

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

will be held on

**Date: Thursday, 17 November 2022**

**Time: 10.30 am**

**Place: The Orchard Room at Bailey's Court Activity Centre, Baileys Court Rd, Bradley Stoke, Bristol BS32 8BH**

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

Cllr Geoff Gollop, Bristol City Council  
Cllr Mark Bradshaw, Bristol City Council  
Cllr Sarah Classick, Bristol City Council  
Cllr Jonathan Hucker, Bristol City Council  
Cllr Brenda Massey, Bristol City Council  
Cllr David Wilcox, Bristol City Council  
Cllr Rob Appleyard, Bath & North East Somerset Council  
Cllr Hal MacFie, Bath & North East Somerset Council  
Cllr John Ashe, South Gloucestershire Council  
Cllr John O'Neill, South Gloucestershire Council  
Cllr Matthew Riddle, South Gloucestershire Council  
Mark Hatcliffe, Independent Member of WECA Audit Committee

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# West of England Combined Authority Committee Agenda

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## **1. EVACUATION PROCEDURE**

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

## **2. APOLOGIES FOR ABSENCE**

*To receive apologies for absence from Members and to note any substitute members present.*

## **3. 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.*

## **4. ELECTION OF VICE-CHAIR FOR MUNICIPAL YEAR 2022/23**

*The Audit Committee to elect a Vice-Chair from amongst its members for Municipal Year 2022/23 (item deferred from the last meeting).*

## **5. CHAIR'S ANNOUNCEMENTS**

*To receive any announcements from the Chair of the Audit Committee.*

## **6. MINUTES**

*To endorse and ratify the minutes of the inquorate meeting held on 12 October 2022.*

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## **7. ITEMS FROM THE PUBLIC (QUESTIONS, STATEMENTS AND PETITIONS)**

### **WRITTEN PUBLIC QUESTIONS (written procedure)**

*1. Any member of the public can submit a maximum of two written questions in advance of this meeting.*

*2. The deadline for the submission of questions is 5.00 pm, at least 3 clear working days ahead of a meeting. For this meeting, the deadline for questions is **5.00 pm on Friday 11 November 2022.***

*3. Questions should be addressed to the Chair of the meeting and e-mailed to [democratic.services@westofengland-ca.gov.uk](mailto: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 the Combined Authority's committee procedures, there is no opportunity for oral supplementary questions to be asked at committee meetings.*

*6. The written questions and replies will be circulated to committee members in advance of the meeting and published on the Combined Authority website.*

### **PUBLIC STATEMENTS**

*1. Any member of the public may submit a written statement (or petition) to this 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 this meeting, the deadline for statements is **12 noon on Wednesday 16 November 2022**. Statements should be emailed to [democratic.services@westofengland-ca.gov.uk](mailto: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 Combined Authority website.

5. Please note:

If any member of the public wishes to attend the meeting to orally present their statement, they are asked please to notify the Combined Authority's Democratic Services team of this at the point when their statement is submitted and by 12 noon on the working day before the meeting at the very latest.

For those presenting their statements at the meeting, up to 3 minutes 'speaking time' is permitted for each statement. The total time available for the public session at this meeting is 30 minutes.

**8. CONSIDERATION OF THE RECOMMENDATIONS OF THE AUTHORITY'S EXTERNAL AUDITORS** 11 - 52

*To consider the written recommendations of the Auditors VfM report on Governance issued by the Combined Authority's External Auditor.*

**9. THE AUDIT FINDINGS FOR THE WEST OF ENGLAND COMBINED AUTHORITY** 53 - 88

*The Committee is requested to discuss the key findings and other matters arising from the statutory audit of the West of England Combined Authority for year ending 31 March 2022.*

**10. INTERNAL AUDIT UPDATE** 89 - 108

*To Update the Committee on Internal Audit work in 2022/23. A response from management is attached at Appendix 2.*

**Next meeting: Monday, 12 December 2022**



# Agenda Item 6

## West of England Combined Authority Audit Committee

Wednesday, 12 October 2022, 10:30am  
Council Chamber - Bristol City Council

### Present:

Cllr Geoff Gollop, Bristol City Council  
Cllr Sarah Classick, Bristol City Council  
Cllr Brenda Massey, Bristol City Council  
Cllr Keith Burchell, South Gloucestershire Council  
(as substitute for Cllr Matthew Riddle)

