negatively on:

- * The emission of climate changing gases?
- * The region's resilience to the effects of climate change?
- * Consumption of non-renewable resources?
- * Pollution to land, water or air?

Particular projects will also be subject to more detailed environmental assessment/consideration as necessary as part of their detailed project-specific management arrangements

- 9.1 The statement of accounts has no direct impact on climate change issues. However, WECA considers climate change when determining their priorities and investment decisions.

Appendices:

Appendix 1 – Grant Thornton: Informing the audit risk assessment for West of England Combined Authority 2019/20

Background papers:

WECA Statutory Accounts 2018/19 – approved by the Audit Committee on 16 October 2019

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



Grant Thornton

An instinct for growth™

Informing the audit risk assessment for West of England Combined Authority 2019/20

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. 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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Combined Authority's external auditors and Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from West of England Combined Authority's (WECA's) management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	COVID-19 which impacted the economy from mid- March 2020. Continued agency accounting approach for funds held on behalf of parties represented at Joint Committee. Increase in grant funding which increases the responsibilities and capacity of the organisation. Significant increase in staff establishment and payroll and pensions liabilities for the organisation.
2. Have you considered the appropriateness of the accounting policies adopted by WECA? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	We are considering the updated guidance in relation to IFR 16 disclosure requirements in light of the deferral of the adoption of the new standard. The implementation of IFRS 16 has been delayed to 1 April 2021, the 2019-20 financial statements still need to provide adequate disclosures to comply with the requirement of IAS 8 para 31 as a result we intend to update this disclosure to reflect the nature of the changes in accounting policy for leases.
3. Is there any use of financial instruments, including derivatives?	Financial Instruments are held in accordance with the Approved Treasury Management Strategy. The Authority holds no derivatives.
4. Is/Are you aware of any significant transaction outside the normal course of business?	We are not aware of any transactions that have been made outside the normal course of business.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	We are not aware of any changes in circumstances that would lead to impairment of non-assets.
6. Are you aware of any guarantee contracts?	We are not aware of any guarantee contracts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	We are not aware of any.
8. Other than in house solicitors, can you provide details of those solicitors utilised by WECA during the year. Please indicate where they are working on open litigation or contingencies from prior years?	There are no open litigations. WECA only has one in house lawyer so additional capacity is bought in from the constituent authority in house legal teams, other Combined Authority legal teams, legal firms on the Crown Commercial and Wiltshire Legal framework agreements and Counsel as and when required.
9. Have any of WECA's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	We are not aware of any reported items of fraud or non-compliance with laws and regulations or uncorrected misstatements from our service providers that would affect the financial statements.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	CIPFA – Statutory Accounts Jacobs (CH2M) – Transport Advisory PSTax – VAT, SDLT and ET advice Arlingclose – Treasury Management advice Publica Group – Financial System

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As WECA's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from WECA's management.

Fraud risk assessment

Question	Management response
<p>1. Have WECA assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do WECA's risk management processes link to financial reporting?</p>	<p>The work of Audit West provides assurance that material misstatement due to fraud is not occurring.</p> <p>To our knowledge we are not aware of any specific frauds, or areas with a high risk of fraud, where fraud has been detected.</p> <p>In relation to the risk management processes linked to the Financial Reporting - The Authority has an established system of reporting for revenue and capital budgets which takes account of this. Financial risks are outlined within the budget setting report and will continue to be monitored and reported through regular budget monitoring reports. The Authority's wider risk management processes continue to be aligned to our Business Plan.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>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 (low volume of contracts to date)</p> <p>Payroll - False employees, fraudulent overtime, allowance and expenses claims.</p> <p>Grants - Work not carried out, funds diverted, ineligibility not declared. False application or payment of grants to any person, agency or organisation.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Concessionary travel scheme - Use of concession by ineligible person, bus operator claims.</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within WECA as a whole or within specific departments since 1 April 2019? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>We are not aware of any instances of actual or suspected or alleged fraud. We communicate risk issues (including fraud) to those charged with governance in the following way: The Risk Management Framework - updates provided to the Audit Committee; Decision making reports to the WECA Committee; S73 Officer Reports as necessary; Internal Audit Reports - regular updates to the Audit Committee; Whistle blowing procedures; Annual Governance Statement & Assurance Framework to Audit Committee; The WECA Business Plan - regular updates to WECA Committee and Scrutiny; Risk management routinely discussed and considered at Directorate Management Team meetings; Revenue Budget setting and Capital Programme reports</p>

Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within WECA where fraud is more likely to occur?</p>	<p>None have been identified.</p>
<p>5. What processes do WECA have in place to identify and respond to risks of fraud?</p>	<p>The Authority has a Counter-Fraud Strategy which has been approved by the Senior Management Team and communicated to staff. Regular, proactive alerts are provided to all WECA staff when we are notified of any new potential fraud risks through internal audit, financial institutions or other relevant stakeholders</p>
<p>6. How would you assess the overall control environment for WECA, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>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)?</p>	<p>Reasonably strong.</p> <p>The work of Audit West provides assurance along with the Head of Internal Audit Opinion, We have an Assurance Model and Annual Governance Statement also in place.</p> <p>The Financial Reporting process and internal controls and governance processes, including Audit West's Reasonable Assurance model, assessment of specific areas of audit work, segregation of duties and counter fraud policies minimise the potential for misreporting.</p> <p>Whistleblowing policy in place;</p> <p>The audit committee continues to grow in their awareness and effectiveness in terms of constructive challenge of internal controls. An independent, business member of the Audit Committee has recently been appointed which will add to the committee's strength.</p>

Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	None that we are aware of.
8. How do WECA communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	All HR and IT Policies are available to all staff and they have been signposted to these on several occasions. The Whistle blowing policy applies to staff, members, suppliers, contractors, volunteers and anybody acting on behalf of the Authority. The WECA Anti Money Laundering Policy and WECA Counter Fraud Strategy have been communicated and are available to all staff in the Useful Information Section of the website. No significant issues have been reported to date.
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	Highest risk posts are those who are able to commit the authority to significant spend, mainly Chief Executive and Directors of Infrastructure, Business and Skills and Corporate Services. Also the Head of Capital Projects Delivery in terms of commissioning major construction contracts; WECA has a clear and tight levels of financial delegation whereby only few officers are able to commit high levels of spend. Segregation of duties is in place and dual authorisation required for higher spend.
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	None that we are aware of.

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee? How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>In order to ensure that the Audit Committee have oversight of the management processes in relation to reporting fraud and issues in this area the following are presented to Audit Committee:</p> <ul style="list-style-type: none"> • Monitoring & Evaluation Framework • Risk Management Framework • The Assurance framework • Internal Audit Reports <p>The audit committee have provided positive feedback in terms of progress made in improving the internal controls and governance within WECA</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>There have been no referrals made to date.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>None that we are aware of.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that WECA's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does WECA have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to WECA's regulatory environment that may have a significant impact on WECA's financial statements?</p>	<p>Decision reports to WECA and Joint Committees 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. In addition, it takes assurance through S73 Reports, Internal audit reports, Whistle blowing procedures and the Annual Governance Statement and Assurance Framework.</p> <p>Staff employed in critical posts have the relevant professional qualifications, skills and knowledge.</p> <p>Statutory Officers – Head of Paid Service, Monitoring Officer and Section 73 Officer meet on a regular basis to consider key Financial and legal issues faces by the authority.</p> <p>We are not aware of any changes to WECA's regulatory environment that would have a significant impact on WECA's financial statements (with the exception of pending changes as a result of Covid)</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The following reports are taken to the Audit Committee on a cyclical basis in order to provide assurance:</p> <ul style="list-style-type: none"> • The Monitoring & Evaluation Framework • The Risk Management Framework • Internal Audit Reports • The Assurance Framework • Decision making reports to WECA • S73 Officer Reports as necessary

Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	There are no instances of non-compliance or suspected non-compliance with laws and regulation since 1st April 2019 that we are aware of.
4. Is there any actual or potential litigation or claims that would affect the financial statements?	None that we are aware of.

Impact of laws and regulations

Question	Management response
5. What arrangements does WECA have in place to identify, evaluate and account for litigation or claims?	These are set out in the Annual Accounts.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	There was an HMRC inspection in January 2020 in relation to VAT and Employment Tax. We await the final report however there were no comments regarding non-compliance in the verbal round up meeting. Email feedback regarding the inspection has been positive.

Going Concern

Issue

Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for WECA? What was the outcome of that assessment?</p>	<p>As part of the budget process for 2020/21, a Medium-Term Financial Plan was agreed and demonstrates the ability of WECA to continue as a business over this period.</p> <p>The WECA S73 Officer provided a 'going concern' assessment on the 2018/19 accounts which will be reviewed and updated for the 2019/20 accounts.</p>
<p>2. Are the financial assumptions in that report (e.g., financial information provided to Audit Committee and other committees throughout the year?</p>	<p>The MTFP was provided to the Audit Committee and the Overview and Scrutiny Committee. Informal workshops were held with both committees in advance of formal publication and approval from the WECA committee on 31 January 2020</p>

Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in WECA financial forecasts and report on going concern?	Yes, they are appropriately reflected in forecasts and reports on going concern.
4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	<p>There were complications in terms of the completion of the 2018/19 statutory accounts which were mainly due to a lack of internal capacity, significant increases in authority transactions and inefficiencies within the finance system that was being used.</p> <p>An improvement plan was presented to the audit committee in October 2019 as part of the final accounts sign off. Subsequent to this we have increased internal staff resource, reduced reliance on contractor support, commissioned CIPFA to assist with specific technical support for the 2019/20 Accounts and have developed a new comprehensive Agresso Finance System which be fully implemented at the beginning of the 2020/21 financial year.</p>
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	The short-term nature of specific WECA revenue funding streams – Mayoral Capacity Fund (£1m) and Business Rates Retention Pilot (£1.2m) is a concern beyond 20/21. We remain focused on identifying viable alternative funding sources. The published MTFP (January 2020) demonstrates that these specific funding sources are partly mitigated through a wider overall budget provision.

Going concern considerations

Question	Management response
<p>6. Does WECA have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of WECA's objectives? If not, what action is being taken to obtain those skills?</p>	<p>The WECA S73 Officer is a qualified CIPFA accountant with more than 36 years experience within Local Government. The WECA finance team has been expanded throughout 2019/20 following the appointment of a new Head of Finance in July 2019. We now have greater internal capacity and have started to reduce the finance support provided through contractors. There remain a few technical gaps in knowledge which we are filling through commissioning specialist, targeted, support from CIPFA and PSTax</p>
<p>7. Does WECA have procedures in place to assess their ability to continue as a going concern?</p>	<p>The Medium-Term Financial Plan which is reviewed annually. Quarterly Committee reports to WECA and Joint Committee. Annual 'going concern' assessment from the WECA S73 Officer</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on WECA's ability to continue as a going concern?</p>	<p>We are not aware of the existence of any events or conditions, other than the impacts of COVID-19, (which we consider to be low at this time), that would impact WECA's ability to continue as a going concern.</p>

Going concern considerations

Question	Management response
<p>9. Are arrangements in place to report the going concern assessment to the Audit Committee ?</p> <p>How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>The Medium-Term Financial Plan was taken to the Audit Committee , (and Scrutiny), and a detailed presentation was provided. The Audit Committee is satisfied that the Authority is a going concern.</p>

Related Parties

Issue

Matters in relation to Related Parties

WECA are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by WECA;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over WECA;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of WECA employees, or of any entity that is a related party of WECA.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the WECA perspective but material from a related party viewpoint then WECA must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
1. What controls does WECA have in place to identify, account for and disclose related party transactions and relationships ?	All staff were made aware on the set up of WECA and training takes place on a periodic basis of the Constitution (including Financial Regulations and Standing Orders) and the various sections within it and the need to declare any relationships (financial or non-financial) which staff may have with the contractors employed by the Authority.

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

WECA apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	The area where estimates represent a significant element of the overall provision within the accounts as follows; <ul style="list-style-type: none"> Concessionary travel expenditure estimated for Feb and Mar 2020.
2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes, they are as per set out in Appendix A.
3. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	An informal workshop was held with the audit committee following the formal sign off of the 2018/19 accounts in October 2019. For 2019/20 Accounts, similar to the previous financial year, the audit committee will consider the draft accounts through an informal workshop in advance of formal presentation to committee.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Financial instruments consist of investments (pooled property fund and money market funds) valued at fair value by reference to published unit price and investments valued at amortised cost.	Knowledge of the treasury management advisers – Arlingclose, who manage the portfolio and assess the potential risk in credit losses.	Treasury Management advisers – Arlingclose	The pooled property fund and investments are assessed on an individual borrower for its expected credit losses using: i) Probability of default ii) Loss of given default	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	<p>Provisions are identified through detailed monthly management accounts which flags any potential issues to management.</p> <p>Under the 100% Business Rate Retention Pilot, WECA is liable for its proportionate share of successful appeals against Business Rates charged. A provision has been estimated by officers at each of the Billing Authorities for the amount that businesses have been overcharged up to 31 March. The estimate is made using Valuation Office Agency data and analysis of successful appeals to date.</p>	Reviewed by the financial accountant and a working is put together to support the calculation.	N/A	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Bad Debt Provision	Debts are reviewed monthly and any debts that are deemed to be irrecoverable would be written off to the Comprehensive Income and Expenditure Statement.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. Write offs would be reviewed by the Chief Finance Officer	N/A	N/A	No.
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A.	N/A.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	N/A.	N/A.	No.
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Mercer. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Combined Authority responds to queries raised by the administering body, Avon Pension Fund	The Combined Authority are provided with an actuarial report by Avon Pension (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.



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ITEM: 7

REPORT TO: AUDIT COMMITTEE

DATE: 17 JULY 2020

REPORT TITLE: (STATEMENT OF ACCOUNTS) DRAFT NARRATIVE REPORT 2019/20

DIRECTOR: MALCOLM COE, DIRECTOR OF INVESTMENT AND CORPORATE SERVICES

AUTHOR: MALCOLM COE

Purpose of Report

- 1 It is the responsibility of the audit committee to formally approve the authority's annual Statement of Accounts. This report contains the draft narrative report which is the important opening section of the accounts explaining the activities and performance throughout the 2019/20 financial year.

Recommendation

- *The committee are requested to note the draft narrative report and suggest any areas where further refinement might be needed.*

Background / Issues for Consideration

- 2 The West of England Combined Authority, (WECA), like all other public sector bodies, has to produce statutory accounts on an annual basis. These accounts have to be formally approved by those charged with governance, being the audit committee.
 - 2.1 Due to the Covid pandemic, the deadline for issuing 2019/20 draft accounts has been amended from 31 May 2020 to 31 August 2020 with the full Statement of Accounts having to be signed off by our external auditors, Grant Thornton, by 30 November 2020.
 - 2.2 2019/20 is the first financial year where WECA has taken full responsibility for leading and developing their own Statement of Accounts with previous years statements being led by consultants. WECA has retained specialist expertise through commissioning the Chartered Institute of Public Sector and Accountancy, (CIPFA), to assist with specific technical aspects.
 - 2.3 The 'narrative statement', (as detailed in Appendix 1), forms the opening section of the accounts and provides the opportunity to detail the strategic operating framework, priorities, performance and challenges and risks faced by the authority during the year. Many improvements have been made to the narrative statements this year following feedback received from the audit committee upon reviewing the 2018/19 accounts.

- 2.4 The full set of accounts have been drafted and are currently being quality checked and reviewed by CIPFA. These will be presented to the audit committee in September 2020 for approval following the external audit review which is programmed for August 2020.
- 2.5 In this meeting, the audit committee are requested to review the draft narrative statement and annual governance statements and indicate areas, (if any), where further refinement might be required.

Consultation

- 3 Consultation has taken place with the WECA Mayor, Chief Executive Officer, Monitoring Officer and Senior Management Team. An informal session has also been held with the Chair, Vice Chair and newly appointed independent member of the audit committee.
- 3.1 The Accounts and Audit Regulations (England) 2015 require the Annual Statement of Accounts to be certified by the Chief Financial Officer and made available for public inspection. WECA will issue a full copy of the draft 2019/20 accounts on the authority's website in advance of the statutory deadline of 31 August 2020.

Other Options Considered

- 4 WECA could have waited for the entire accounts to be available for review by the audit committee in September 2020, but chose the option to present the draft narrative statement and annual governance statement early in order to obtain initial feedback and direction prior to publication of a draft on the authority's website.

Risk Management/Assessment

- 5 The publication of the Authority's Financial Statements forms a core part of WECA's governance and risk management processes. As required by statute, an Annual Governance Statement, (AGS), has been produced, (considered as a separate item on this committee agenda), and is integrated within the core Statement of Accounts document.
- 5.1 The AGS and narrative statement both detail the framework that the authority has developed, and implemented, for governing, managing and reporting risks.

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 There are no direct implications arising from this report.

Finance Implications, including economic impact assessment where appropriate:

- 7 The Statement of Accounts reflect the financial accounting position of the Combined Authority as at 31 March 2020. Management Accounting reports are published throughout the year evidencing progress and spend against the authority's set budget. The management accounting 2019/20 outturn positions for WECA, Mayoral Fund and LEP budgets are detailed within the draft narrative statement.

Legal Implications:

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

Climate Change Implications

- 9 On 19 July 2019, the West of England Combined Authority declared a climate emergency, recognising the huge significance of climate change and its impact on the health, safety and wellbeing of the region's residents. The Combined Authority is committed to taking climate change considerations fully into account as an integral part of its governance and decision making process.

Each report/proposal submitted for Combined Authority / Joint Committee approval is assessed in terms of the following:

Will the proposal impact positively or negatively on:

- * The emission of climate changing gases?
- * The region's resilience to the effects of climate change?
- * Consumption of non-renewable resources?
- * Pollution to land, water or air?

Particular projects will also be subject to more detailed environmental assessment/consideration as necessary as part of their detailed project-specific management arrangements

9.1 The statement of accounts has no direct impact on climate change issues. However, WECA considers climate change when determining their priorities and investment decisions.

Appendices:

Appendix 1 – WECA (Statement of Accounts) Draft Narrative Statement 2019/20

Background papers:

WECA Statutory Accounts 2018/19 – approved by the Audit Committee on 16 October 2019

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

DRAFT NARRATIVE REPORT 2019/20

UNAUDITED

West of England Combined Authority (WECA)

Introduction

Overview

During 2019/20, the West of England Combined Authority set out the region's long-term strategy for clean inclusive growth, investing in an extensive programme of activity across infrastructure, skills and business to support our residents and economy, detailed in this report.

This report is retrospective and provides an overview of performance during the 2019/20 financial year. However, we recognize the significant impact of the coronavirus outbreak on the region's residents, businesses and economy since the information in this report was collated and are putting detailed plans in place to respond to the outbreak and support the region to recover and grow. This work will be driven by a new West of England Taskforce, led by Regional Mayor Tim Bowles. This is a partnership between the West of England Combined Authority, the Local Enterprise Partnership, business, universities and the region's councils.

Highlights during 2019/20 include:

- The Local Industrial Strategy, published in July 2019 following extensive consultation with local stakeholders, draws on the unique strengths of our region and sets out a clear delivery plan for clean, inclusive growth.
- The declaration of a Climate Change Emergency in July 2019. Activity and investment is underway to tackle congestion and improve public transport, support businesses to adopt energy efficient measures through the West of England Low Carbon Challenge Fund, and invest in research and innovation projects.

Infrastructure:

The West of England Combined Authority is investing millions in bus and train travel, and walking and cycling routes, to tackle congestion and improve air quality. In July 2019, the Joint Committee approved a £350m investment programme to March 2023 spanning the Investment Fund and Transforming Cities Fund. This year, we have made further investment in MetroWest to improve connectivity and increase the frequency of local transport services and kickstarted the development of new walking and cycling routes across the region including the Bath River Line project.

Through the Local Growth Fund, we're investing in our Enterprise Zones to create jobs and support opportunities for businesses to start, grow and collaborate. This has included £55m at Temple Quarter, £32 million at Bath Quays, £64m at Avonmouth and £12m at Somer Valley. We continue to invest in innovation. The successful delivery of the £9.2M 5G Smart Tourism project culminated in the largest public trial of 5G technology at a major cultural event with a unique 5G experience for visitors to Bristol's Harbour Festival.

As our region grows, so does the demand for more homes and improved transport connections. This year, we hosted the region's first placemaking conference, bringing together over 120 senior leaders from local and national government, public and private sector to explore the region's challenges and opportunities for creating high quality new places. For existing communities, the £10M Love Our High Streets initiative explored innovative ways to revitalise and rethink the way local high streets are used.

Business growth and innovation:

We're supporting businesses to grow and encouraging new businesses to invest in the West of England. This year, our Growth Hub has expanded the support it provides for local businesses and hosted the region's first Scale-Up Summit for high-growth businesses, attended by over 70 local entrepreneurs. The Growth Hub has also been at the forefront of supporting local businesses to prepare for Brexit.

To drive clean growth, the West of England Combined Authority launched the Low Carbon Challenge Fund this year to help small and medium-sized businesses improve their energy efficiency and support community energy projects.

The continued success of the region's inward investment team, Invest Bristol & Bath in attracting successful organisations and securing new jobs for the region, has seen over 70 businesses investing here in the past

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two years as a direct result of our work. These include Bocard, Delaware and the new Channel 4 Creative Hub at Finzels Reach, Bristol.

We recognize the region's strengths in key sectors including the creative industries and are developing ways to support these sectors to grow further. This year, we have recruited the first cohort of businesses to the new Creative Scale Up Programme, providing mentoring and support to the region's creative sector to support business growth.

Skills:

The West of England Combined Authority is committed to helping people aged 11 to 60 to make the most of opportunities available here in the region. We're improving careers advice, supporting adults who are in work but on benefits to improve their job prospects, and helping people get technical and digital skills.

"From the 2019/20 academic year, the West of England Combined Authority took on responsibility for the Adult Education Budget, giving us ability to ensure that adult education provision best meets the needs of our learners and businesses in our region."

We have expanded the Careers Hub to all schools in the region, to improve knowledge and understanding of career opportunities and experiences of the workplace for young people.

For those already in work, we have extended the successful Future Bright programme to support in-work progression for residents receiving benefits or tax credits.

To support our key sectors, we are delivering innovative skills and workforce development programmes to ensure that they have the skills and talent they need to thrive. This includes:

- The successful delivery of the Women in Digital Jobs, Education and Training Programme (WIDJET), providing funded tech and digital training for women
- The launch of Creative Workforce for the Future, to help the region's businesses develop a more inclusive workforce with the skills needed to support our region's growth

Further detail about the West of England Combined Authority's programme of work and delivery against targets is detailed in the following Narrative Report.

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Narrative Report

These financial statements provide the reader with a view of West of England Combined Authority's (WECA) financial performance and its effectiveness in its use of resources during 2019/20. They are a key element in demonstrating how the Authority has delivered economy, efficiency and effectiveness in its use of resources, as well as ensuring that key stakeholders understand the financial position of the Authority.

The Narrative Report provides an outline of the activities for the year, providing both a guide to WECA's financial statements and to its achievements in delivering inclusive economic growth through investing in transport, skills and economic development in its second full year of operation.

Organisational overview and external environment

The West of England Combined Authority (WECA) is made up of three of the councils in the region – Bath & North East Somerset, Bristol and South Gloucestershire. WECA also supports the Local Enterprise Partnership, which is business-led, and covers the four West of England councils, including North Somerset Council.

Prior to Covid-19 the West of England economy was worth over £33 billion a year, with a population of over 1.1 million people, one of the highest rates of employment in the country (79%), and over 45,000 businesses.

The West of England Combined Authority is working to drive clean economic growth to benefit all residents. We're making decisions about transport, homes, jobs and skills at regional level, decisions previously made in central Government.

Our ambitious councils came together to actively lobby for devolution because they could see the value in this new way of doing things, looking beyond council boundaries, to benefit all of us who live and work in the region.

Since we were established and Regional Mayor Tim Bowles was elected in 2017, we have secured over £180 million in extra funding from government to invest in our region; this is in addition to the £1 billion over 30 years agreed in the devolution deal.

Aims, Objectives and Achievements

The West of England Combined Authority aims to be a driving force for clean, inclusive growth.

We are delivering this ambition through the following objectives.

Overarching objectives:

Inclusive growth – The West of England is determined to ensure that all residents have the chance to both contribute to, and benefit from, the region's success. We want to remain a place where businesses are keen to locate, where people want to live and where there are opportunities for all.

For many in the region the picture is already very positive, but experience varies significantly. Inclusion promotes a diverse workforce, sparking creativity and innovation and contributing to increased productivity. It helps create strong communities and tackle barriers to community integration. But inclusion does not happen without action. There are already steps in place, and the actions set out in the West of England Local Industrial Strategy will build on this.

Climate emergency - The West of England declared a Climate Change Emergency on 19 July 2019, committing the region to becoming carbon neutral by 2030. Our Local Industrial Strategy identifies a series of actions to take forward to support clean growth.

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Activity is underway, with various investments made to date. However, we know that we need to go further than the ambitions outlined in our Local Industrial Strategy in order to meet the ambitions of our emergency declaration.

We are developing our regional Climate Emergency Action Plan, which will build on the plans of our neighbouring councils.

Delivery objectives

Our objectives are centred around three core areas of delivery:

Infrastructure

Our ambition is to enable residents to move seamlessly around the West of England region between work, home and leisure activities, and to provide high quality, affordable homes. We are working towards that ambition in a way that addresses our commitment to achieving zero net carbon by 2030. The right infrastructure is central to that commitment, both physical and digital. Infrastructure is also key to maximising productivity across the region, connecting rural and urban communities, and driving clean and inclusive growth.

Our activities are aligned with five objectives for infrastructure:

1. Better links to connect people and encourage use of sustainable transport
2. Improved national and international connections
3. Regional housing growth that promotes a mix of sustainable and affordable homes
4. Employment spaces that meet the needs of businesses and communities
5. World-leading digital connections to support innovation and collaboration

Business Growth

We are an economically successful region and one where businesses start, grow and thrive in high numbers. We have a good business support system in place – but there is more we can do to support and promote an innovative, inclusive and sustainable economy that recognises a need to tackle the climate emergency. We want to find better ways of working with existing businesses to achieve their potential as well as attracting more businesses to our region. We need to build on our strengths, supporting our key sectors including aerospace & advanced engineering, creative & digital, and professional services.

We also need to build on the diversity and collaboration between sectors and communities that makes us unique. Increasing productivity and exports are key areas of focus, along with continuing to find new ways to support innovation, and promote inclusivity and clean growth, all of which are at the heart of so much of our success.

Our activities are aligned with four objectives for business growth:

1. Help businesses to start-up, grow and flourish, nurturing inclusivity and entrepreneurial spirit
2. Support businesses to invest in the region and realise export opportunities
3. Drive an innovative and collaborative economy
4. Protect and promote our region's culture

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Skills

Our region's Skills and Employment Plan was launched this year, linked to the Local Industrial Strategy. It sets out that by 2036, the West of England will be internationally recognised for its sustainable, inclusive and diverse economy, providing a high quality of life, prosperity and opportunities for all its residents.

Our people will be skilled, healthy and able to achieve their potential. Our businesses will play an active role in shaping employment and skills provision across the region and they will be able to find the skills and talent they need to innovate, add greater value and thrive.

Our activities are aligned with five objectives for skills:

1. Integrate our employment, skills and education system to align with employers' needs
2. Enable all young people to achieve their potential
3. Address barriers to employment and progression
4. Empower people to progress in employment and access higher paid opportunities
5. Ensure employers can recruit and retain the skills and talent they need to thrive

Operating Framework:

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

Our ambition is for the region to be 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 the three priority areas: infrastructure, skills and business.



West of England Combined Authority (WECA)

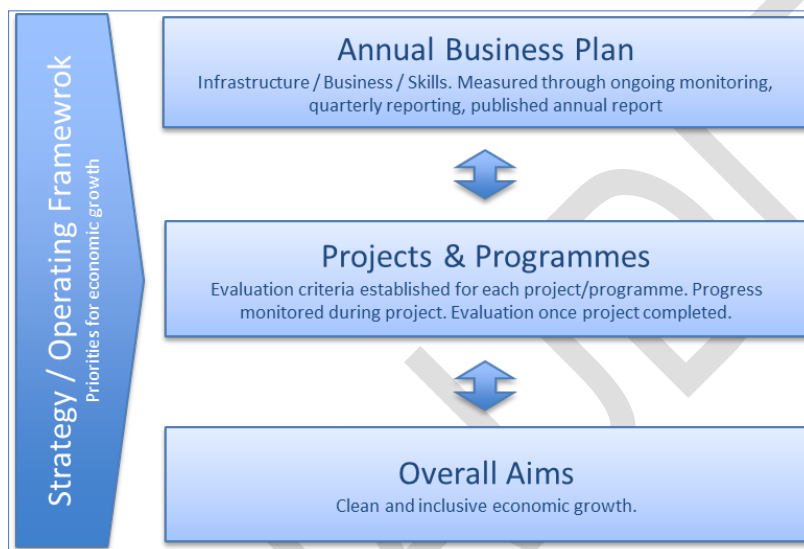
Local Industrial Strategy

Developed by leaders and businesses from across the region, working closely with government, the Local Industrial Strategy (LIS) draws on the unique strengths of the people and places across the West of England. The strategy represents a strong partnership between local and national partners and a recognition of the shared ambition and opportunity for the region. It identifies the strengths and challenges of the West of England and plans the foundations upon which the region will thrive, for the benefit of all its residents.

Our Local Industrial Strategy and Climate Emergency Action Plan provide the framework for policy development and to identify priorities for investment in planning, transport, employment and skills. The actions from the Local Industrial Strategy are embedded in WECA's business plan.

Performance

WECA's monitoring & evaluation framework sets out our overall approach to the monitoring and evaluation of activities across WECA and the Local Enterprise Partnership. The approach is structured around three levels as set below:



- Annual business plan. Delivery of the annual business plan which includes in-year activity to support WECA and the Local Enterprise Partnership. Our business plan for 2020/21 was approved by WECA and Joint Committee on 31st January 2020;
- Project and Programme delivery. This is focused on schemes funded through the WECA Investment Fund, Transforming Cities Fund, West of England One Front Door Programme and other significant grant funding streams. WECA have implemented a comprehensive [Local Growth Assurance Framework](#) which clearly sets out the process, and governance, for accessing and approving funding allocations and awards.

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The Longer-term organisational impact of the Investment Fund is measured through government five-year gateway reviews, the first of which is taking place during 2020. We have developed a series of indicators that reflect the anticipated combined impact across the region of the entire WECA £350m Investment Programme (up to March 2023). These indicators, which are incorporated in our approved 2020/21 Business Plan, are summarised as:

- £845m of economic output (gross value added)
- 4,350 new jobs
- 1,540 people moving into work or gaining increased earnings
- 12,900 learners gaining new qualifications or skills
- Approximately 4,250 business receiving enterprise support
- 24,000m² of commercial floorspace enabled
- 500,000 new bus journeys per year
- Over 6,300 additional cycling and walking trips per day on new or improved routes
- Patronage increases of some 25% on targeted bus corridors benefitting from improvements in infrastructure, services and ticketing;
- 1,450,000 new rail journeys per year
- 5 new railway stations opened
- 3 new park and ride sites developed
- Contribution to spatial planning and delivery, and revitalisation of a number of high streets

The intended medium-term outcomes may be impacted as a result of the Covid which would therefore require a prioritisation review within the Investment Fund.

The monitoring & evaluation framework is reviewed annually and shared with Government. The latest version, approved in February 2020, is available on the WECA website and includes links to detailed project monitoring & evaluation plans.

Financial Performance

The following paragraphs provide a brief overview of the financial position in terms of WECA's management accounting framework rather than the statutory accounting framework, to aid in understanding the statutory financial statements.

Under the Order establishing the Combined Authority, WECA must maintain a separate fund to record the expenditure of the Mayor's Office, including the annual running costs of his immediate support staff, the costs of the Mayoral elections and grant expenditure which is incurred under the Mayor's powers of determination.

- **Mayoral Fund**

After the carry forwards for the Bristol Temple Meads Masterplan (£762k), which will be completed in 2020/21, the Mayoral Fund's outturn revenue position for the 2019/20 financial year returned a balanced budget as detailed in the table below.

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Mayoral Fund April to March 2019/20			
	Budget £'000s	Outturn £'000s	Variance £'000s
EXPENDITURE			
Staff	172	169	(3)
Supplies & Services			
Premises Services	12	11	(1)
Support Services	12	16	4
Supplies & Services	15	10	(5)
Mayoral Election - Transfer to Reserve	396	396	-
Feasibility Studies	1,221	464	(757)
Contribution to Highway Grants	-	-	-
Integrated Highway	5,183	5,183	-
Highway Maintenance Grants	10,254	10,254	-
Highway Incentive Grants	2,135	2,135	-
Total Supplies & Services	19,228	18,469	(759)
Total Expenditure	19,400	18,638	(762)
INCOME			
Business Rates Retention Pilot	17,572	17,572	-
Funding Contribution from WECA	1,828	1,066	(762)
Total Income	19,400	18,638	(762)
NET TOTAL - Under / (Over) Spent	-	-	-

WECA Fund Revenue Budget

A net outturn of a £551k (2018/19: £976k) surplus was achieved in 2019/20 which reflects a higher return from investments on cash balances. This position has been reported consistently throughout the financial year as we maintained relatively high balances and achieved above average returns through diversifying our investment portfolio.

Project spend in the year was significantly, (£13.7m) less than budgeted. This was primarily due to two factors:

- (1) The treatment of approved investment fund allocations being coded entirely to the year in which the approval was given. The largest such item relates to a £10m approval for High Street

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regeneration work which was originally represented, in total, against the 2019/20 revenue budget – whereas the vast majority of the spend will be incurred in subsequent years following the production of detailed business cases. WECA has now produced a Medium-Term Revenue Budget, (approved on 31 January 2020), which profiles the anticipated spend against all revenue approvals across each financial up to and including 2022/23;

- (2) A difference of £2.6m between the indicative figures that we had for the Adult Education Budget when the 2019/20 budget was approved and the actual allocation when received from government.

The Revenue Transport levy returned a combined net overspend of £175k at the end of the year with BANES returning a surplus and Bristol and South Gloucestershire returning deficits. Having applied a specific reserve balance of £98k, the remaining £77k deficit has been carry forward and charged against a £200k 'transport smoothing reserve' which was created in the budget.

A summary of the WECA out-turn position is detailed in the following table:

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West of England Combined Authority (WECA)

WECA Fund April to March 2019/20			
	Budget £'000s	Outturn £'000s	Variance £'000s
EXPENDITURE			
Core Staff	1,390	1,388	(2)
Project Staff	1,942	1,940	(2)
Staff	3,332	3,328	(4)
Supplies & Services			
Premises Services	215	185	(30)
Support Services	215	265	50
Supplies & Services	55	116	61
Total Supplies & Services	485	566	81
Project Spend	26,737	13,008	(13,729)
ICT Implementation	-	208	208
Transport Functions			
Concessionary Fares	12,445	12,622	177
Community Transport	1,690	1,690	-
Bus Real Time Information	602	502	(100)
Total Transport Functions	14,737	14,814	77
Contribution to Mayoral Fund	1,828	1,066	(762)
Transfer to Reserves	100	1,478	1,378
Total Expenditure	47,219	34,468	(12,751)
INCOME			
Transport Levy	14,737	14,582	(155)
Business Rates Retention Pilot	1,212	1,204	(8)
Government Grants	15,501	13,083	(2,418)
Investment Fund Grant	14,949	3,368	(11,581)
Interest on Balances	820	2,041	1,221
Other Income	-	101	101
Transfer from Reserves	-	640	640
Total Income	47,219	35,019	(12,200)
NET TOTAL - Under / (Over) Spent	-	551	551

West of England Combined Authority (WECA)

Appendix 1: Glossary of Financial Terms (continued)

Financial Reserves

Upon formation, there were no general or earmarked reserves or balances allocated to WECA from the constituent councils. Therefore, in April 2018, WECA Committee agreed to establish appropriate risk assessed levels of reserves.

An initial Business Rate Retention, (BRR), Reserve was created as part of the 2017/18 closure of accounts alongside a General Fund Reserve of £312k. The level of Business Rates growth has slowed down in the region, even prior to the Covid situation. Early indications are that WECA's 5% share of the business rates retention pilot might be as much as **£500k** short in 2020/21 with a corresponding recommendation in the 2019/20 budget outturn report to increase the BRR reserve by this amount.

The remaining balance of **£51k** (from the overall **£551k** end of year surplus) will transfer into the WECA General Reserve bringing the balance of this reserve up to £1.140m. Whereas we have worked hard to increase the General reserve over recent years, this level is still relatively low representing only **2.2%** of the £53.0m WECA revenue budget for 2020/21. We will continue to keep the holding of reserves under constant review.

WECA Fund April to March 2019/20

Capital

In July 2019, the Committee approved a £350m investment programme to March 2023 spanning the Investment Fund and Transforming Cities Fund. This sits within the framework of the Capital Strategy report, approved in February 2019, which set out the planned approach for establishing a thematic 20-year programme aligned with regional priority outcomes and objectives as detailed within the published WECA Operating Framework.

The funding available through the Investment Fund and Transforming Cities Fund over the period to 22/23 includes a level of structured over programming. For each allocation and award, an allowance needs to be accounted for in terms of the subsequent costs for final delivery of the full scheme, referred to as the 'tail' which is based upon the current opinion of the most likely level of spend that will be incurred over the next four years.

A high-level summary of the approved programme, as at June 2020, is detailed in the following table:

West of England Combined Authority (WECA)

Appendix 1: Glossary of Financial Terms (continued)

	Funding Awards and Allocations £000s	
	Mar 2020	Jun 2020
<i>Transport Infrastructure</i>		
Approved Awards and Allocations	72,099	73,940
Associated 'tail' required to deliver all projects up to March 2023	67,491	69,150
Total Investment in Transport Infrastructure	139,590	143,090
<i>Housing Infrastructure</i>		
Approved Awards and Allocations	60,320	62,320
Associated 'tail' required to deliver all projects up to March 2023	24,500	26,000
Total Investment in Housing Infrastructure	84,820	88,320
<i>Business and Skills</i>		
Approved Awards and Allocations	74,890	77,219
Associated 'tail' required to deliver all projects up to March 2023	22,804	21,544
Total Investment in Business and Skills Infrastructure	97,694	98,773
<i>Opportunities and Challenges / Other</i>		
Funding put aside to respond to opportunities and challenges	20,000	12,000
Approved WECA set up, operating costs and elections up to 2023	7,818	7,818
Total Investment Programme up to March 2023	350,000	350,000

It is recognised that the Investment Fund programme will need to be kept under review and that some fundamental reallocations may be required in response to Covid-19 once the impacts and actions required to support economic recovery, including gaps in national programmes, are better understood.