Cllr David Wilcox, Bristol City Council  
Cllr John Ashe, South Gloucestershire Council  
Cllr Steve Smith, Bristol City Council (as  
substitute for Cllr Jonathan Hucker)

### Officers In Attendance:

Stephen Gerrard, Interim Director of Legal and  
Democratic Services  
Richard Ennis, Interim Director of Investment and  
Corporate Services  
Selonge Russell, Head of Finance and  
Procurement

Steve Finnegan, Financial Accountant  
Jon Roberts, External Auditor, Grant Thornton

### Apologies:

Cllr Mark Bradshaw, Bristol City Council  
Cllr Jonathan Hucker, Bristol City Council  
Cllr Rob Appleyard, Bath & North East Somerset  
Council  
Cllr Hal MacFie, Bath & North East Somerset  
Council

Cllr John O'Neill, South Gloucestershire Council  
Cllr Matthew Riddle, South Gloucestershire  
Council  
Mark Hatcliffe, Independent Member of Audit  
Committee

## Minutes

1	<b>Evacuation Procedure</b> The evacuation procedure was noted.
2	<b>Committee Membership &amp; Apologies for absence</b> The Membership of the West of England Combined Authority Audit Committee for Municipal Year 2022/23 was noted.  Apologies for absence had been received from: Cllr Mark Bradshaw, Cllr John O'Neill, Cllr Hal MacFie, Cllr Rob Appleyard, Mark Hatcliffe, Cllr Jonathan Hucker (Cllr Steve Smith attended as substitute) and Cllr Matthew Riddle (Cllr Keith Burchell attended as substitute)  The Monitoring Officer advised that as the Committee was meeting with less than the number of members present to be quorate decisions could be ratified by the Committee and endorsed by the next meeting.
3	<b>Election of Chair for Municipal Year 2022/23</b> The nomination of Cllr Geoff Gollop to be elected as Chair for the West of England Combined Authority Audit Committee for Municipal Year 2022/23 was proposed by Cllr Steve Smith and seconded by Cllr John Ashe. There were no other nominees. The nomination was agreed by the Committee  <b>Resolved:</b>  That Cllr Geoff Gollop be elected as Chair of the West of England Combined Authority

	Audit Committee for Municipal Year 2022/23.
4	<p><b>Election of Vice-Chair for Municipal Year 2022/23</b> As the meeting was inquorate the election of a Vice-Chair for Municipal Year 2022/23 was deferred to a future meeting.</p>
5	<p><b>Declarations of Interest under the Localism Act 2011</b> There were no declarations of interest declared under the Localism Act 2011.</p>
6	<p><b>Terms of Reference</b> The Terms of Reference for the Committee were noted.</p>
7	<p><b>Minutes</b> The minutes of the meeting held on 28 April 2022 were agreed as a correct record and signed by the Chair.</p>
8	<p><b>Items from the Public</b> Two questions had been received from one individual. The responses to these questions had been circulated prior to the meeting and published on the Authority's website.</p> <p>Two statements had been received from Members of the Public. These statements had been circulated prior to the meeting and published on the Authority's website. No member of the public was in attendance at the meeting.</p>
9	<p><b>Petitions</b> No petitions had been received.</p>
10	<p><b>VALUE FOR MONEY ARRANGEMENTS (2020-21)</b> The Committee received a paper providing an overview of Grant Thornton's findings to date on the financial sustainability objective as prescribed by the National Audit Office (NAO) Code of Audit Practice. The Committee were requested to note the report. Jon Roberts from the Authority's External Auditors Grant Thornton was present to answer questions from Members.</p> <p>The Chair of the Committee, Councillor Geoff Gollop, reiterated his frustration with the delay in the Committee receiving the report and the fact that the report was still incomplete. He asked that the following statement be included in the minutes of the meeting:</p> <p><i>"I wish to draw to the Committees attention my concerns about the VFM report. I should add that I have no concern about the information presented, only about what is missing. I have expressed at our past meetings and briefings my concerns about governance, decision making, frictions within WECA and wider management issues. Most of these concerns are shared by audit committee and have also been raised by the WECA scrutiny committee. I believed that the VFM report was going to address these issues and one specific decision that I was concerned about and have pressed for that report to be made available to audit committee on a number of occasions. However, meetings have been rearranged and/ or cancelled and we are still no further forward. After our April meeting, I was told that the report was expected soon but would have recommendations that should go straight to the WECA Committee. I asked that it should come to audit as a matter of urgency and I asked to be kept informed.</i></p> <p><i>I was surprised to discover from the GT report that officers have had the report for almost 4 months before this meeting ( 20<sup>th</sup> June 2022 per Page 4 of the report page 16 of our pack) , but neither I nor the audit committee have seen the draft as presented then, or copies amended to show officer response. I believe audit committee needs an explanation of why it still has not seen this report and to understand the delay. We should also be able to track changes made to the report.</i></p>

	<p><i>Of equal concern to me, and I hope to members of the audit committee, is the agenda and agenda planning. Because I was concerned about this issue, I asked for a meeting to discuss the agenda before it was published. This is important in the context of the VFM report. I had believed from our previous discussion that it was coming in full to this meeting, but only knew that it was not after the meeting papers were published.</i></p> <p><i>It should be entirely appropriate for the chair to be included in discussing the potential content of the agenda. I very much believe audit committee should be a working together of members and officers for the good of the organisation.</i></p> <p><i>Returning to the VFM report, I believe this committee needs to know why the report has been delayed and when it will be published. If the report has significant implications, we need to know why it has taken so long and how improvements have been made and lessons learned. If there are no significant findings it is difficult to understand how there can be any justification for the delay”.</i></p> <p>Jon Roberts, Grant Thornton stated in response that the report had been embargoed until such time that the Auditors had given permission for the report to be released. There had also been a number of sensitive issues that the auditors had been dealing with that had resulted in delays, including a consultation process across the summer period involving senior managers across the Authority who had been given an opportunity to respond. He believed that the final Value for Money report would be ready in time for the Committee’s consideration at its meeting in November 2022.</p> <p>The following comments were raised:</p> <ul style="list-style-type: none"> <li>• Members requested that the report be published in such a way to allow a text search and that a glossary be included. Jon Roberts stated that he would ask that the final report in November 2002 be made more accessible;</li> <li>• Grant Thornton was keen to hear views regarding any specific project management reviews to be undertaken.</li> </ul> <p><b>Resolved:</b></p> <p>That the report be noted.</p>
11	<p><b>EXTERNAL AUDIT PROGRESS REPORT AND SECTOR UPDATE</b></p> <p>This Committee received a report on the progress in delivering Grant Thornton’s responsibilities as our external auditors. The report also includes a summary of emerging national and developments. It was noted also that the auditing of accounts process had commenced and that there had been no issues of significance identified so far.</p> <p>It was noted further that due to changes in the Audit market and the increased demands on auditing public bodies there would be a number of changes in the market. Although Grant Thornton was contracted to carry out the Authority’s Auditing for this year the contract had been tendered thereafter by the PSAA for the next 5 years and we are awaiting the outcome of this. There were currently six firms that could be contracted to provide the service in the future although there was likely to be a significant increase in fees.</p> <p><b>Resolved:</b></p> <p>That the report be noted.</p>
12	<p><b>CIPFA'S UPDATED POSITION STATEMENT: AUDIT COMMITTEES IN LOCAL AUTHORITIES 2022</b></p> <p>The Committee received a report that presented the Chartered Institute of Public Finance &amp;</p>