The Investment Fund proportion of the WECA Investment Programme is flexible in terms of being 50% revenue and 50% capital. This allows swift progress for developing feasibility studies and early business case development prior to the need for capitalisation. In terms of capital spend, the 2019/20 outturn position is spend of £42.1m against a revised budget of £45.6m as detailed in the table below:

West of England Combined Authority (WECA)

Appendix 1: Glossary of Financial Terms (continued)

WECA and Mayoral Capital Programme 2019/20

	Revised Budget £'000	Outturn £'000	Variance £'000
WECA Capital			
Scheme Prioritisation (Monitoring and Evaluation Framework)	285	-	285
Transport Scheme Business Case Development	2,105	1,061	1,044
Real Time Information	94	-	94
Housing Land Acquisition Fund	8,297	8,297	-
Cribbs Patchway Metrobus Extension	14,147	12,709	1,438
CPNN Cycle Links	494	-	494
On Bus Contactless Payment	319	119	200
Bristol Temple Meads Station Eastern Entrance	470	560	-90
Great Stoke Roundabout Improvements	316	-	316
	26,527	22,746	3,781
WECA Capital – other			
5G Smart Tourism	875	1,043	-168
IT and Building Alterations	-	59	-59
	875	1,102	-227
Mayoral Capital			
Highways and Transport Grants	17,572	17,572	-
Pothole Action Fund Grant	662	662	-
	18,234	18,234	-
Grand Total	45,636	42,082	3,554

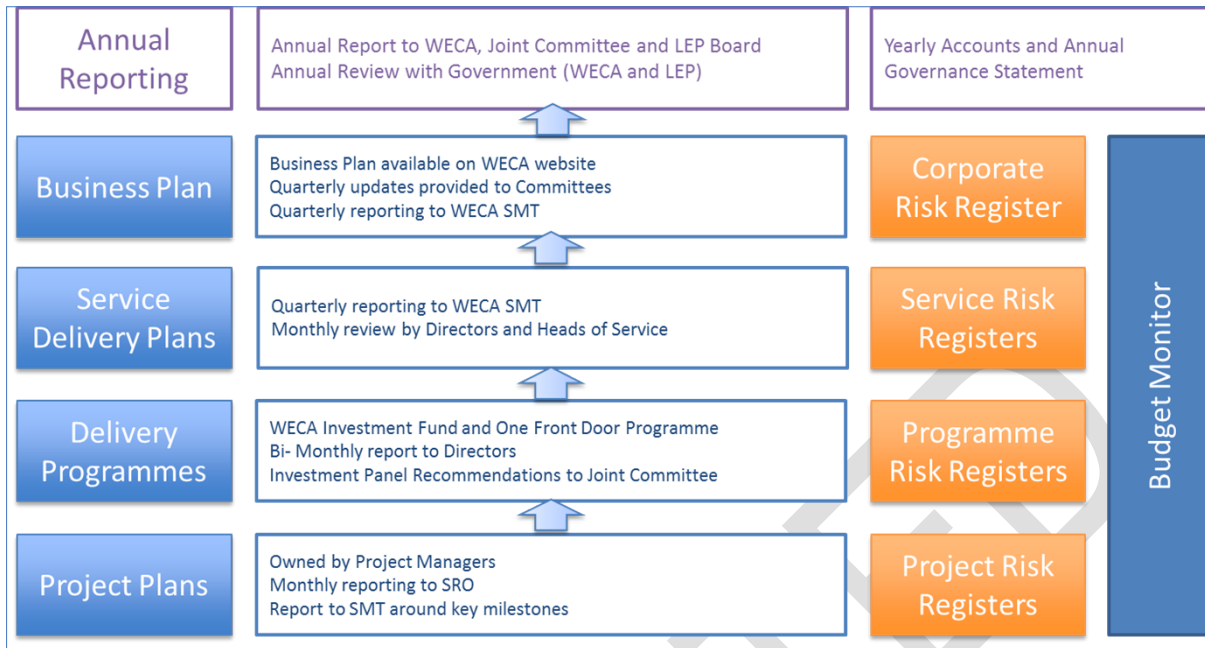
Risks and Opportunities

The West of England Combined Authority is committed to deliver its strategic objectives of clean and inclusive economic growth whilst retaining a clear focus on the potential risks and opportunities associated with the activities set out in the annual business plan.

The corporate risk framework ensures that key risks are identified, managed and monitored and that risk management is an integral part of WECA's reporting process as set out in the diagram below.

West of England Combined Authority (WECA)

Appendix 1: Glossary of Financial Terms (continued)



The corporate risk and Service risk registers are reviewed each month by the WECA Senior Management Team (Heads of Service and Directors) and a quarterly report is provided to the WECA Senior Management Team and through to the Committees as part of the wider business plan quarterly reporting process.

The risk management framework is reviewed annually with Audit Committee. The latest version, approved in February 2020, is available on the WECA website.

WECA has in place an effective system of internal control designed to identify and manage risks to a reasonable level. A risk based Internal Audit Plan is considered by Senior Officers and approved through the audit committee. Grant Thornton are the external auditors for WECA who maintain an independent view on the strength of our financial governance and delivery of value for money.

Medium Term Financial Outlook

WECA published a Medium-Term Financial Plan, in January 2020, as part of the 2020/21 Revenue Budget setting. Anticipated spend of revenue budgets have been profiled across the three financial years to 2022/23 to be conterminous with the medium-term investment programme. Overall grants and committee approvals amount to **£189.3m** for the period, with **£53.0m** relating to 2020/21 as detailed in the following table:

West of England Combined Authority (WECA)

Appendix 1: Glossary of Financial Terms (continued)

	2019/20	2020/21	2021/22	2022/23	Total
	£000s	£000s	£000s	£000s	£000s
Core Revenue Funding	3,639	3,860	3,545	3,373	14,417
Specific Grant Funding	14,507	16,055	15,625	14,700	60,887
Investment Fund (managed by WECA)	2,847	7,273	5,917	3,074	19,111
Transport Levy (and NSC Recharge)	14,737	20,716	21,131	21,554	78,138
WECA Managed Revenue Budgets	35,730	47,904	46,218	42,701	172,553
Investment Fund (UA and third parties)	11,367	5,132	215	-	16,714
Total WECA Revenue Budget	47,097	53,036	46,433	42,701	189,267

Volatility of core revenue funding for WECA remains an issue, with annual income from the Business Rates Retention pilot, (£1.2m), and Mayoral Capacity Fund, (£1m), remaining uncertain beyond the 2020/21 financial year.

The main factor that will influence future finances relate to the Covid-19 Pandemic.

Covid-19 Pandemic

This has created an unprecedented challenge for the businesses, residents and public services across the West of England. WECA and the LEP have been working to support businesses and residents through this crisis period and seeking to ensure that the support and infrastructure is in place to prepare for recovery.

The Mayor of the West of England has established a regional recovery taskforce, made up of a cross-section of our region's economy, to drive our planning. The taskforce will consider how we can use the region's strengths in innovation and collaboration, and our highly-skilled workforce, to accelerate our region's economic renewal. It brings together employers, innovators, educators, trade unions and community champions to identify the challenges and opportunities that businesses and workers across the region are facing. The stages of the crisis and main focus of activity in each stage are summarised in the table below:

West of England Combined Authority (WECA)

Appendix 1: Glossary of Financial Terms (continued)

Short Term (3-6 months)	Medium Term (1-2 years)	Long Term (2 years plus)
<p>Regional Focus: Crisis management and preparation for staged exit from lockdown</p>	<p>Regional Focus: Adaption and resilience building and preparation for recovery</p>	<p>Regional Focus: Rebuilding and growing thriving places</p>
<p>Infrastructure:</p> <ul style="list-style-type: none"> Ensure essential workers can travel to their place of work. Support key public transport services so services can be resumed as soon as possible. <p>Business:</p> <ul style="list-style-type: none"> Help businesses access government support and work with government to ensure that support addresses the particular challenges of our region. <p>Skills:</p> <ul style="list-style-type: none"> Respond to individuals becoming out of work by: refocusing existing interventions e.g. Future Bright using intelligence and analysis to identify gaps in support e.g. apprenticeship provision. Provide financial stability to adult education sector. <p>Other:</p> <ul style="list-style-type: none"> Ensure WECA can operate effectively, with financial and legal, statutory obligations fulfilled and communicate its priorities clearly, while making sure staff have the tools and guidance they need to deal with immediate priorities. Ensure Government has clear feedback on specific challenges faced by our region and work with other regions to coordinate feedback. 	<p>Infrastructure:</p> <ul style="list-style-type: none"> Maintain momentum on infrastructure priorities that reflect the new world including: projects with swift impact; projects that embed positive behaviour change as a result of pandemic e.g. increased cycling and walking; ensure region is ready to benefit from govt funding opportunities. <p>Business:</p> <ul style="list-style-type: none"> Support businesses to improve their resilience and agility, particularly in most exposed sectors of economy. Drive recovery through targeted investment e.g. technology, resource efficiency, start-up, supply chain development. Ensure region's innovative strengths and assets are mobilised in response to challenges e.g. new ways of working. <p>Skills:</p> <ul style="list-style-type: none"> Tackle increased unemployment and ensure individuals can move back into employment (e.g. a regional triage service). Create pathways into employment, aligning skills development with changing needs. Support groups most at risk of exclusion to access opportunities. <p>Other:</p> <ul style="list-style-type: none"> Ensure funding is available to support new priorities including: reprioritising investment, accessing govt funding streams, lobbying for flexibility in existing funding streams. Ensure that our WECA workforce is adequately equipped with flexible HR policies and effective ICT systems <p>Other:</p> <p>Develop a longer-term recovery plan reflecting changes as a result of Covid-19 epidemic, building on strengths of our region, reflecting new opportunities and retaining high level objectives of clean and inclusive growth</p>	<p>Infrastructure:</p> <p>Ensure infrastructure investment programme reflects evidence on changes to economy / demand / behaviour as a result of crisis.</p> <p>Business:</p> <p>Develop initiatives to support a revitalised business base in line with our Local Industrial Strategy.</p> <p>Skills:</p> <ul style="list-style-type: none"> Ensure businesses can access skills they need to thrive in recovery, and residents have access to pathways to employment. Implementation of Employment and Skills Plan. Implications for excluded communities. <p>Other</p> <p>Implementation of Longer Term Recovery Plans</p>

The financial implications of Covid-19 on public sector finances is potentially crippling. All are suffering from significant losses in Council Tax, Business Rates, Commercial, Tourism and Leisure income, alongside rapidly escalating costs on front line services such as social care.

Despite receiving initial government emergency funding of circa £70m to date, the West of England region is still facing a financial shortfall of up to £280m for the 2020/21 financial year which will have a major knock on impact on budgeting in subsequent years.

New Responsibilities

WECA have the statutory responsibility to shape public transport policy and delivery across the region. This includes developing policies for the promotion and encouragement of safe, integrated, efficient and economic transport.

Integrated Transport Operations have moved across, from the respective Unitary Authorities, into a single team managed by WECA, with effect from April 2020. The team will be responsible for public transport, including:

- Concessionary travel – administering a service providing free off-peak bus passes for older people and people with qualifying disabilities.
- Bus service information - providing bus timetable information at bus stops and data to journey planners and apps, including real-time predictions.
- Community transport – funding, advice and support for on-demand local transport services, such as dial-a-ride, community buses and voluntary car schemes.
- Supported bus services – procuring and managing bus contracts supported with public money where the service is not commercially viable.
- Metrobus – managing the metrobus contract and providing service information to metrobus iPoints.
- Travelwest – managing the Travelwest website, including travel information.

West of England Combined Authority (WECA)

Appendix 1: Glossary of Financial Terms (continued)

The formation of the new integrated transport team has been impacted through Covid, needing to hit the ground running supporting local bus operators through the initial emergency period alongside transitioning operations back into commercial viability, giving consideration to increased costs, (for example implementing social distancing arrangements), and falling patronage and corresponding income.

Statement of Accounts 2019/20

The Statement of Accounts which follows set out the Authority's income and expenditure for the year and its financial position as at 31 March 2020. It is prepared on a single entity basis in accordance with the requirements of the Accounts and Audit Regulations 2015. The format and content of the statements is prescribed by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code). This is based on International Financial Reporting Standards (IFRSs) adapted for use in a local government sector context.

The Statement of Accounts comprises:

- **Comprehensive Income and Expenditure Statement:**

This statement shows the accounting cost of providing services in the year, according to the Code. An adjustment is required to be made between the accounting basis and the funding basis due to the different accounting treatments for capital grants and pension costs, further details of which are shown in the Movement in Reserves Statement.

- **Movement in Reserves Statement:**

This statement shows the movement of the different reserves in the year. These are analysed between 'usable reserves' (those that can be applied to fund expenditure) and 'unusable reserves' (those allocated for specific statutory responsibilities).

- **Balance Sheet:**

The Balance Sheet shows the value of the assets and liabilities of WECA. The net assets (assets less liabilities) are matched by the reserves held.

- **Cash Flow Statement:**

The Cash Flow Statement shows the changes in cash and cash equivalents during the year. The statement shows how the Combined Authority generates and uses cash and cash equivalents by classifying the cash flows as operating, investing and financing activities.

- **Statement of Accounting Policies:**

Sets out the accounting policies that have been followed in preparing the financial statements and how Code requirements have been met in practice.

- **Disclosure Notes:**

These provide more detail about individual transactions and balances.

Governance

Governance arrangements continue be strengthened under the political leadership of the WECA Mayor ably supported by an experienced Senior Management Team of Officers. WECA have an

West of England Combined Authority (WECA)

Appendix 1: Glossary of Financial Terms (continued)

established constitution, clear financial regulations and delegations and established policies and procedures for managing risks, fraud and freedom of information requests

Further details of our governance arrangements are set out in the Annual Governance Statement that can be found on pages x to x; a formal statement that covers all significant corporate systems, processes and controls, spanning the whole range of its activities. It is approved by the Audit and Accounts Committee and signed by the Authority's Chief Executive and the Mayor.

Auditors

Grant Thornton (UK) LLP are the auditors of the WECA for 2019/20. Their appointment was made under the Local Audit and Accountability Act 2014 through Public Sector Audit Appointments.

On behalf of the Combined Authority

Malcolm Coe

Director of Investment & Corporate Services

Date:

UNAUDITED

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ITEM: 8

REPORT TO: AUDIT COMMITTEE

DATE: 17 JULY 2020

REPORT TITLE: ANNUAL GOVERNANCE STATEMENT 2019/20

DIRECTOR: MALCOLM COE, DIRECTOR OF INVESTMENT AND CORPORATE SERVICES

AUTHOR: MALCOLM COE

Purpose of Report

- 1 It is the responsibility of the audit committee to formally approve the authority's annual Statement of Accounts. This report contains the Annual Governance Statement which is an integral section of the accounts detailing the framework, and effectiveness, of the authority's governance arrangements.

Recommendation

- *The committee are requested to note the draft Annual Governance Statement.*

Background / Issues for Consideration

- 2 The West of England Combined Authority, (WECA), like all other public sector bodies, has to produce statutory accounts on an annual basis. These accounts have to be formally approved by those charged with governance, being the audit committee.
 - 2.1 2019/20 is the first financial year where WECA has taken full responsibility for leading and developing their own Statement of Accounts with previous years statements being led by consultants. WECA has retained specialist expertise through commissioning the Chartered Institute of Public Sector and Accountancy, (CIPFA), to assist with specific technical aspects.
 - 2.2 The full set of accounts have been drafted and are currently being quality checked and reviewed by CIPFA. These will be presented to the audit committee in September 2020 for approval following the external audit review which is programmed for August 2020.
 - 2.3 In this meeting, the audit committee are requested to review the Annual Governance Statement which is a stand-alone, but integral section within the accounts.
 - 2.4 The Annual Governance Statement explains how WECA has complied with the requirements of: The Accounts and Audit (England) Regulations 2015, specifically

Regulation 6 (1) in respect of the annual review of the effectiveness of its system of internal control.

Consultation

- 3 Consultation has taken place with the WECA Mayor, Chief Executive Officer, Monitoring Officer and Senior Management Team. An informal session has also been held with the Chair, Vice Chair and newly appointed independent member of the audit committee.
- 3.1 The Accounts and Audit Regulations (England) 2015 require the Annual Statement of Accounts to be certified by the Chief Financial Officer and made available for public inspection. WECA will issue a full copy of the draft 2019/20 accounts on the authority's website in advance of the statutory deadline of 31 August 2020.

Other Options Considered

- 4 WECA could have waited for the entire accounts to be available for review by the audit committee in September 2020, but chose the option to present the draft narrative statement and annual governance statement early in order to obtain initial feedback and direction prior to publication of a draft on the authority's website.

Risk Management/Assessment

- 5 The publication of the Authority's Financial Statements forms a core part of WECA's governance and risk management processes. As required by statute, the Annual Governance Statement, (AGS), has been produced and is integrated within the core Statement of Accounts document.
- 5.1 The AGS and narrative statement both detail the framework that the authority has developed, and implemented, for governing, managing and reporting risks.

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 There are no direct implications arising from this report.

Finance Implications, including economic impact assessment where appropriate:

- 7 The Statement of Accounts reflect the financial accounting position of the Combined Authority as at 31 March 2020. Management Accounting reports are published throughout the year evidencing progress and spend against the authority's set budget. The management accounting 2019/20 outturn positions for WECA, Mayoral Fund and LEP budgets are detailed within the draft narrative statement.

Legal Implications:

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

Climate Change Implications

- 9 On 19 July 2019, the West of England Combined Authority declared a climate emergency, recognising the huge significance of climate change and its impact on the health, safety and wellbeing of the region's residents. The Combined Authority is committed to taking climate change considerations fully into account as an integral part of its governance and decision making process.

Each report/proposal submitted for Combined Authority / Joint Committee approval is assessed in terms of the following:

Will the proposal impact positively or negatively on:

- * The emission of climate changing gases?
- * The region's resilience to the effects of climate change?
- * Consumption of non-renewable resources?
- * Pollution to land, water or air?

Particular projects will also be subject to more detailed environmental assessment/consideration as necessary as part of their detailed project-specific management arrangements

- 9.1 The statement of accounts has no direct impact on climate change issues. However, WECA considers climate change when determining their priorities and investment decisions.

Appendices:

Appendix 1 – WECA Annual Governance Statement 2019/20

Background papers:

WECA Statutory Accounts 2018/19 – approved by the Audit Committee on 16 October 2019

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

Annual Governance Statement 2019/20

1. Scope of Responsibility

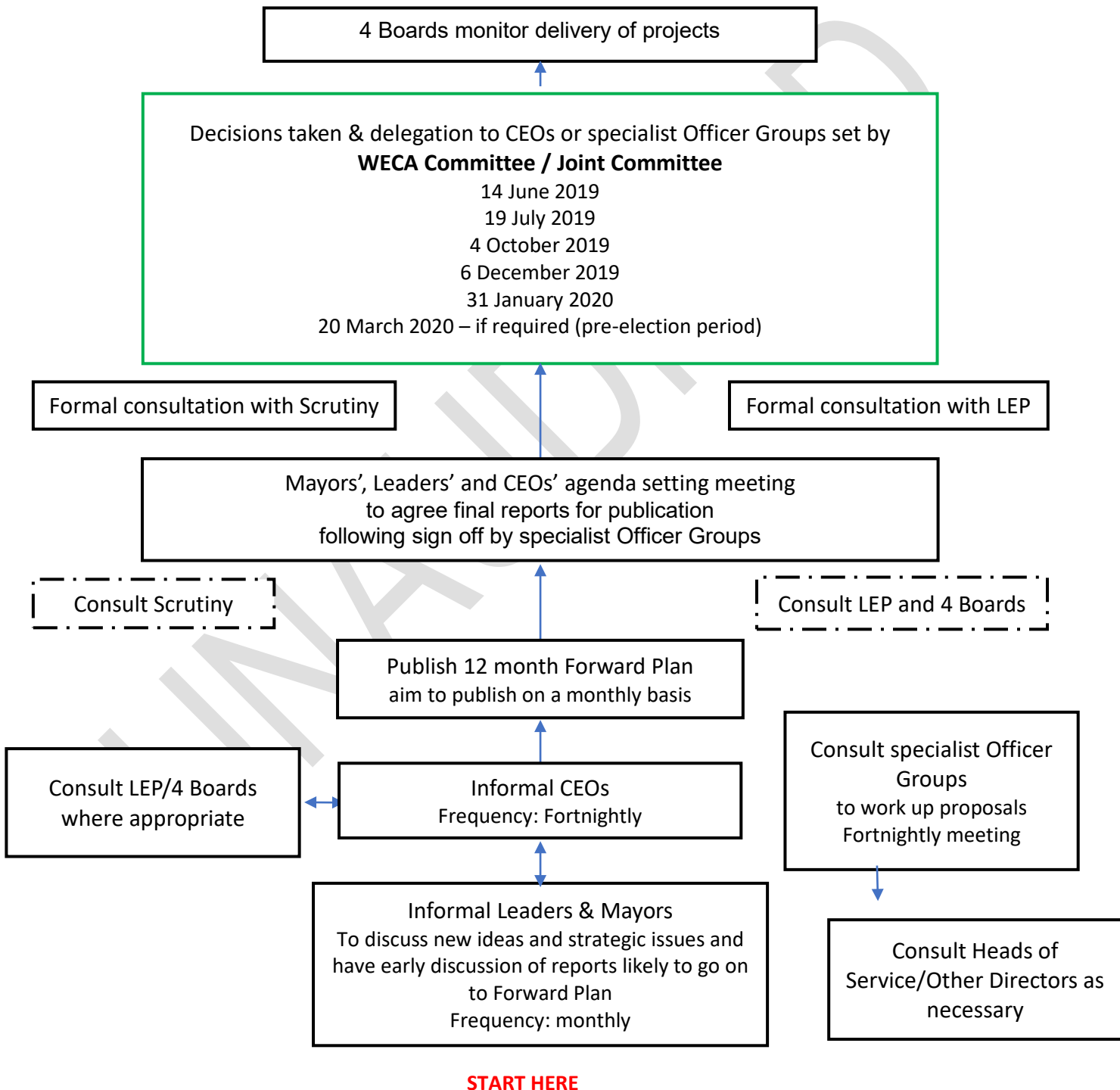
- 1.1 West of England Combined Authority (WECA) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.
- 1.2 In discharging this overall responsibility, WECA is responsible for putting in place proper arrangements for the governance of its affairs, which includes ensuring a sound system of internal control and effective arrangements for the management of risk.
- 1.3 WECA has adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of our code is available from our website.
- 1.4 WECA's Local Code of Corporate Governance aims to ensure that in conducting its business it will:
- operate in a lawful, open, inclusive and honest manner
 - make sure public money is safeguarded, properly accounted for and spent wisely
 - has effective arrangements in place to manage and control risk
 - secure continuous improvements in the way it operates.
- 1.5 This Annual Governance Statement explains how WECA has complied with our Local Code of Corporate Governance and also meets the requirements of:
- The Accounts and Audit (England) Regulations 2015, specifically Regulation 6 (1) in respect of the annual review of the effectiveness of its system of internal control and preparation and publication of an Annual Governance Statement.

2. Governance Framework

- 2.1 In preparing the Annual Governance Statement WECA has:
- Reviewed the Authority's existing governance arrangements against the revised CIPFA / SOLACE framework - 2016 Edition' good practice guidance;
 - Assessed the effectiveness of WECA's Local Code of Corporate Governance;
 - Taken into consideration the findings of external inspection agencies and the auditor's formal opinion on the internal control framework.
- 2.2 WECA's Constitution, which sets out how the Authority operates, is kept under constant review and updated as necessary through the year. It clearly defines the roles of councillors and officers and this clarity contributes to effective working relationships.

- 2.3 There are two main decision-making committees being WECA Committee, which oversees the operations of the Combined Authority, and the Joint Committee which governs decisions across the wider West of England region, including North Somerset Council.
- 2.4 To supplement formal committees there are a number of established senior officer and member forums which facilitate full engagement and consultation on all significant issues and decisions for committee consideration. *Figure 1* details the governance structure for both formal member meetings and key internal officer groups.

Figure 1: West of England Combined Authority Structures and Arrangements



START HERE

2.5 A key component of reviewing the effectiveness of our governance arrangements is assessing the level of assurance provided against the eight themes of the 'Reasonable Assurance Framework' as detailed in *Figure 2*. Audit West, our internal auditors, undertake an annual independent review of WECA's performance against this framework.

Figure 2: Reasonable Assurance Model



2.6 Each Theme has a set of questions with the responses helping to assess the level of assurance and the level of risk for each theme which then informs the Internal Audit Annual Plan.

3. WECA assessment against the 7 'good practice' Governance Framework Principles

The following section provides an update on the current status of WECA's governance and operations against the seven good practice governance framework principles as laid out within the CIPFA / SOLACE framework:

i. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

WECA has both a Members Code of Conduct and an Employees Code of Conduct which the respective Individuals are required to adhere to in their respective roles. The Members Code is recorded within the Constitution.

All members appointed to WECA roles have a full induction and training programme, including the Members Code of Conduct. Dependent on the roles allocated to members additional tailored training is provided. The Monitoring Officer has overall responsibility for member induction and support services for elected members.

Officers sign contracts of employment and are required to complete a probationary period of employment as standard. All relevant HR policies are in place and include a formal disciplinary procedure, a Whistleblowing Policy, Information Governance Policies, Counter Fraud Strategy bringing together the Authority's Anti-Fraud and Corruption Policy, Anti-Bribery Policy and Money Laundering Policy under one umbrella. We maintain electronic registers of interests and gifts & hospitality for staff.

Members are required to declare interests, as a standing item at each committee, with declarations at meetings being recorded. There is also a member complaint policy which is overseen and administered by the Monitoring Officer.

WECA's Constitution sets out the legal requirements around its business including decision making. Guidance is available through the website to ensure that decisions are taken by the appropriate committee or nominated officer under the approved Scheme of Delegation.

All reports requiring decision must be cleared by the S151 and Monitoring Officers. The adopted report template requires the author to record consultation undertaken, a risk management assessment, public sector equalities duties and finance, legal, property, human resources and climate change implications.

All WECA contracts must comply with the Authority's Contract Standing Orders and guidance from specialist procurement and legal officers is available in order to comply with legal requirements e.g. EU Procurement regulations.

ii. Ensuring openness and comprehensive stakeholder engagement

The Constitution outlines citizen's rights to access information including rights to attend meetings; notice of meetings being held; access to agendas and reports; access to meeting minutes; and rules around the exclusion of access by the public to meetings.

Key decisions are all recorded and the templates for decisions require officers to provide all necessary and pertinent information to make an informed decision. The forward plan of business is published in advance in accordance with access to information requirements.

To help ensure decision making rules are followed an intranet page provides officers with information about the stages to be followed for formal decision making and urgent decisions.

WECA's website contains information about services and provides key links such as 'Committee Meetings and Decisions'.

WECA also comply with the Local Government Transparency Code and the Transparency page on the internet provides the links to access business operations and outcomes (such as payments to suppliers / expenditure over £500) as required by the Code.

We have developed an effective and efficient system for managing Freedom of Information (Fol) requests and have an excellent record in terms of providing responses within required timescales.

iii. Defining outcomes in terms of sustainable, economic, social and environmental benefits

WECA has had a published Operating Framework in place since 2018, as detailed under the Narrative report – Operating Framework section, which states the high-level objectives and priority areas that drives and determines the authority's decision making.

Building on this, working in partnership with the Local Enterprise Partnership and other key regional stakeholders, WECA published a, strongly evidenced based, Local Industrial Strategy in the summer of 2019 which is the core strategic document that will direct and influence our future investment priorities.

Annual Business Plans are published and reviewed regularly at public committees. Business Plans translate longer term strategy into specific targets, measures and actions for the forthcoming financial year. Performance metrics are detailed within the 2020 WECA Business Plan which detail the anticipated outcomes that will be achieved through WECA investment by March 2023.

iv. Determining the interventions necessary to optimize the achievement of the intended outcomes

WECA published a £350m regional investment programme in July 2019 which details all priority interventions that will be made over the next three years. A Capital Investment Strategy was published in December 2019 which details the different funding streams available to the region explicitly detailing the

purpose and uses of WECA funding.

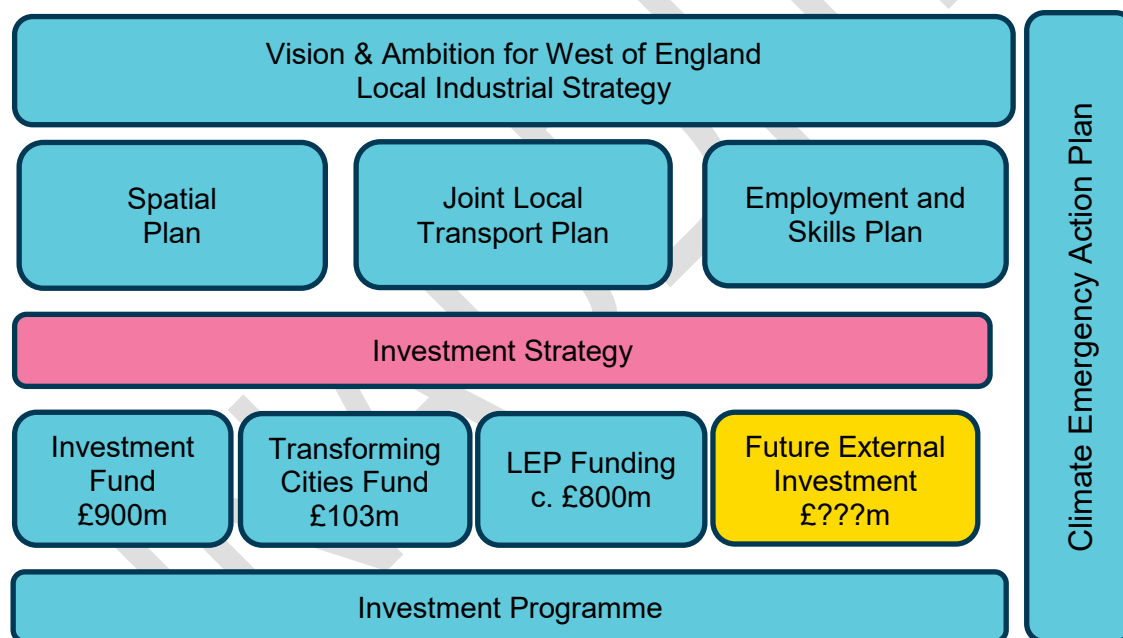
Each individual project has to comply with published criteria prior to entry into the WECA investment programme which includes a transparent value for money assessment in terms of the outcomes achievable through investment.

WECA Director of Infrastructure holds regular meetings with his counterparts within the neighbouring Unitary Councils to determine the priority interventions required for transportation and housing enabling - working jointly to develop a coherent regional investment programme. A similar process is facilitated through WECA Head of Business and Skills ensuring that investment is prioritised to deliver the core strands of the region's Local Industrial Strategy.

Additionally, the Chief Executives meet on a regular basis to discuss strategic matters and current major cross-authority issues. This is chaired by the WECA Chief Executive Officer with the three other constituent council Chief Executive Officers in attendance (B&NES, South Gloucestershire and Bristol) and is also attended by the North Somerset Chief Executive Officer.

Figure 4 details how WECA investment is aligned to the delivery of regional strategies and priorities. This graphic features both within our Capital Investment Strategy and Business Plan.

Figure 4: Linkage between WECA Strategic Direction and Funding decisions.



WECA's decision making processes are set by its Constitution and citizens and service users are consulted where appropriate prior to decisions being taken.

The decision making process requires objective and rigorous analysis of options and associated risks. A Risk Management Strategy and Toolkit has been adopted and this provides guidance on the assessment of risks related to recommended actions / decisions.

v. Developing the entity's capacity, including the capability of its leadership and the individuals within it

WECA has an established senior management structure and has recruited suitably experienced officers into its leadership team. A structured organisational development programme was introduced from

September 2019 which supplements and complements the authority's appraisal process.

A comprehensive induction programme has been rolled out to all employees which incorporates a presentation from the Chief Executive on the vision, mission and objectives of the Combined Authority. A formal training budget has been established to fund bespoke training needs which supplements the organisational development programme.

WECA undertook its first formal staff survey in July/August 2019 with the overall results being extremely positive. Action plans have been developed by the Senior Management Team and Directorate Management teams to respond to identified areas requiring further development.

In terms of financial capacity, WECA has set about growing the expertise, knowledge and capabilities of in-house staff resource. Further investment has been made in the Finance service utilising funding that was previously allocated to third party support. Treasury Management was brought back in-house, (previously provided through Bath and North East Somerset), in April 2019 and reliance on contractor support for developing the authority's Statement of Accounts has been reduced with WECA firmly leading the process for 2019/20. Bespoke support is still contracted on an identified needs basis for example, for specific tax advice, (through Public Sector (PS) Tax), and technical aspects of the accountancy requirements (through CIPFA).

WECA published a three-year Medium-Term Financial Plan on 31 January 2020 as an integral part of the 2020/21 budget setting process. This plan details the revenue resources available to the Combined Authority through Investment Fund approvals along with various confirmed, and anticipated, grant allocations. Contributions have been made to WECA General Fund Reserve throughout 2018/19 and 2019/20, with non-earmarked reserves increased to circa £1m.

WECA maintains strong relationships and networks both regionally, and nationally. Finance Directors and Monitoring Officers across the West of England meet regularly, developing regional solutions to issues and sharing best practice, and the authority is a key member and co-ordinator for the M9 Combined Authority (national) network.

vi. Managing risks and performance through robust internal control and strong public financial management

WECA adopted a Risk Management Strategy and Toolkit during 2019/20 which has been endorsed by the Audit Committee. The Strategy records key activities and frequency with the toolkit providing detailed guidance on risk management processes.

WECA continues to raise awareness of the importance of good risk management and embed the adopted processes. Directors give on-going assurance to the Chief Executive regarding the management of risks within their area of service delivery. Risk management objectives are monitored through the Audit Committee in line with its terms of reference to evaluate the effectiveness of the risk management strategy and framework.

Performance Management arrangements continue to be strengthened with an adopted Monitoring and Evaluation Framework, (as endorsed by the Audit Committee), key performance metrics incorporated within WECA Business Plan and transparent published criteria in relation to outcomes being delivered through approved investments.

The Combined Authority Local Growth Assurance Framework has been revised and approved by WECA Committee in January 2020. This embeds a 'single pot' approach to governing all core LEP and WECA funding streams including the:

- Investment Fund;
- Transforming Cities Fund;
- Local Growth Fund;
- Revolving Infrastructure Fund;

- Economic Development Fund; and;
- Adult Education Budget

WECA maintains a robust system of internal control with a, (risk assessed), review and monitoring of internal controls undertaken by Internal Audit and other 'independent' inspectors. The Audit Committee's 'Terms of Reference' includes approving the Internal Audit Plan alongside monitoring its delivery and effectiveness (including the implementation of audit recommendations).

WECA's Financial Regulations require Members and staff to inform the Chief Finance Officer and / or the 'Chief Audit Executive' immediately of any suspected financial irregularity. This enables the Internal Audit function to investigate all reported cases promptly to ensure the integrity of the system of internal control.

Financial updates are regularly reported to WECA Committee and this includes budget monitoring and outturn reports. All decision papers for Committees, or officer delegated decisions, require S73 financial sign-off before the decision can be taken. The Director of Investment and Corporate Services acts as the S73 Chief Financial Officer for the Combined Authority.

The Director of Investment and Corporate Services has confirmed that the principles outlined in the CIPFA Statement on the Role of the Chief Financial Officer, (s151/s73 Officer), in Local Government have been compiled with in performing his duties.

vii. Implementing good practices in transparency, reporting and audit, to deliver accountability

Transparency is a key condition and driver for the delivery of WECA services. As a publicly funded organisation, we have a duty to our residents to be transparent about our business operations and outcomes.

Committee meetings and reports are easily accessible through WECA's website and the public are encouraged to engage with the operations of the authority and contribute to public committee meetings. Public Scrutiny Committees are held in advance of all WECA and Joint Committee meetings in order to scrutinise papers in advance of formal consideration. The respective Chairs of Scrutiny and the Local Enterprise Partnership have a standard slot on WECA committee agendas to feed in their comments in advance of the formal debate.

WECA constitution requires decisions to be taken by an appropriate committee, or officer delegation, and requires formal 'sign-off' by the S73 and Monitoring Officers in advance.

The annual governance review, which has been carried out to produce this statement, requires a robust methodology to be followed to enable a statement to be published within the statutory Statement of Accounts.

4. Internal Audit Opinion

Internal Audit is satisfied that the risk, governance and control environment of the Authority is adequate to ensure delivery of its priorities. Through the work of Internal Audit and delivery of the Annual Audit Plan, some control issues have been identified, however none are deemed significant when assessed against the key criteria. Internal Audit is content that management have accepted responsibility to address the control weaknesses.

The Plan focused on core financial and other systems and areas presenting the greatest risk to the authority and was designed to ensure sufficient depth and breadth of audit coverage to meet the requirements of those charged with governance. In forming an opinion on the governance, risk and control environment Internal Audit also considered other sources of assurance including reports from external regulators, external audit and commissioned reviews.

Signed: Jeff Wring (Audit West)

UNAUDITED

West of England Combined Authority (WECA)

Annual Governance Statement (continued)

4 SIGNIFICANT GOVERNANCE ISSUES 2019/20

Having considered all of the evidence, data and input from regulators, the following significant governance issues have been identified within the 2019/20 financial year:

	Issues identified in 2019/20	Commentary & Mitigating actions for 2020/21
1	<p>Coronavirus: The current (March 2020) global known, and anticipated, impact of the coronavirus might have a material impact on core governance issues. Flexibility will need to be exercised on areas such as delegated decision making and procurement practices. There could also be an impact on the transition to operating our new Agresso financial system through Agilisys from April 2020.</p>	<ul style="list-style-type: none"> • Refreshed WECA business continuity arrangements; • Ensured that core groupings of staff are able to process and authorise financial information remotely; • Equipped all WECA staff for effective homeworking; • Regular updates and communications provided to staff; • All WECA events have either been cancelled or re-scheduled as virtual sessions; • Maintained effective networks with neighbouring Unitary Councils and other Combined Authorities in terms of controls put in place in response to coronavirus; • Incorporated climate change considerations within WECA decision making processes; • Successfully facilitated, and enabled, virtual meetings of full WECA Committee and WECA Scrutiny Committee
2	<p>Robustness of the Statement of Accounts: Problems were encountered when finalising the Combined Authority's Statement of Accounts for 2018/19. Although draft accounts were issued on WECA website by the statutory deadline of 31 May 2019, the external auditors, Grant Thornton, were not able to complete their audit, or form an opinion on the accounts, in time for the scheduled audit committee on 31 July 2019 due to a number of errors and incomplete information. Lack of functionality of our previous Finance system and problems encountered with external contractors, (commissioned to produce a draft set of accounts), were key contributing factors.</p>	<ul style="list-style-type: none"> • Conducted 'lessons learnt' sessions to identify improvements needed for the 2019/20 accounts closedown process – subsequently developed a finance improvement plan; • Increased in-house finance capacity in WECA and reduced reliance on external contractors for drafting a full set of accounts; • Commissioned, and developed, a new version of the Agresso finance system through a new ICT provider, Agilisys; • Commissioned expertise to help design the new finance system with a clear focus on improving automation and reducing reliance on manual systems; • Engaged CIPFA as technical experts, to supplement internal finance capacity, on specific elements of 2019/20 technical accounting identified as being high risk.