	<p>Accountancy (CIPFA) Position Statement: Audit Committees in Local Authorities and Police 2022 for comments. The 2022 Position Statement set out the purpose, model, core functions and membership of an audit committee. Key details for each of these areas are summarised below:</p> <ul style="list-style-type: none"> <li>• Purpose – the statement defined the purpose of Audit Committees;</li> <li>• Independent and Effective Model - The audit committee should be established so that it was independent of executive decision making and able to provide objective oversight. CIPFA recommended that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise;</li> <li>• Core Functions - The Position Statement noted that the core functions of an audit committee were to provide oversight of a range of core governance and accountability arrangements;</li> <li>• Membership - The Statement set out guidance regarding the membership of an audit committee;</li> <li>• Engagement and outputs - The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs.</li> </ul> <p>The Updated CIPFA Position Statement was attached as Appendix 1. The Committee raised the following points:</p> <ul style="list-style-type: none"> <li>• The Authority was requested that each individual project should be assessed in terms of its carbon output. There was a risk to the prospect of meeting net zero targets unless the monitoring was effective. There was possibly a role for the Overview &amp; Scrutiny Committee in this matter;</li> <li>• The Committee stated that it was important that there was a mix of membership of the Committee in terms of some with financial backgrounds and others with different experiences but with a way of monitoring the Committee's effectiveness (with guidance from Internal or External Auditors) and possibly reporting its activities to the Combined Authority Committee on a regular basis. A stable membership was also desirable so that members could build up their experience of the technical issues discussed;</li> <li>• It was noted that CIPFA would be contacted to offer independent training to Members and Grant Thornton were able to offer training sessions to Members if needed as an alternative option ;</li> <li>• Members asked that an update on the recruitment process for a second independent member be brought to the next meeting and agreed in principle that a second independent member would be desirable;</li> </ul> <p><b>Resolved:</b></p> <p>That the Committee's views and comments on CIPFA's new Position Statement be noted and placed on record.</p>
13	<p><b>DRAFT STATUTORY ACCOUNTS 2021/22</b></p> <p>Members of the Audit Committee received a report together with an accompanying presentation, setting out the West of England Combined Authority Annual Draft Statement of Accounts for 2021-22 for their review and approval.</p> <p>The following comments were received:</p> <ul style="list-style-type: none"> <li>• The value of the investments were monitored monthly. Due to a rise in interest rates there were no concerns currently. The External Auditors had asked their technical</li> </ul>

	<p>team to look at the value of the pension fund due to the economic uncertainty as this was an important part of the accounts;</p> <ul style="list-style-type: none"> <li>• Members were keen to find out any feedback from participants in the Future Bright scheme, especially if businesses were to fold in the economic conditions;</li> <li>• In terms of the Transforming Cities fund the position had been stated as at 31 March 2021. Work was ongoing with the Local Authorities to ensure that the all the allocated monies were spent, including meetings that discussed each project and to ensure delivery was met with additional inflationary pressures. A report to the Combined Authority Committee would update the position. The Interim Director of Investment and Corporate Services could provide an update to a future meeting if necessary;</li> <li>• Members were concerned about the risks involved in running bus services especially how those risks were being transferred from the private operators to the Authority. It was asked that the risk register and the work programme of upcoming items be included on the agenda;</li> </ul> <p><b>Resolved:</b></p> <p>That the comments raised on the West of England Combined Authority Annual Draft Statement of Accounts for 2021-22 (as detailed in Appendix 1) be noted.</p>
	<p><b>Date of Next Meeting:</b> Thursday, 10 November 2022 [subsequently rearranged for 17 November 2022]</p>

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## **REPORT WEST OF ENGLAND COMBINED AUTHORITY COMMITTEE**

**DATE:** 17th November 2022

**REPORT TITLE:** EXTERNAL AUDITORS VFM  
REPORT ON GOVERNANCE

**DIRECTOR:** STEPHEN GERRARD –  
MONITORING OFFICER

### **Purpose of Report**

To consider the written recommendations of the Auditors VfM report on Governance issued by the Combined Authority's External Auditor.

### **Recommendation**

The Combined Authority is recommended to:

1. Fully accept the findings of the report and the external auditor's recommendations.
2. Note that the written recommendations SR1, SR2 and SR3 have been identified by the external auditor as Section 24 Local Audit and Accountability Act 2014 statutory recommendations as detailed in the report.
3. Note the progress that has been made and the range of corrective actions that have already been taken to date as detailed in appendix 1.
4. Note that the financial issue detailed in the report for the employee exit payment has already been considered and accounted for in the 2021/22 draft published accounts.
5. Consider and agree the action plan detailed at appendix 1 to this report, that includes a response to each of the external auditor's recommendations.
6. Agree that the action plan be presented to both the Audit Committee and the Scrutiny & Overview Committee at their next meetings to consider and

review from their differing constitutional positions and report any feedback to the Combined Authority Committee.

7. Request that Combined Authority Committee receives a report that includes any feedback on the action plan from the Scrutiny & Overview Committee and Audit Committee and provides further detail on the delivery of the Action Plan at a future meeting.
8. Note that the West of England Combined Authority will continue to maintain an open dialogue with the external auditor, Chair of the Audit Committee, and Chair of Overview and Scrutiny Committee to keep them apprised of the progress in implementing the Action Plan.