West of England Combined Authority (WECA)

Annual Governance Statement (continued)

CERTIFICATION

To the best of our knowledge the governance arrangements as defined have been effectively operating during the year 2019/20. Significant governance issues identified through the Annual Governance Review are recorded in Section 4.

We propose to take actions to address the issues raised with the objective of enhancing WECA's governance arrangements. The issues and related actions will be monitored as part of the annual governance review process.

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SIGNED BY:

TIM BOWLES
WECA MAYOR

PATRICIA GREER
CHIEF EXECUTIVE

DATE:

ITEM: 9

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

DATE: 17th JULY 2020

REPORT TITLE: INTERNAL AUDIT ANNUAL REPORT 2019/20

AUTHOR: JEFF WRING – AUDIT WEST (INTERNAL AUDIT)

1. PURPOSE OF THE REPORT

1.1 This is the Annual Report of the Internal Audit service 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 2019/20 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 2019/20 was presented to the West of England (WECA) Audit Committee on the 31st July 2019. 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.

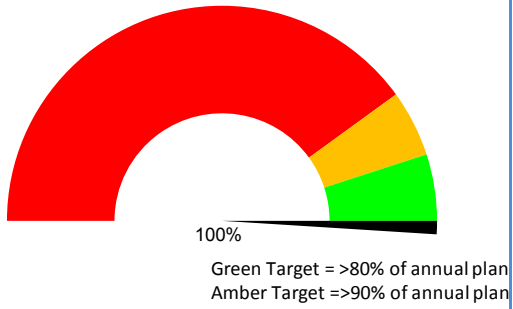
4.2 The Committee receives verbal updates at each meeting and received a formal update on delivery against the plan in February 2020. This report builds upon that update and the chart overleaf records the position as at the end of the year.

PERFORMANCE DASHBOARD - INTERNAL AUDIT

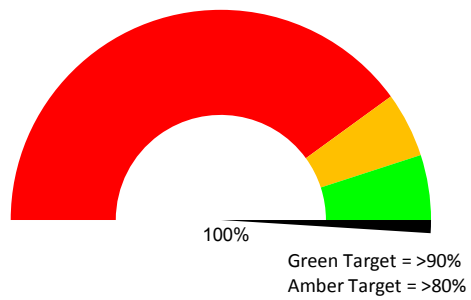
Client - WECA

Period - April 2019 - March 2020

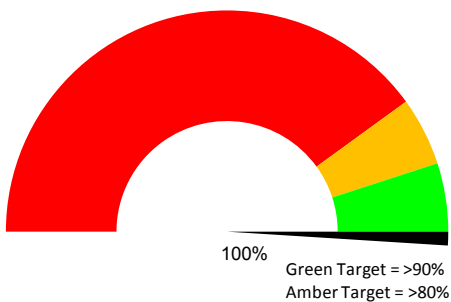
1. AUDIT PLAN COMPLETED



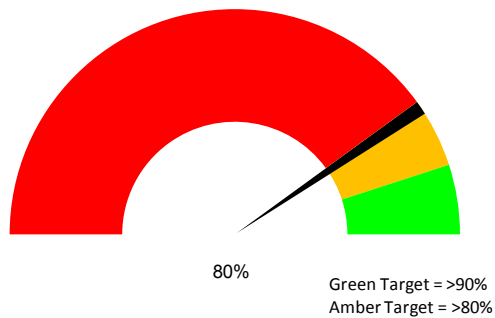
2. AUDITS COMPLETED IN PLANNED TIME



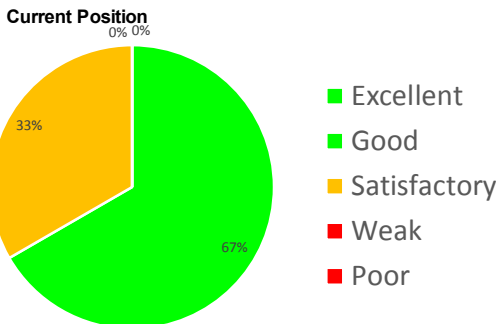
3. CUSTOMER SATISFACTION



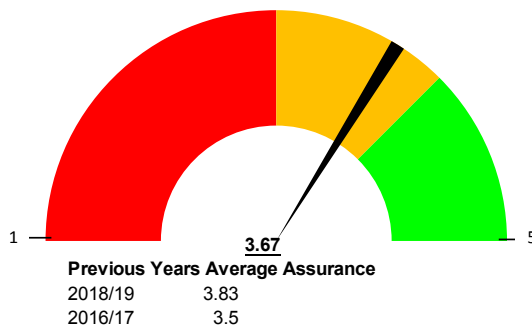
4. IMPLEMENTATION OF RECOMMENDATIONS



5. AUDIT OPINION - ASSURANCE LEVEL PROVIDED



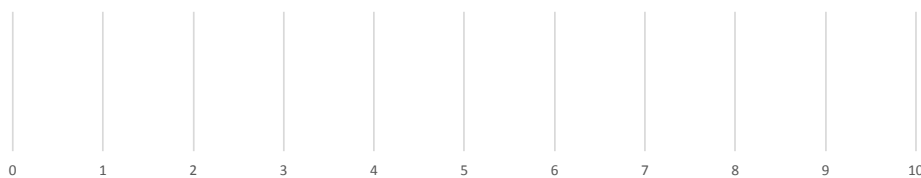
Current Average Assurance Level



6. WHISTLEBLOWING CASES IN CURRENT FINANCIAL YEAR



7. INVESTIGATIONS - CASES UNDER INVESTIGATION DURING REPORTING PERIOD



Equating to
0.0
Audit Days
2019/20

8. NEW UNPLANNED WORK



Equating to
0.0
Audit Days
2019/20

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 2019/20 Audit Plan at the end of the year.
- 4.3.3 During 2019/20 it has been important to ensure that the Internal Audit Plan has remained fluid to enable the service to respond to WECA's changing risk environment.
- 4.3.4 In particular, with the implementation of the ICT and Financial System Programme and the subsequent impact on systems and resources it was important to adopt a flexible approach to our work. In consultation with the Director of Investment & Corporate Services it was agreed that many of the audits in the audit plan should be scheduled for the third and fourth quarters of this financial year to reduce the impact on the service areas and to allow for new systems and processes to become established and embedded. As a result, the focus in the first half of the year has been on providing support and guidance where necessary in respect of the ICT and Financial System Programme. In this respect, we have attended several ICT Programme Board meetings and provided guidance on the completeness and content of the suite of ICT policies and procedures.
- 4.3.4 The phasing of audit reviews towards the end of the year was further impacted by the outbreak of the COVID-19 pandemic, however we are pleased to report all work has now been completed.

4.4 AUDIT REVIEWS COMPLETED IN ASSIGNED DAYS

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

4.5 CUSTOMER SERVICE

- 4.5.1 Customer service and providing value to clients is essential to the provision of a quality internal audit service. We are pleased to report that all questionnaires completed through the Internal Audit Computer System recorded good 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:

'Really well thought out work with excellent support provided to the team'.

'The Auditor was extremely professional on all fronts. Highly competent and knowledgeable with the ability to guide us through a complex area of work in a clear and highly accurate manner'.

'Clear recommendations well-articulated and explained. Easy to work with and respond to'.

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 80%. Due to the low level of recommendations this is however not a matter of significant concern with one high risk recommendation and 16 out of the 20 medium risk recommendations being implemented as at the time of the follow-ups. With regard to the four medium risk recommendations not implemented:

- Two recommendations have been partially implemented and will be completed once the new financial management system (Agresso) has been fully implemented (Future Bright and Counter Fraud Arrangements). This will be followed up as part of our 2020/21 Internal Audit Plan work.
- One relating to a new Corporate Project Management Process was in development at the time of the follow up and was due to be rolled out shortly after the completion of the review (Future Bright).
- One related to Fraud but given the current low level of fraud risk within WECA, management have decided not to include Counter Fraud within e-learning training modules. However, awareness of the issue and the strategy will be made via other lines of staff communications.

4.7 INVESTIGATIONS/ WHISTLEBLOWING

4.7.1 During 2019/20 Audit West has not been involved in any formal investigations and there are no known whistleblowing cases. There has been some low level work around potential scams and Audit were informed in each case to ensure assurance was taken around the effectiveness of controls and no further action was necessary.

4.8 ASSURANCE LEVEL PROVIDED

4.8.1 Appendix 1 details all the work undertaken and a summary of our opinions. There were three audit reviews substantially completed of which two have recorded an assurance level of substantial (Level 4) and one recorded an assurance level of reasonable (Level 3). Please see Appendix 2 for a summary of work completed for each individual audit area and Appendix 3 for a description of our assurance levels.

4.8.2 In addition to this formal work an overview of the due diligence undertaken when procuring the new ICT service was also undertaken. Whilst this review was not formally assessed the framework of controls for this phase of the ICT implementation programme was adequate and reasonable assurance could be provided.

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 concerns to report outside of those already discussed at recent Audit Committee meetings and broadly progress continues to be positive.

4.8.4 Finally we also carried out some grant certification work on the Growth Hub. Yet again there were no significant issues from this work and the grant return was signed off.

4.9 UNPLANNED AUDITS / WORK

4.9.1 There were no unplanned pieces of work during 2019/20.

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 Chief Audit Executive - 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. We remain alert however to the pandemic outbreak towards the end of the financial year which could significantly impact during 2020/21;
- 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.
- Finally, I can confirm that the Internal Audit Charter has been reviewed, is still relevant and up to date and we are able to exercise our independence to perform our role against our professional standards.

Consultation:

5. The Annual Report refers to facts and opinions that have been included within individual Audit reports which were distributed to, and agreed with, senior managers. The service meets regularly with the Senior Management Team and the Director of Investment & Corporate Services to update them on the audit plan and ensures the plan continues to reflect the risks.

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 2019/20.

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

Appendix 1 - Audit Plan End of Year Position Statement – 2019/20

Audit Area	Assurance Level or Risk Rating
Treasury Management	Level 4 – Substantial Assurance
Land Acquisition Fund	Level 4 – Substantial Assurance
ICT Financial Systems Programme Procurement	Position Statement - Reasonable Assurance
ICT Financial Systems Implementation	Level 3 – Reasonable Assurance
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
Follow – Up – Risk Management	Level 3 – Reasonable Assurance
Follow – Up – Control Account Reconciliation	Level 4 – Substantial Assurance
Follow – Up – Bank Account Reconciliation	Level 4 – Substantial Assurance
Follow – Up – Future Bright	Level 4 – Substantial Assurance
Follow – Up – Counter Fraud Arrangements	Level 3 – Reasonable Assurance
Follow Up – Adult Education Budget	Level 4 – Substantial Assurance

Appendix 2 – Highlight Summary of Audit Reviews Undertaken

• Treasury Management –

The following key control objectives were reviewed:

- To ensure that management and staff understand and comply with formally adopted systems / processes which are designed to manage the Authorities cash flows, borrowing and investments and associated risks.
- To ensure Treasury Management activities are carried out in accordance with the Authorities annual Treasury Management strategy, standing orders and financial regulations (including the CIPFA code of practice for Treasury Management).
- To ensure that the approval and management of investment Counterparties and limits is effectively managed and controlled to mitigate any potential financial losses.
- To ensure management reporting information / indicators are timely and sufficient to monitor treasury performance.
- To ensure risks related to investments are continually monitored and managed.

The review acknowledged that since the transfer of the treasury management service from B&NES in April 2019 the processes and controls adopted by the treasury management team have evolved as they adapt the B&NES processes for their own purposes. The review identified that overall key controls were found to be appropriate and operating as they should, although there were a few key areas for improvement:

- There are no formal operational procedural guidance manual/notes to support the high-level Treasury Management and Investment Strategy which would help to ensure that the treasury management processes are operated as consistently, efficiently and effectively as possible.
- The Corporate Services Risk Register does not include any risks associated with the management of a Treasury Management function.
- The monthly Treasury Management performance dashboard provided to the Section 151 Officer does not include details of actual performance against the Treasury Management Performance Prudential Indicators (agreed as part of the Treasury Management Strategy).

However, cash flow forecasting is accurately undertaken daily to ensure that liquidity levels are maintained, and investment interest maximised. In addition, investments have been made in accordance with the WECA Treasury Management & Investment Strategy adhering to investment limits and advice from Arlingclose.

Land Acquisition Fund -

The following key control objectives were reviewed:

- To ensure that all requests for LAF funding are adequately and consistently assessed, approved and awarded in line with grant conditions and the WECA Investment Fund Assurance Framework.
- To ensure that all LAF grant claims received are recorded, monitored and reported on in an accurate and timely manner.
- To ensure the LAF payment transactions have been verified, appropriately approved in accordance with the scheme of delegations and accurately paid.

The review identified that overall, key controls were found to be appropriate and operating well, although there were a few areas for improvement. The principle of the LAF is that it should recycle as a revolving acquisition fund and as a result it was recommended that regular updates on the progress of the project against predefined milestones should be established to ensure the projects intended and agreed outcomes are realised.

Whilst there was a transparent assessment and scoring criteria in place for LAF business cases, individual assessors scores and the rationale for allocating those scores could not always be evidenced.

Overall, the process is well constructed and effectively managed with grant payments being validated, correctly approved and tracked.

- **ICT Core Financial Services Implementation -**

The audit reviewed the following key control objectives:

- To ensure the data migrated to the new financial systems (Payroll, AP & AR) is complete and accurate.
- To ensure that the design of the new ICT financial solution results in payments that are accurate, timely, and are legitimate business expenditure. This will include a review of the control framework in place for raising requisitions, generating purchase orders and paying suppliers ensuring that any spend is subject to an appropriate level of approval and segregation of duties.
- To ensure that the design of the new ICT financial solution results in accurate and timely request for payment from debtors and these debts are effectively monitored and recovered.
- To ensure starter, leaver and variation data is correctly recorded on the payroll system to enable accurate and timely payments.

At the time of the review the Accounts Payable (AP) and Accounts Receivable (AR) processes were in the design / testing stage while the Payroll solution had been fully implemented with payroll runs commencing in November 2019. When the Audit Brief was agreed the intention was to produce an interim briefing paper to report on the findings of the Payroll review plus any reportable matters relating to the AP & AR system design and implementation. Following this it was intended that live testing of the AP and AR systems would be undertaken during April 2020 with the results of this testing reported in an Audit Assurance Report. Unfortunately, due to the outbreak of the COVID-19 pandemic and agreed amendments to the live date for the AP and AR systems the live testing of these systems has not been possible. However, time has been allocated in the 2020/21 Annual Audit Plan to undertake this work.

The review identified that overall, key controls were found to be appropriate and operating satisfactorily, although there were some areas for improvement.

The Accounts Payable, Accounts Receivable and the General Ledger elements of the implementation were originally due to complete in September 2019, but this would not have provided sufficient time to undertake controlled Data Migration and User Acceptance Testing amongst other project and end of year tasks. Consequently, the project plan was amended and a new revised "go-live date was agreed of 1st April 2020. Although the financial system did not go live until a week later on 8th April 2020, there are still some issues, related to User Acceptance Testing and Data Migration which are currently being addressed and as a consequence these have not been formally signed off.

The Payroll and HR elements of the project were successfully implemented in accordance with the transition plan and current data was correctly migrated to North Somerset Council from B&NES to enable the payroll to be run by the new provider in November 2019. Unfortunately, the archived payroll data has not been transferred across to WECA from B&NES and as a result the Data Migration 'Sign Off' has not taken place.

Information provided to the new payroll provider regarding new starters (7), variations (7), leavers (3) and expenses (24) had been accurately input to iTrent for the 41 cases reviewed.

Appendix 3 – Audit Opinion Descriptions

Assurance Rating	Opinion
Level 5 – Full Assurance	The systems of internal control are excellent with a number of strengths and full assurance can be provided over all the areas detailed in the Assurance Summary
Level 4 – Substantial Assurance	The systems of internal control are good and substantial assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary
Level 3 – Reasonable Assurance	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 – Limited Assurance	The systems of internal controls are weak and only limited assurance can 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 – No Assurance	The systems of internal controls are poor, no assurance can be provided and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee



ITEM: 10

REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 17th JULY 2020

REPORT TITLE: WECA - INTERNAL AUDIT PLAN (2020/21)

AUTHOR: JEFF WRING – AUDIT WEST (INTERNAL AUDIT)

Purpose of Report

1. To present the Internal Audit Plan for 2020/21 for approval.

Issues for Consideration

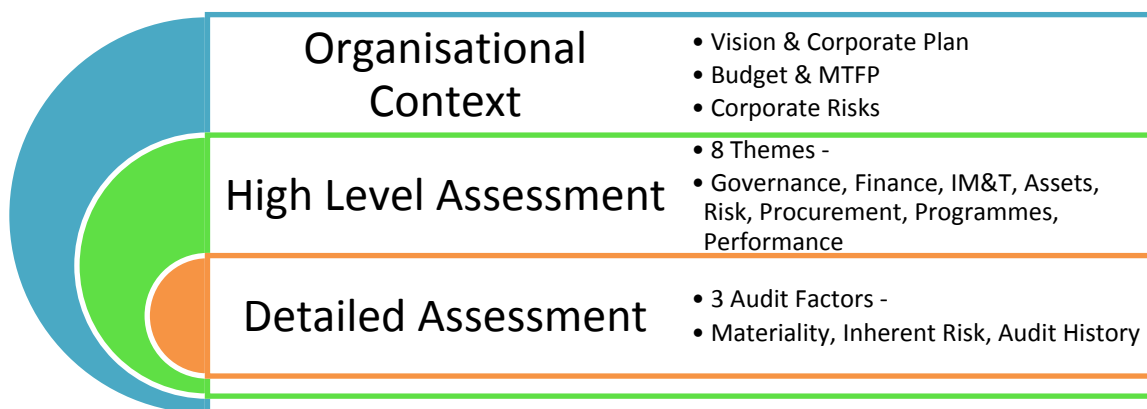
2. To consider the areas included within the Audit Plan and the core assurances it requires from its audit function on its core systems and governance framework.
3. To ensure that the Audit Committee can rely on the independent assurance given by its Internal Auditor's as laid out within the Audit Charter.

Report Narrative / Main Content

Internal Audit Annual Plan 2020/21 (Appendix 1)

- 4.1 The Public Sector Internal Audit Standards require Internal Audit to prepare a risk-based plan. This is the fourth 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 As detailed in our report to Audit Committee in February 2020 with our indicative list of areas the Audit Plan attached reflects our current assessments of assurances and risk facing WECA as outlined in detail at the last Audit Committee meeting.
- 4.3 Whilst the impacts of Covid-19 are dramatically re-aligning Organisational priorities and risks in most of the Public Sector we have not at this stage included a specific review in this area but will instead take account of Covid-19 impacts within each of our reviews. In practical terms this means we will work closely with the S151 Officer in assessing how the focus of any of our reviews needs to change at the point of agreeing individual audit briefs. More generally as the Covid-19 pandemic and its impacts remains a very fluid position the plan may change but if so this will be done in consultation with the Chair of the Audit Committee and S151 Officer.
- 4.3 The Plan has been subject to consultation with the Director of Investment and Corporate Services (S151 Officer) and WECA's Senior Management. 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 100 days in total and the areas indicated in the plan relate to these numbers of days.

4.7 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 review 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

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

Internal Audit Plan 2020/21



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Audit West

Delivering Independent Assurance to the Public Sector

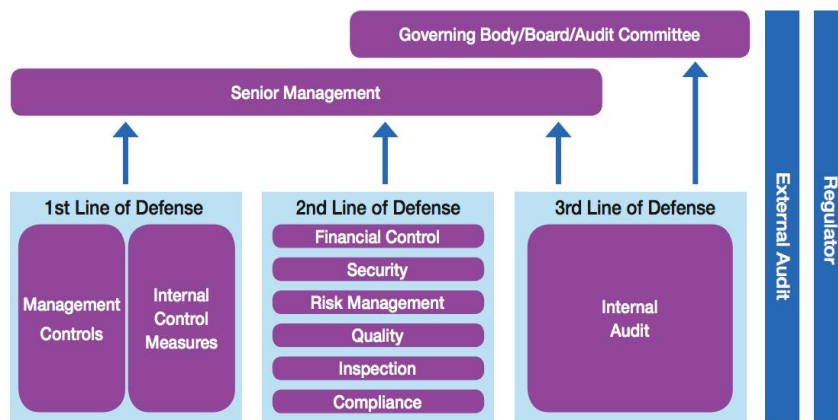
1. Our Role

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 2020/21.

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.

Central to everything we do is our ambition to address climate change, secure good jobs and ensure decent homes for all our people.

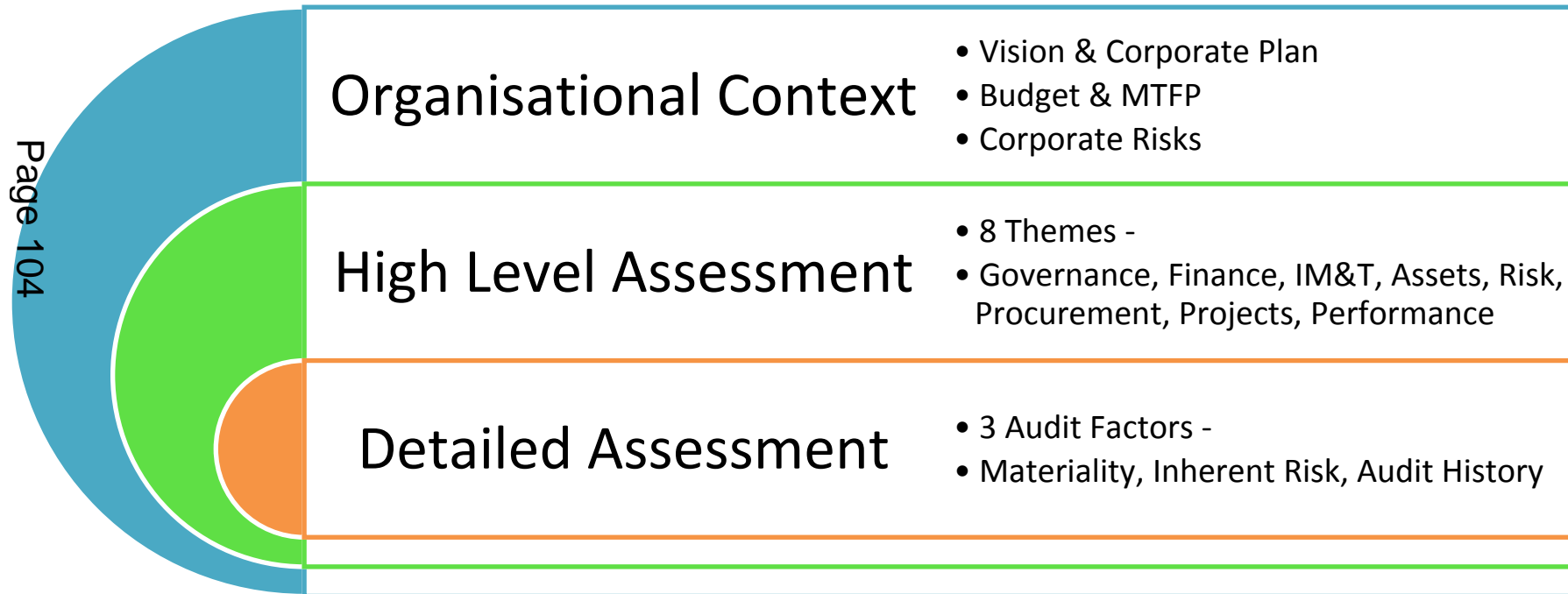
We will achieve our ambitions by working with our communities to deliver our priorities for infrastructure, skills and business.



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

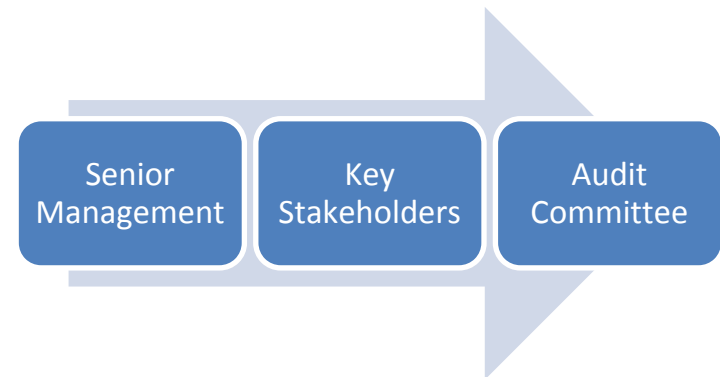


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DETAILED CRITERIA – AUDIT PLAN LISTING



CONSULTATION & APPROVAL



Results of our Reasonable Assurance Model Risk Assessment –

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HIGH		PROGRAMME & PROJECT MANAGEMENT			
	CORPORATE GOVERNANCE	FINANCIAL MANAGEMENT	PROCUREMENT		
		INFORMATION MANAGEMENT	RISK MANAGEMENT		
			PERFORMANCE MANAGEMENT		
			ASSET MANAGEMENT		
	HIGH	LEVEL OF ASSURANCE			LOW

Areas for Review – 2020/21

Internal Audit Areas	Reasonable Assurance Theme
Organisational & Corporate Functions (70 Days)	
Workforce for the Future – Governance & Funding Overview	Financial Management/Programme & Project Management/Corporate Governance
Adult Education Budget - Phase 2 Review of Commissioning	Financial Management/Programme & Project Management/ Corporate Governance
Core Financial Systems – Various incl Ledger, Control A/C's, VAT, Financial Controls Overview	Financial Management/ Programme & Project Management/ Corporate Governance
Procurement – Strategy & Governance Overview	Financial Management/Risk Management/ Corporate Governance
IT Risks – Programme of Testing	Financial Management/ Programme & Project Management/ Corporate Governance
Counter Fraud Arrangements – Programme of Testing	Financial Management / Risk Management
Local Enterprise Partnership (LEP) - Grant Funding Assurance	Financial Management / Corporate Governance
Corporate Governance (15 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 (5 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
Grant Audit Certification – Various (10 Days)	Financial Management / Corporate Governance

CONTACT DETAILS

Engagement Lead –	Jeff Wring 01225 477323 jeff_wring@bathnes.gov.uk
Audit Manager -	Mark Wheeler 07980 998810 Mark_wheeler@bathnes.gov.uk
Address Page 108	One West Bath & North East Somerset Council The Guildhall High Street BATH, BA1 5AW



ITEM: 11

REPORT TO: AUDIT COMMITTEE

DATE: 17 JULY 2020

REPORT TITLE: FEE SCALE FOR THE AUDIT 2020/21 AND UPDATE ON 2019/20

DIRECTOR: MALCOLM COE, DIRECTOR OF INVESTMENT AND CORPORATE SERVICES

AUTHOR: MALCOLM COE

Purpose of Report

- 1 Public Sector Audit Appointments, (PSAA), commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and they published the 2020/21 scale fees on their website on 31 March 2020. The PSAA letter attached to this report provides key updates and information on audit matters in response to Covid.

Recommendation

The committee is requested to note the content of the Public Sector Audit Appointments letter

Background / Issues for Consideration

- 2 Appendix 1 is a letter from the Public Sector Audit Appointment, (PSAA), that notifies us of the 2020/21 audit scale fee for WECA. In previous years our auditor has been required to do this. However, going forward, PSAA have agreed with the audit firms that it is more efficient for them to write out to all bodies directly.
- 2.1 PSAA consulted nationally on the 2020/21 Scale of Fees in early 2020 and they subsequently published the final document on their website. In it they explained that although they have set the scale audit fee at the same level as for 2019/20, they do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors.

- 2.2 The standard scale fee for 2020/21 will remain at £18,634 with any variations to this rate to be negotiated locally between the WECA Section 73 Officer and Grant Thornton, (WECA's appointed external auditor)
- 2.3 The PSAA letter also includes details on:
- How the scale fees are set;
 - Fee variations;
 - Quality of Audit Services;
 - Impact of COVID-19 on current 2019/20 audits and;
 - Local Audit Quality Forum

Consultation

- 3 Public Sector Audit Appointments consulted nationally on the 2020/21 audit scale fees in early 2020 with the subsequent document published on their website.
- 3.1 The Accounts and Audit Regulations (England) 2015 require the Annual Statement of Accounts to be certified by the Chief Financial Officer and made available for public inspection. WECA will issue a full copy of the draft 2019/20 accounts on the authority's website in advance of the statutory deadline of 31 August 2020.

Other Options Considered

- 4 WECA could have waited for the entire accounts to be available for review by the Audit Committee in September 2020, but chose the option of presenting various elements of the process early in order to obtain initial feedback and direction prior to publication of a draft on the authority's website.

Risk Management/Assessment

- 5 The publication of the Authority's Financial Statements forms a core part of WECA's governance and risk management processes. As required by statute, an Annual Governance Statement, (AGS), has been produced, (considered as a separate item on this committee agenda), and is integrated within the core Statement of Accounts document.
- 5.1 The AGS and narrative statement both detail the framework that the authority has developed, and implemented, for governing, managing and reporting risks.
- 5.2 The appointment of an external auditor, to formally provide an opinion on the authority's accounts, is a key component of the risk management framework.

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 There are no direct implications arising from this report.

Finance Implications, including economic impact assessment where appropriate:

7 The Statement of Accounts reflect the financial accounting position of the Combined Authority as at 31 March 2020. Management Accounting reports are published throughout the year evidencing progress and spend against the authority's set budget. The management accounting 2019/20 outturn positions for WECA, Mayoral Fund and LEP budgets are detailed within the draft narrative statement which is considered elsewhere on this committee agenda.

7.1 The external audit scale fees for 2020/21 are within the Medium Term Financial forecast and revenue budget that has been approved by the WECA committee.

Legal Implications:

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

8.1 PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 to set the (external audit) scale fees by the start of each financial year

Climate Change Implications

9 On 19 July 2019, the West of England Combined Authority declared a climate emergency, recognising the huge significance of climate change and its impact on the health, safety and wellbeing of the region's residents. The Combined Authority is committed to taking climate change considerations fully into account as an integral part of its governance and decision making process.

Each report/proposal submitted for Combined Authority / Joint Committee approval is assessed in terms of the following:

Will the proposal impact positively or negatively on:

* The emission of climate changing gases?

- * The region's resilience to the effects of climate change?
- * Consumption of non-renewable resources?
- * Pollution to land, water or air?

Particular projects will also be subject to more detailed environmental assessment/consideration as necessary as part of their detailed project-specific management arrangements

- 9.1 This report has no direct impact on climate change issues. However, WECA considers climate change when determining their priorities and investment decisions.

Appendices:

Appendix 1 – Public Sector Audit Appointments Fee Scale for the Audit 2020/21 and update on 2019/20

Background papers:

WECA Statutory Accounts 2018/19 – approved by the Audit Committee on 16 October 2019

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

30 April 2020

By email

Email generalenquiries@psaa.co.uk

Dear Section 151 Officer and Audit Committee Chair

Fee Scale for the Audit 2020/21 and update on 2019/20

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. These pressures still apply and the key aspects are summarised below;

- It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.
- It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website ([Scale fee document](#)). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

	Scale fee for the audit 2020/21	Scale fee for the audit 2019/20
West of England Combined Authority	£18,634	£18,634

As well as the Scale of Fees document, we have also produced a [Q&A](#) which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the [Statement of Responsibilities](#). This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

Fee Variations

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website ([Fee variations process](#)). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

Quality of Audit Services

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

Impact of COVID-19 on current 2019/20 audits

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

Local Audit Quality Forum

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at generalenquiries@psaa.co.uk

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

Yours sincerely,

Tony Crawley

Chief Executive



ITEM: 12

REPORT TO: AUDIT COMMITTEE

DATE: 17 JULY 2020

REPORT TITLE: IN-DEPTH INSIGHT INTO THE IMPACT OF COVID-19 ON FINANCIAL REPORTING IN THE LOCAL GOVERNMENT SECTOR

DIRECTOR: MALCOLM COE, DIRECTOR OF INVESTMENT AND CORPORATE SERVICES

AUTHOR: MALCOLM COE

Purpose of Report

- 1 Grant Thornton are the appointed external auditor for WECA. In June 2020 they produced a document which articulates and details the actual, and anticipated, impact of Covid-19 on financial reporting in the local government sector which is detailed as Appendix 1 to this report.

Recommendation

The committee is requested to note the content of the (Grant Thornton) 'in-depth insight into the impact of Covid-19 on financial reporting in the local government sector' report.

Background / Issues for Consideration

- 2 Appendix 1 is an information report from our external auditors, Grant Thornton, detailing the impact of Covid-19 on public sector financial accounting. Many of the points raised in the report are more pertinent to our constituent Unitary Authorities such as falling income levels in council tax, business rates and commercial operations.
 - 2.1 WECA is regarded as a financially stable organisation which is a viable 'going concern'. Although there is some risk to future revenue streams, such as business rates retention growth, the overall resource base of the authority is relatively stable.
 - 2.2 The report does provide some useful insight as to the challenges being faced nationally in the local government sector and includes guidance on accounting treatment in relation to some areas directly impacted through the Covid pandemic.

Consultation

- 3 The Accounts and Audit Regulations (England) 2015 require the Annual Statement of Accounts to be certified by the Chief Financial Officer and made available for public

inspection. WECA will issue a full copy of the draft 2019/20 accounts on the authority's website in advance of the statutory deadline of 31 August 2020.

- 3.1 There are no direct consultation requirements in relation to the attached information update report.

Other Options Considered

- 4 Not relevant. This is an update report, for information, from our external auditors.

Risk Management/Assessment

- 5 The publication of the Authority's Financial Statements forms a core part of WECA's governance and risk management processes. As required by statute, an Annual Governance Statement, (AGS), has been produced, (considered as a separate item on this committee agenda), and is integrated within the core Statement of Accounts document.
- 5.1 The information report, as detailed in Appendix 1, highlights some specific financial risks resulting from the Covid pandemic.

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 There are no direct implications arising from this report.

Finance Implications, including economic impact assessment where appropriate:

- 7 The Statement of Accounts reflect the financial accounting position of the Combined Authority as at 31 March 2020. Management Accounting reports are published throughout the year evidencing progress and spend against the authority's set budget. The management accounting 2019/20 outturn positions for WECA, Mayoral Fund and LEP budgets are detailed within the draft narrative statement which is considered elsewhere on this committee agenda.
- 7.1 The financial implications of Covid are not material on WECA's management accounts for 2019/20. However, there will be longer term financial impacts, such as reduced business rates retention growth, which will be kept under regular review and reported in budget monitoring updates to the WECA committee throughout 2020/21.

Legal Implications:

- 8 The publication and audit of the Authority's Financial Statements is in accordance with the Accounts and Audit Regulations (England) 2015. There are no specific legal implications in relation to this report.

Climate Change Implications

- 9 On 19 July 2019, the West of England Combined Authority declared a climate emergency, recognising the huge significance of climate change and its impact on the health, safety and wellbeing of the region's residents. The Combined Authority is committed to taking climate change considerations fully into account as an integral part of its governance and decision making process.

Each report/proposal submitted for Combined Authority / Joint Committee approval is assessed in terms of the following:

Will the proposal impact positively or negatively on:

- * The emission of climate changing gases?
- * The region's resilience to the effects of climate change?
- * Consumption of non-renewable resources?
- * Pollution to land, water or air?

Particular projects will also be subject to more detailed environmental assessment/consideration as necessary as part of their detailed project-specific management arrangements

- 9.1 This report has no direct impact on climate change issues. However, WECA considers climate change when determining their priorities and investment decisions.

Appendices:

Appendix 1 – In-depth insight into the impact of Covid-19 on Financial Reporting in the Local Government Sector.

Background papers:

WECA Statutory Accounts 2018/19 – approved by the Audit Committee on 16 October 2019

West of England Combined Authority Contact:

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In-depth insight into the impact of Covid-19 on financial reporting in the local government sector

June 2020

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Introduction

Local authorities across the country are now working in an environment that is completely different to the one they were in just months ago as the Covid-19 pandemic continues to impact their daily operations. In such uncertain times, now more than ever communities will be looking towards local authorities to do what they do best, providing essential local public services and particularly care and support to the most vulnerable members of our society.

The virus and measures taken to contain it have undoubtedly impacted financial and economic activity and the effects will not be contained to the 2019/20 and 2020/21 financial years but will be felt for a considerable time. This has several ramifications that local authorities will need to carefully consider in preparing and finalising their 2019/20 Narrative Report, financial statements and Annual Governance Statement.

For the year end 31 March 2020, effects of Covid-19 will need to be taken into account in measuring assets and liabilities at the balance sheet date. There may also be additional, non-adjusting, post balance sheet events relating to the ongoing pandemic that require disclosure in 2019/20 financial statements. For those local authorities yet to conclude their financial statements for years prior to 2019/20, the emergence of new information about Covid-19 and its impact is a non-adjusting post balance sheet event requiring disclosure in those financial statements.

The aim of this report is to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, we have identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. We have also included a number of useful links to other resources.





Executive summary

As a nation we are likely to feel the societal and financial consequences of the Covid-19 pandemic, and the measures to contain and mitigate its effects, for years, and possibly decades, to come.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Non-domestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way. Grant Thornton's 'Financial Foresight' model, developed in collaboration with CIPFA, can help local authorities bring together future spend forecasts with future income streams and combine this with placed based data to reflect the impact of local demographic and economic changes. Narrative reports, as presented in local authorities' statements of accounts, provide an important platform to communicate key information relating to the external environment, risks and opportunities, financial outlook and plans for dealing with potential budget shortfalls. Within the report we explore key considerations for local authority Narrative reports arising from the pandemic.

Local authorities hold a wide range of statutory and non-statutory receivables, including Council Tax and Non-domestic rate debtor balances, trade receivables, loans receivable and bank balances. Measures taken to control Covid-19 are leading to heavy economic losses and this has and will continue to affect collection rates, as some individuals and businesses experience financial effects of the pandemic. In preparing financial statements authorities will need to consider the recoverability of debt and the potential need to recognise impairments.

The uncertainties created by the pandemic have also significantly increased volatility and uncertainty in markets. In this environment it is important to maintain regular dialogue with management experts where they have roles in relation to asset valuations used in the preparation of accounts. This applies not only to non-current operational and non-operational property assets held by authorities, but also to investment properties, financial assets and many assets held by pension funds. Additional disclosures in financial statements in relation to major sources of estimation uncertainty may prove to be necessary.

We hope that you find our report insightful and helpful in preparing your accounts in this new reality.

Operational challenges and the related financial reporting/regulatory impact

Operational challenge Related financial reporting/regulatory impact

Increase in demand from service recipients both in the short and long-term

Financial sustainability and use of reserves – This is clearly a significant challenge for the majority of local authorities. Ten years of austerity has severely stretched finances across the sector, leaving many with depleted reserves as they seek to manage the delicate balancing of demand-led pressures and available resources. The challenges associated with Covid-19 are unprecedented in modern times and as well as increasing demand for a wide range of services including adult social care, children’s social care, services for the homeless, public health and support for the vulnerable it resulted in immediate pressures on local authority cash flows. The pandemic has heightened uncertainty and will continue to impact into the longer term.

Local authorities want to support service recipients as best as they can, however it is essential to consider long-term financial sustainability and ensure that reserves are not depleted to levels that put authorities in danger of insolvency. Priorities need to be established, and kept under review, and strategies will need to be re-worked to ensure that funds are being used as efficiently and effectively as possible. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.

In extreme circumstances some local authorities may be considering issuing notices under s114 of the Local Government Finance Act 1988. A s114 notice can have serious operational implications, including bringing a halt to all non-statutory expenditure, potentially hindering the response to the pandemic. The Ministry of Housing Communities and Local Government (MHCLG) has urged any local authorities with serious concerns about its financial sustainability to approach the department in the first instance.

Local authorities are required to publish a narrative report with the financial statements, providing information on the authority (including any group interests), its main objectives and strategies and the principal risks it faces. The impact of the pandemic will need to be taken into account in drafting the 2019/20 report and further commentary on the issues which may need to be addressed is included on page 13 of this report.

Operational challenge **Related financial reporting/regulatory impact**

Reduction in key sources of income

Impairment of statutory and non-statutory debt – At the same time as responding to new challenges in providing vital public services, local authorities are also faced with a significant squeeze on several of their sources of income.

Income from fees and charges, rental income, returns on investments including interest and dividends have all been affected to a greater or lesser degree, with significant uncertainty over the timing and extent to which these sources of income will return to pre-Covid-19 levels.

Measures taken to control the pandemic are leading to heavy economic losses and most large economies will see unprecedented falls in economic output. Increasing levels of unemployment and reducing tax revenues associated with global recession will affect collection rates for Council Tax and Non-domestic rates as individuals and businesses experience the financial effects of the pandemic, resulting in further pressure on authorities' cash flows and finances.

In preparing 2019/20 financial statements, authorities will need to take into account the potential for impairment of statutory Council Tax and Non-domestic rate debtor balances. Assessment of impairment needs to take place for both individually significant debtors, and also collectively for balances that are not individually significant. Observable data indicating a measurable decrease in estimated future cashflow, for example an increase in the number of delayed payments, should be taken into account. Recent historical loss experience across aged debt may also need revision where current information indicates the historical experience doesn't reflect current conditions. Experience following the 2008/09 financial crisis may prove to be a useful reference point, given the ensuing recession conditions.

IFRS 9 *Financial Instruments* is adopted by the Code of Practice on Local Authority Accounting ('the Code') and includes a three-stage impairment model which is applicable to financial assets including trade receivables, loan receivables, deposits and other debtors. IFRS 9 requires that forward-looking information (including macro-economic information) is considered both when assessing whether there has been a significant increase in credit risk and when measuring expected credit losses. The Covid-19 pandemic is likely to have caused significant deterioration in the credit quality of some businesses – this clearly varies from sector to sector with, for example, the hotel industry more severely affected than say the grocery sector. Authorities should re-assess expected credit losses in light of the pandemic, as the probability of losses occurring is likely to have increased.

Operational challenge Related financial reporting/regulatory impact

Closure of local authority offices, premises and facilities

Valuation of non-current assets – The Code requires that where assets, including Council dwellings and operational land and buildings, are revalued to ‘current value’ the revaluations shall be sufficiently regular to ensure that carrying amounts do not differ materially from current value at the end of the reporting period. Surplus assets and investment properties are required to be measured at fair value, reflecting market conditions at the end of the reporting period.

We note a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19. RICS has issued a Valuation Practice Alert following the pandemic, and we are aware a significant number of valuers are including ‘material valuation uncertainty’ disclosures within their reports. Our expectation is that authorities will assess the impact of such comments, taking account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in their financial statements in relation to major sources of estimation uncertainty.

Where such comments are included in management’s experts’ reports, and appropriate disclosure is correspondingly included within financial statements, auditors are likely to consider the need to include an ‘emphasis of matter’ paragraph within their audit report. An emphasis of matter paragraph is not a qualification or modification of the auditor’s report. It is used to draw the reader’s attention to a matter that has been appropriately presented or disclosed in the financial statements and which, in the auditor’s judgement, is of such importance that it is fundamental to the users’ understanding of the financial statements.

Onerous leases and other onerous contracts – It is uncertain as to when the lockdown restrictions may be lifted and when local authority premises can feasibly re-open, due to availability of staff and ability to implement required social distancing measures. Where premises are not owned but are being rented, authorities will need to consider the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received and whether an onerous lease provision is required. This is equally applicable to other contracts the authority might have where, especially due to the pandemic, the unavoidable costs of meeting their obligations under the contract exceed the economic benefits expected to be received under it. See section 8.2 of the Code for further detail.

Inventories – Authorities will need to consider whether at the reporting date the value of any stock needs to be written down, particularly for items which may not be used within their shelf-lives or other conditions which might make them unusable or mean they have a reduced value when lockdown restrictions are eased.

Operational challenge **Related financial reporting/regulatory impact**

Pausing significant projects

Capital projects – In applying the Code, authorities capitalise directly attributable costs of items of property, plant and equipment as an asset on the Balance Sheet if and only if it is probable that future economic benefits or service potential associated with the item will flow to the authority and the cost can be measured reliably.

Costs relating to schemes that are discontinued or abortive costs should be excluded from capitalisation. An authority will capitalise expenditure while it is reasonably assured that operative property, plant and equipment will eventually be constructed or acquired. This expenditure could remain on the balance sheet even while work on a scheme is suspended, provided that the outcome of the expenditure to date can be mothballed and there is sufficient certainty that the scheme will be reactivated within a reasonable timescale. Where an authority is not reasonably assured that a scheme will proceed, costs should be written off within service expenditure in the comprehensive income and expenditure statement.

Grant income – For any grants received or due to be received, local authorities may need to re-assess whether they can fulfill the performance measures or requirements of the grants, particularly where the activities have had to be adapted to the current circumstances and resources re-allocated. These might include achieving certain levels of output or using the grant within a specified time period, which may no longer be possible.

The Code adapts IAS 20. Grants and contributions are required to be recognised as income, except where an authority has not complied with any attached conditions.

If funding bodies make changes to the conditions set out in existing agreements then authorities will need to re-assess the recognition of grants in the financial statements.

Managing cashflow to meet liabilities as they fall due

Going concern – The Code requires local authorities, that can only be discontinued under statutory prescription, to prepare their financial statements on a going concern basis.

The international financial reporting framework on which the Code is based still requires disclosure of material uncertainties related to events or conditions that may cast significant doubt upon entities ability to continue as a going concern. In view of the Covid-19 pandemic, and pressures on local authority finances, consideration of this requirement will come into sharper focus in audits of 2019/20 financial statements and further commentary on the issues which may need to be addressed is included on page 14 of this report



Government support schemes – considering the accounting implications

The government has announced a variety of packages to support local authorities, businesses and individuals following the outbreak of Covid-19. In recognition of the essential role that councils have to play in the nation's response to the pandemic, MHCLG announced £1.6 billion of initial emergency funding to the sector on 20 March 2020 and a further £1.6 billion on 18 April 2020.

Councils also have a key role to play in distributing coronavirus grants to small and medium sized businesses. By 17 May 2020 the sector had distributed over £9.5 billion of grant funded by the Department for Business, Energy and Industrial Strategy (BEIS) via nearly 800,000 grant payments.

Note, the government support provided is changing regularly and the details of entitlement and how any claims will be settled are still being developed.

Government scheme

Covid-19 emergency funding for local government

MHCLG made available emergency funding to support local authorities in meeting increased demand for adult social care, children's social care, additional support for the homeless and those at higher risk of severe illness from Covid-19.

Initial funding of £1.6 billion was announced on 20 March and paid prior to the end of the 2019/20 financial year, on 27 March. An additional £1.6bn was announced early in the 2020/21 financial year, on 18 April.

Covid-19 grants to small and medium businesses

In the Budget delivered to Parliament on 11 March 2020, the Chancellor announced all businesses eligible for Small Business Rates Relief and Rural Rates Relief would receive a grant of £3,000 to help with the impact of Covid-19.

Subsequently the scheme was expanded to include businesses in the retail, hospitality and leisure sectors and the amount of grant increased to £10,000 for businesses with a rateable value under £15,000 and to £25,000 for businesses with a rateable value between £15,000 and £51,000.

On 1 May BEIS announced a Local Authority Discretionary Grants Fund, aimed at small and micro businesses not eligible for the earlier schemes, with funding of up to 5% of the small businesses and retail, hospitality and leisure schemes available.

Accounting considerations

Government grants

In line with the Code, Government grants represent "assistance in the form of transfers of resources to an authority in return for past or future compliance with certain conditions relating to the operation of activities."

Section 2.3 of the Code sets out the required accounting treatment for government grants.

Government grant income should be recognised when there is reasonable assurance that the recipient authority will comply with attached conditions and that the grant will be received.

The government has confirmed that this emergency funding has been provided on an un-ringfenced basis and as such it should be credited to the comprehensive income and expenditure statement as income immediately in the relevant financial year, in accordance with 2.3.2.9 of the Code. Authorities should also note the disclosure requirements set out at 2.3.4.

Principal and agent transactions

The eligibility criteria for these schemes are set out in government guidance and local authorities which are billing authorities are required to use their business rates information system to identify the properties that meet the eligibility criteria and pay over the grants to businesses. Local authorities are reimbursed by government for the grant payments made using a grant under section 31 of the Local Government Act 2003.

Billing authorities will need to assess whether they should be accounting for the s31 grants paid to them by BEIS and the distribution of the grants to eligible businesses, as either principal or agent transactions in accordance with Section 2.6 of the Code and the principles set out in paragraphs B34-B38 of IFRS 15.

Where billing authorities have no control over the amount to be awarded, there is no mandatory application process, eligibility is related to business status and billing authorities only have discretion not to award the grant until they identify the correct recipient then these features may indicate that authorities are not acting on their own behalf, but as agents of BEIS.

Paragraph 2.6.2.4 of the Code requires that where an authority acts as an agent, transactions will not be reflected in an authority's financial statements, with the exception in respect of cash collected or expenditure incurred by the agent on behalf of the principal. In these cases a debtor or creditor will be recognised and the net cash position included in financing activities in the cash flow statement.

Government scheme

Expanded Retail Discount – 100% business rates relief

In response to the coronavirus pandemic, in the Budget on 11 March the Government announced that it would increase the Business Rates Retail Discount to 100% for 2020/21 and extend it to include the leisure and hospitality sectors.

Following the announcement on 23 March 2020 of further measures to limit the spread of coronavirus, the Government confirmed that some of the exclusions for this relief have been removed, so that retail, leisure, and hospitality properties that have had to close as a result of the restriction measures will now be eligible for the relief.

Accounting considerations

Collection Fund

The collection fund statement is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate fund in accordance with Section 89 of the Local Government Finance Act 1988. The fund shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the government of council tax and non-domestic rates.

For 2019/20 and 2020/21, we would expect non-domestic rates income credited to the Collection Fund to represent amounts receivable, net of any discretionary and mandatory reliefs.

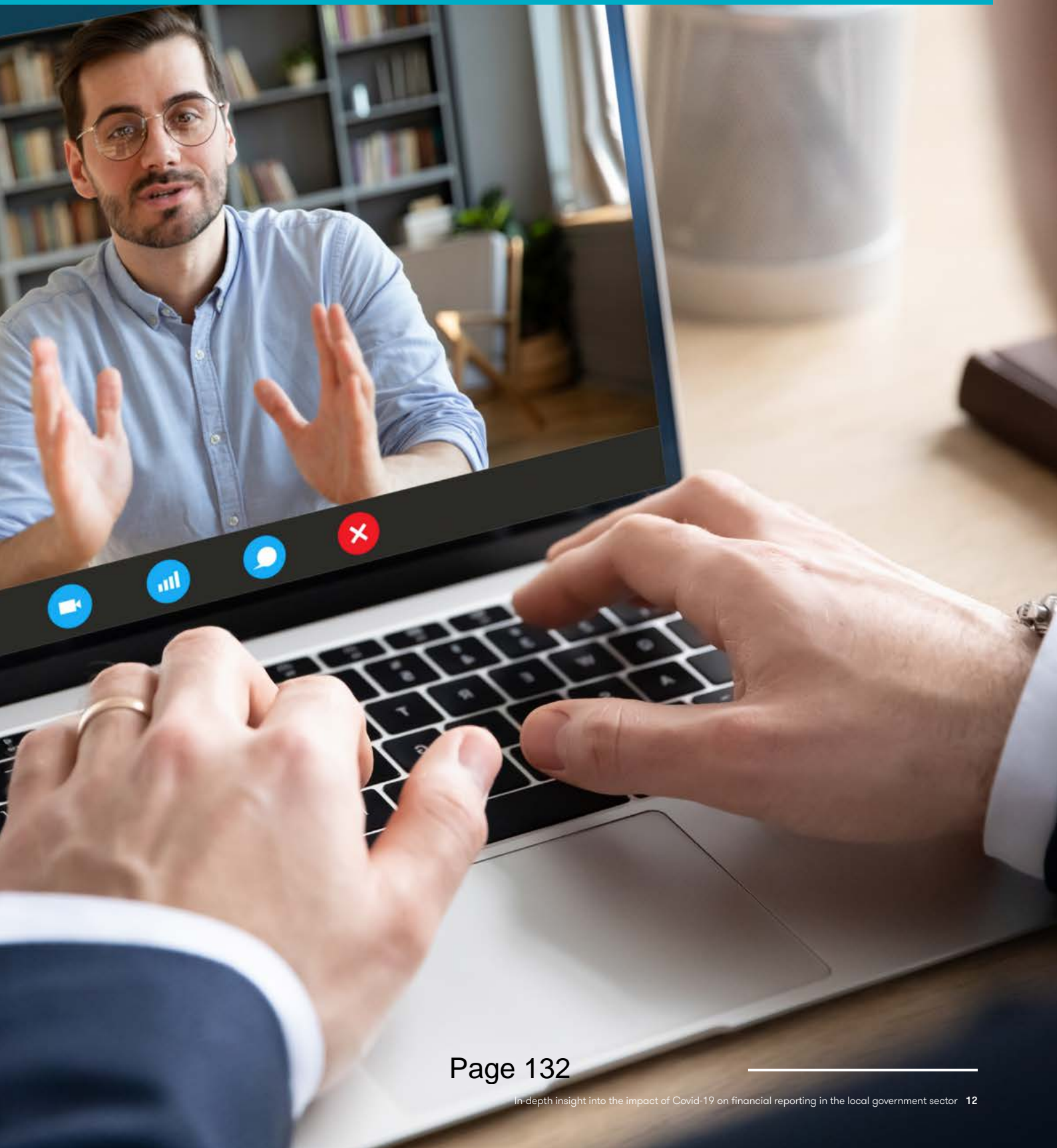
Government grants

The Government has indicated that it will fully reimburse local authorities for the local share of the discretionary relief granted under section 47 of the Local Government Finance Act 1988 (as amended), using a grant under section 31 of the Local Government Act 2003.

Local authorities will have completed their NNDR1 for 2020/21 already. Therefore, billing authorities will provide a further and separate estimate of their likely total cost for providing the 100% extended relief in 2020/21.

We would expect authorities to recognise these s31 grants as a credit to General Fund via the 'Taxation and non-specific grant income' line of the Comprehensive Income and Expenditure Statement.

Significant financial reporting issues to consider



Covid-19 is likely to have a significant impact on a number of other areas:

Narrative report

Additional disclosure is likely to be required around Covid-19 in most areas of the narrative report, with particular consideration given to providing information on:

- the external environment and significant changes to services and key objectives
- any significant changes to governance arrangements as a result of lockdown controls, cross-referencing to the Annual Governance Statement where appropriate
- risks and opportunities, this could include key risks and uncertainties in relation to future service provision, including financial risks, risks arising from the financial performance of subsidiaries and investments in other entities, risk mitigation measures, the acceleration of digital access to services
- the outlook for the authority including factors that may affect future cash flows, details of known future budget pressures or changes in resources and the authority's plans for dealing with any shortfalls.

Whilst it isn't possible to predict the ultimate extent and duration of the pandemic, or its wider impact on the economy, stakeholders will look to authorities to use best endeavors to explain the specific known impacts on their organisation to date, as well as the anticipated future impacts under different scenarios. The specific areas affected by uncertainty are discussed below in more detail, however we would expect that many authorities will have to reconsider their strategies and outlook going forward given the significant impacts of Covid-19. Further, measures to contain the pandemic have likely put pressure on governance processes and on elected members in discharging their responsibilities.

Accordingly, apart from the specific aspects of the narrative report detailed below, we would expect the report to include detailed and specific explanations of the current impact of Covid-19, how the authority has responded and the resilience of the organisation in the face of longer-term uncertainty.

Future plans and activities

This is an area which will require significant consideration by authorities as strategies are likely to have changed from those previously agreed and planned for. As noted above, whilst it isn't possible to predict the ultimate long-term impact of the virus, disclosure is required regarding the current impact as well as the anticipated future impact and how their strategies have had to change in light of the current pandemic.

Financial review and outlook

Consistency between the narrative report and amounts recorded in the financial statements, as well as the adequacy of disclosures made in the financial statements, is important. Authorities will need to ensure appropriate disclosure of material movements in amounts recorded is provided.

In line with paragraph 3.1.1.15 of the Code authorities are required to provide sufficient information to allow the reader to assess the future sustainability of the organisation including cash flows during the year and the factors that may affect future cash flows, information on the authority's key commitments and details of known future budget pressures, or changes in resources, and the authority's plans for dealing with any shortfalls.

Reserves

This is an area which is likely to be affected by the pandemic and some authorities may have to reduce their reserves to below their original target level. Authorities are required to include a description of the nature and purpose of their reserves either in the narrative report or with the financial statements themselves and additional commentary may be required in authorities' 2019/20 statement of accounts.

Risks and opportunities

Stakeholders will be especially interested in the authority's risk assessment regarding the impact of Covid-19 and the actions the authority has taken or is planning in response to the pandemic. The narrative report should include key risks and uncertainties in relation to future service provision and associated risk mitigation measures. Where there is a potential material impact on the authority's operational model or performance further details of the future outlook, risks and uncertainties should be provided. The report should be balanced and achievements and opportunities, for example in relation to rolling out digital access to the authority's services should also be addressed.

When disclosing principal risks and uncertainties, authorities should consider the specific resources, assets and relationships that are most at risk and the mitigating steps being taken to protect them. The principal risks and uncertainties would be expected to include the aspects which may be crucial to an authority's ability to withstand the various market and operational disruptions and rebuild when the opportunity arises. For example, risks and uncertainties arising from the disruption of service operation, the potential loss of key sources of income or the absence of key individuals.

Governance

The Code requires that where there have been significant changes in, or issues around, governance arrangements during the year, these should be highlighted in the narrative report. Paragraph 3.7.4.3 of the Code extends requirements in relation to the Annual Governance Statement to include significant events or developments relating to the governance system that occur between the reporting date and the date on which the statement of accounts is signed by the responsible financial officer.

Social distancing measures and staff absences are likely to have had a significant impact on authorities' governance arrangements. MHCLG laid regulations before Parliament in April 2020 to provide flexibility in relation to local authority and police and crime panel meetings held between 4 April 2020 and 6 May 2021. These regulations provide for remote access to meetings of local authorities by members of a local authority and by the press and public. The regulations also enable local authorities to hold and alter the frequency and occurrence of meetings without requirement for further notice and they disapply provisions requiring local authorities to hold annual meetings.

Given the fundamental importance of local democracy, openness and transparency, accountability and the overarching responsibility to serve the public interest we would expect authorities to describe the new arrangements they have put in place to hold meetings virtually, allow elected members to fully engage in taking key decisions and allow for public participation, within their Annual Governance Statement.

Going concern

Local authorities can only be discontinued under statutory prescription and as such should continue to prepare their financial statements on a going concern basis. In preparing their financial statements authorities are required to disclose material uncertainties related to events or conditions that may cast significant doubt upon their ability to continue as a going concern. In view of the Covid-19 pandemic and pressures on local authority finances, consideration of this requirement will come into sharper focus in audits of 2019/20 financial statements.

Going concern and any associated material uncertainties will need significant consideration and may have an impact on the audit report, narrative reporting and accounting policy disclosures in the accounts.

Some key areas to consider around going concern are:

- **Forecasting** – Forecasts will need to be revisited in light of the current circumstances and a variety of sensitivities and stress testing performed. Authorities should ensure that cash forecasts cover a period up to at least 12 months after

the date of approval of the audited financial statements, and base these on cash flows. If any government support schemes are included in forecasts these should only be included up to the point that the government have committed to date.

- **Material uncertainties** – Although expected to be unusual in a local government context, paragraph 25 of IAS 1 requires that when management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern these shall be disclosed within the financial statements.

Significant judgements and estimation uncertainty

Many areas of the financial statements involve management's judgements and assumptions as of the reporting date. Disclosures of significant judgements and areas of material estimation uncertainty should be focused, sufficiently detailed and up to date to reflect the current situation and any changes in underlying assumptions and sources of estimation uncertainty.

Careful consideration should be given to areas where management has made assumptions and taken judgements which are highly sensitive and have a material impact on amounts recognised and disclosed in the statements.

Valuation of investment property

The Code requires investment property to be measured at fair value, reflecting market conditions at the end of the reporting period. As with operational and surplus property valuations, investment property valuations are being impacted by current market uncertainty created by the Covid-19 pandemic. This has led RICs to instruct all of its member firms to consider including additional disclosure within valuation reports where valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Where this is the case valuers advise that less certainty and a higher degree of caution should be attached to valuations than would normally be the case.

Where such disclosure is included in management's experts' reports, and appropriate disclosure is correspondingly included within financial statements, auditors are likely to consider the inclusion of an 'emphasis of matter' paragraph within their audit report. An emphasis of matter paragraph is not a qualification or modification of the auditor's report and is used where a matter is appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Management's experts' reports may also include additional caveats or limitations beyond the material uncertainty mentioned above. For example, the expert may not have been able to physically attend a property when forming their valuation. This limitation will be carefully considered by the auditor to determine whether the scope limitation stops the expert being able to produce an appropriate valuation. If appropriate valuations are unable to be produced auditors will need to consider whether modification of their audit reports is necessary.

Impairment

There are many areas of the financial statements which will need to be assessed for impairment considering the financial impact of the pandemic. At each reporting date, management must assess whether there is any indication that an asset may be impaired.

To put this into context for the local authority sector we have highlighted some key areas below where impairment assessments may be necessary in the current climate.

Non-current assets

Many authorities are currently going through a period of significant disruptions due to the lockdown as well as changes in the wider external economic and financial markets, which has resulted in significant changes to their operations, therefore undoubtedly authorities may be holding assets which become less utilised.

Further, it is important to note that where demand for an authority's services significantly decreases or ceases, this may be a trigger that the assets used to provide those services are impaired. Similarly, major social, demographic or environmental changes may have an impact on the number, nature or needs of an authority's service recipients and may therefore also provide an indicator of impairment.

Both IAS 36 and the Code require non-financial assets such as property plant and equipment (including PPE measured at historic cost at current value or at fair value, and whether owned, leased, financed via PFI or donated), intangible and heritage assets to be impaired if their carrying value exceeds their recoverable amount, with the recoverable amount being the higher of fair value less costs of disposal (FVLCO) and value in use (VIU).

It is not always necessary to determine both an asset's FVLCO and its VIU as, if either amount is equal to or exceeds the asset's carrying amount, then the asset is not impaired. The VIU of an asset held by a local authority is the present value of the asset's remaining service potential, or the present value of the future cash flows expected from cash generating assets.

It is important to note that most local authorities hold assets primarily to provide services rather than for generating cash flows. In such circumstances, it would be inappropriate to measure VIU by reference to the asset's cash flow and appropriate to instead measure it as the present value of the asset's service potential (VIU-SP).

The Code notes that impairment may also be due to physical damage, obsolescence breakage, a commitment to a significant reorganisation, or other factors. In the current climate the indicators of impairment are likely to be much wider and manifest in a number of ways through external and internal sources of information.

Furthermore, the reliability of valuations is affected by the volatility of the economic environment and various markets, including the property market. On-site valuations are harder to achieve with social distancing measures in place. For those assets under the revaluation model, there is a possibility that some valuations will be issued with 'material valuation uncertainty' declarations and authorities will need to ensure that disclosures regarding valuations are sufficient for readers of the accounts to understand key estimates or judgements involved in determining valuations at the year end.

This is an area of management judgement and detailed consideration will be required for each authority given its own set of facts and circumstances. Further detailed guidance is contained within Section 4.7 of the Code and IAS 36.

Financial instruments

Local authorities hold a variety of financial instruments including bank deposits, trade receivables, loans receivable and investments. Section 7.2.9 of the Code is concerned with impairment of financial instruments and is based upon the requirements of IFRS 9. This standard requires that forward-looking information (including macro-economic information) is considered, both when assessing whether there has been a significant increase in credit risk and when measuring expected credit losses. Authorities are required to recognise a loss allowance for expected credit losses on financial assets where the counterparty is not central government or a local authority for which statutory provisions prevent default.

Where credit risk on a financial asset has increased significantly since its initial recognition, as could be the case following the Covid-19 pandemic, authorities are required to measure the loss allowance at an amount equal to the lifetime expected credit loss. In making an assessment of whether credit risk has increased significantly it is necessary to consider the change in the risk of default occurring over the expected life of the financial asset, taking account of reasonable and supportable information available without undue cost or effort. Regardless of how this assessment is performed, there is a

rebuttable presumption that the credit risk on a financial asset has increased significantly when contractual payments are more than 30 days past due, although it is not necessary to wait 30 days before determining that there has been significant increase in credit risk.

Authorities are required to measure expected credit losses on financial assets in a way that reflects unbiased, probability-weighted amounts determined by evaluating a range of possible outcomes, the time value of money and information available at the reporting date about past events, current conditions and forecasts of future economic conditions. Authorities need not identify every possible scenario but need to assess the possibility credit losses do or do not occur.

Investment in joint ventures/investment in subsidiaries

Some authorities have complex group structures and will need to consider whether the impact of Covid-19, including any measures taken to control it, are an indicator that the investments in joint ventures/subsidiaries are impaired. Authorities may also need to consider if there are any additional losses or contingencies in group entities for which they may become liable.

Employee benefits such as holiday pay accruals, sick pay and termination costs

Authorities will need to consider whether additional provisions and disclosures are necessary due to employee layoffs and other employee related items as a result of Covid-19.

Sick pay – Sick pay is likely to increase during this period and authorities should recognise a liability for sick pay in the period in which employees are off, even if it is not paid until a later period.

Termination costs – Under IAS 19 authorities should recognise a liability and expense for termination benefits at the earlier of when it can no longer withdraw the offer of those benefits and when it recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

Any plans communicated after the reporting date should be treated as a non-adjusting post-balance sheet event in line with paragraph 3.8.2.13 of the Code.

Investments

Financial markets across the world have been very volatile due to the current uncertainty surrounding the economic impact of the pandemic. Where investments are measured at fair value, based on a quoted price in an active market for an identical asset (i.e. 'Level 1' in the fair value hierarchy) then, whilst such fair values might change materially within the next financial year, disclosure of the risk of material change is not required.

Where, however, investments (including financial assets and investment property) are measured using valuation techniques involving observable inputs other than quoted prices or unobservable inputs (i.e. at 'Level 2' or 'Level 3' of the fair value hierarchy as defined in section 2.10 of the Code and IFRS 13), and there is a significant risk of material adjustment to the carrying amount of the investment within the next financial year, then the estimation uncertainty disclosure requirements of 3.4.2.90 of the Code will apply.

The possibility of assets needing to be measured using unobservable inputs as a result of the pandemic should also be taken into account. Where measurement does move from 'Level 2' to 'Level 3' then authorities should note the additional disclosure requirements set out in section 2.10.4 of the Code.

Increased volatility and uncertainty will also have an impact on the valuation of defined benefit pension schemes as discussed below.

Pensions

Movements in the value of investments will affect the valuation of defined benefit pension schemes overall and in some cases, authorities may see a noticeable change in their defined benefit pension position. Some actuarial methodologies may also traditionally use forecast investment valuations to determine an estimate for the year end fund asset position. Given the volatility of the financial markets, the possibility of significant change in asset valuations as at the year-end should be considered and the fair value of plan assets updated where there has been a material movement compared to the forecast position. Using any estimated asset valuations increases the likelihood of a significant misstatement in the overall defined benefit pension scheme position at the year end.

Post balance sheet events

For 2019/20 financial statements, the existence of Covid-19 was recognised during the financial year and some of its impacts and actions taken by the Government were known by the reporting date of 31 March 2020, Covid-19 is an adjusting event and the effects of the pandemic must be taken into account in measuring assets and liabilities wherever relevant, based on facts and circumstances at year-end. However, new information about the likely severity and duration of the effects of Covid-19 will continue to emerge. Careful analysis and judgement, with reference to Section 3.8 of the Code and IAS 10, will be required to determine whether this information is 'adjusting' on the basis that it provides new evidence about the year-end situation, or is a non-adjusting event that should be disclosed.

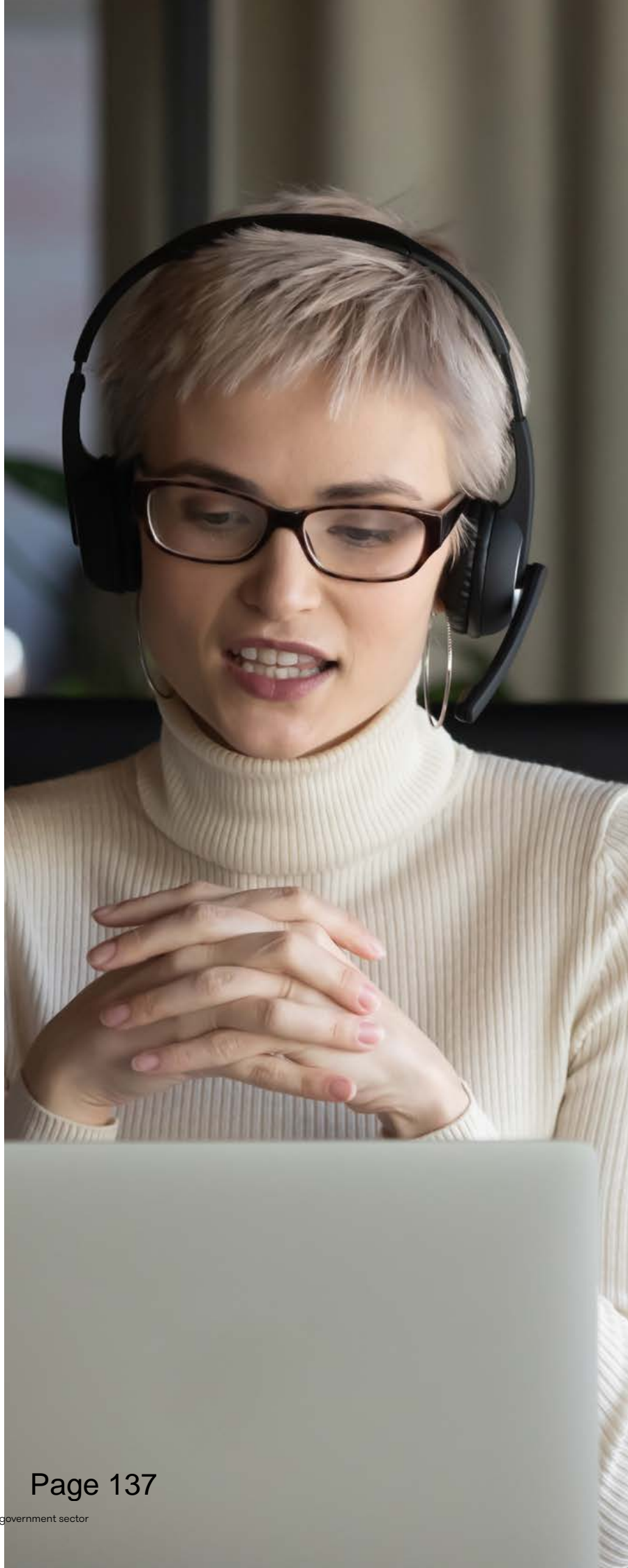
For those local authorities yet to conclude their financial statements for years prior to 2019/20, the emergence of new information about Covid-19 and its impact is a non-adjusting post balance sheet event requiring disclosure in those financial statements. The outbreak of the virus, its identification as Covid-19 by the WHO and actions subsequently taken by the Government do not provide additional evidence about the conditions that existed at the reporting date. Therefore, for 2018/19 (or earlier) financial statements the emergence of Covid-19 and its impact is a non-adjusting event. In line with section 3.8.3.2 of the Code, disclosure is still required for non-adjusting events regarding the nature of the event and estimate of the financial effect if possible.

We would encourage all authorities to consider all these points when preparing their financial statements.

Deferral of IFRS 16 Leases

At its meeting on 27 March CIPFA/LASAAC agreed to defer the implementation of IFRS 16 Leases to the 2021/22 financial year, with an effective date of 1 April 2021. This decision aligns with the proposals across the public sector.

Although the implementation of IFRS 16 has been delayed to 1 April 2021, in our view authorities still need to include disclosure in their 2019/20 statements to comply with the requirement at 3.3.4.3 of the Code and the underlying requirement of IAS 8 paragraphs 30 and 31. As a minimum, we would expect authorities to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, we would expect the financial statements to state this.



Other sector issues and practicalities to consider



Cyber security

Sadly more instances of cyber-crime are occurring as fraudsters are taking advantage of an increase in on-line activity, and in some cases a weakening of controls. The most common types of cyber-crime currently are:

- **Procurement fraud** – companies claiming to sell personal protective equipment and then not delivering the goods
- **Phishing emails** – with links leading to fake website which can cause viruses or steal personal details or passwords
- **Mandate/CEO fraud** – these involve official looking emails requesting changes to bank details for either suppliers/employees; and
- **Unsolicited goods/services/financial support** – these goods are never delivered and often require advanced fee payment.

As the majority of staff will be working on-line it is of utmost importance that local authorities make all employees aware of the type of cyber-crimes that are prevalent, to be particularly vigilant, and to maintain strong internal controls.

Impact on audit work/ external scrutiny process

- **Audit approach** – Planned audit approaches are likely to change due to logistical issues as well as a heightened risk in several areas of the financial statements, resulting in additional testing being required. Social distancing will have a significant impact on how auditors obtain the evidence they require as well as how they communicate. You will see an increase in use of technology as may see more substantive testing, particularly if the operation of internal controls has been affected. Auditors and local authorities will need to work together to identify what alternative measures are possible in the current environment without reducing the quality of audit evidence.

The amount of audit work and length of audits are therefore likely to increase due to the impact on financial reporting and additional scrutiny over key estimates and significant judgments made by management should be anticipated.
- **Audit reports** – Due to the uncertainties arising from the pandemic there is a greater likelihood of audit reports containing emphasis of matter paragraphs and potentially being modified or qualified. Where the auditor anticipates a potential modification they will communicate the circumstances to officers and those charged with governance.
- **Audit Committee and other significant meetings** – Audit Committee meetings may be impacted if physical meetings are still prohibited or advised against at the time of concluding audits. Audit committees will need to discuss with their auditors how best to communicate, holding virtual meetings where possible. Annual and other significant meetings may also have to be held virtually, postponed or cancelled.
- **Accounts preparation and audit timetable** – MHCLG laid the Accounts and Audit Regulations (Coronavirus) (Amendment) Regulations 2020 before Parliament in April 2020. The effect of the Regulations is to extend the timetable for local authorities to prepare their draft 2019/20 statement of accounts to 31 August 2020, with the period for the exercise of public rights to commence on or before 1 September 2020. The Regulations also extend the deadline for the publication of statements of accounts, together with any certificate or opinion of the local auditor, to 30 November 2020. Local auditors will already have liaised with local authorities over the anticipated timetable for the preparation and audit of the 2019/20 financial statements.
- **Inspection of documents** – Section 26 of the Local Audit and Accountability Act 2014 gives any interested person the right to inspect the accounting records for the financial year and all books, deeds, contracts, bills, vouchers, receipts and other documents relating to those records. The Accounts and Audit Regulations 2015 prescribe that these rights may only be exercised in a single 30 working day period, with the responsible financial officer required to advise the relevant period via publication of a statement including publication on the authority’s website. In light of the pandemic and with social distancing measures in place, authorities will need to consider how they will allow the public the opportunity to exercise their rights in relation to the accounts. Authorities must publish the dates of their public inspection period, and given the removal of the common inspection period and extension of the overall deadlines for this year, authorities may wish to include public notice on their websites when the public inspection period would usually commence, explaining why they are departing from normal practice for 2019/20 accounts.

The National Audit Office is currently reviewing its publication ‘Local authority accounts – a guide to your rights’ and updates will be made to take account of the changes announced in the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.

Engagement with experts



In uncertain times, it is particularly important to maintain regular dialogue with management experts where they have roles in relation to the preparation of accounts. Some examples include:

- **Valuation experts** – These should be contacted as soon as possible to establish how they will apply the most accurate valuation method, in light of the current uncertainty and with social distancing measures in place. RICS have issued some advice¹ to its members on that matter, including highlighting the possibility that some valuations may need to be issued with ‘material valuation uncertainty’ declarations.
- **Actuaries** – Discussions with actuaries, engaged to support with defined benefit pension schemes, should be held regarding updates to the assumptions used and timing of their report, in order to obtain the most accurate valuation possible.

¹ <https://www.rics.org/uk/upholding-professional-standards/sector-standards/valuation/valuation-coronavirus/>

Further resources and guidance

The amount of information and constant updates can be overwhelming and therefore we have included some key websites for guidance on both the operational and financial aspects that are being updated regularly so that you have these to hand.

Grant Thornton Covid-19 Hub

Grant Thornton have a dedicated Covid-19 hub², which covers a number of topics including: navigating government support, cyber security, contingency planning, impact on businesses and option to join weekly webinars which provide practical steps to dealing with the impact of the pandemic.

CIPFA

CIPFA have issued guidance³ on the financial reporting implications of Covid-19 covering some key areas including the impact on the narrative report, events after the reporting period and impact on Property Plant and Equipment, Investment Property and Financial Instruments.

National Audit Office

The National Audit Office will publish an updated guide⁴ to public rights in relation to the accounts, taking into account the impact of the pandemic.

Financial Reporting Council

The Financial Reporting Council (FRC) are continuously updating their advice on the impact of the pandemic on financial reporting and audits.⁵ This is relevant for both authorities and auditors.

Local Government Association

The Local Government Association has published guidance and resources relating to Covid-19 on its website.⁶

Ministry of Housing Communities and Local Government

The Ministry of Housing Communities and Local Government (MHCLG) has published extensive Covid-19 related guidance for the local government sector.⁷

Please note that this is a constantly evolving situation and therefore information included within this report may change over time.

Contact us



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² <https://www.granthornton.co.uk/en/insights/responding-to-coronavirus-covid-19/>

³ <https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-05-closure-of-the-201920-financial-statements>

⁴ <https://www.nao.org.uk/code-audit-practice/council-accounts-a-guide-to-your-rights/>

⁵ <https://www.frc.org.uk/about-the-frc/covid-19/>

⁶ <https://www.local.gov.uk/our-support/coronavirus-information-councils>

⁷ <https://www.gov.uk/guidance/coronavirus-covid-19-guidance-for-local-government>