## **Voting arrangements**

*Decision requires majority agreement of Committee Members in attendance, or their substitutes (one vote representing each Authority) including the West of England Combined Authority Mayor.*

### **1. Background**

- 1.1. This report relates to the 2020/21 External Audit of the West of England Combined Authority. During this work the external auditor (Grant Thornton) determined that some issues required further consideration. Grant Thornton's work focused on investigating those issues, the results of which are set out in their "VfM Report on Governance". The full report is attached at Appendix 2.
- 1.2. The report contains 9 recommendations, of which 3 are identified as statutory recommendations. Statutory recommendations are written recommendations to the Combined Authority made by the Auditor under section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under Schedule 7 requires the Combined Authority to discuss and respond publicly to the report. This discussion and response is taking place at this Meeting, which is being held within one month of receiving the report and written recommendations as required by the Act.
- 1.3. The Combined Authority must decide if the recommendations are accepted and what, if any actions will be taken in response to them.
- 1.4. The Action Plan at appendix 1 sets out the actions that the Combined Authority proposes to take in response to all the recommendations made in the report, including the 3 statutory recommendations.

### **2. Issues for Consideration**

- 2.1. The Auditor's recommendations centre around the following themes:
  - a) The current state of professional relationships between the Combined Authority Mayor and the representatives of the other members of the Combined Authority, and between Chief Officers.



- b) The future management structure of the Combined Authority.
  - c) The role of statutory officers in circumstances when a potential conflict is identified.
  - d) The circumstances when it is acceptable to seek legal advice without reference to the Monitoring Officer.
- 2.2. The issues raised in the auditor's report relate to a period of time over 14 months ago when the Combined Authority was adjusting to the election of a new Mayor and dealing with the additional challenge of continued Covid restrictions and remote working. Many of these issues were recognised by the Combined Authority at the time and action has been taken to address them as outlined in the Action Plan attached at Appendix 1.
- 2.3. The report concludes that the day-to-day business of the Combined Authority has continued effectively, that significant new funding has been brought into the region and the Combined Authority has continued to deliver benefit to residents.
- 2.4. Over the last 12 months the Combined Authority has secured £910m additional funding for the region; supported 13,000 residents with training and careers support and supported 1,373 businesses through the Growth Hub. Specific successes have included:
- a) £540m through the City Region Sustainable Transport Settlement the highest amount of funding per head awarded in England
  - b) £95m from Homes England for the Bristol Temple Quarter Regeneration Programme, which will deliver some 2,400 new homes alongside a significant upgrade to Bristol Temple Meads Station.
  - c) Passing the Gateway Review for the Investment Fund, unlocking the next tranche of £150m for the 5-year period to 2026.
  - d) Combined Committee unanimous investment decisions in respect of The North Fringe, Quantum Technology and Hydrogen Sustainable Transport in driving forward matters of regional, local and national importance
  - e) regional Climate and Ecological Strategy and Action Plan including a Green Recovery Fund of up to £50m to support projects including on green energy and nature recovery / pollinator support.
  - f) regional Cultural Action Plan and agreement to £1m of investment in the sector which has already levered in an additional £1.5m from DCMS through Create Growth Programme – only 1 of 6 in country
- 2.5 The Action Plan sets out how the Combined Authority proposes to build on the action already underway to address the points highlighted by the Audit

report. Committee members are asked to consider and agree the Action Plan which includes a response to each of the external auditor's recommendations.

2.6 Overall accountability for the delivery of the Action Plan will rest with the Combined Authority Committee. Following this Combined Authority Meeting, the Action Plan will be submitted to both the Scrutiny and Overview Committee and Audit Committee to review it. Those Committees will submit their feedback in the form of a report to the Committee at a subsequent meeting.

### **3. Comments from the Monitoring Officer**

3.1 Section 5 of the Local Government and Housing Act 1989 provides that it is the responsibility of the Monitoring officer to report formally to the Authority on any proposal, decision or omission by the council which has given rise to, or is likely to, or would give rise to the contravention of any enactment or rule of law or statutory code of practice.

3.2 As the Monitoring officer I do not feel that the circumstances trigger my duties under a Section 5. While there was a difference of legal opinion, an acceptable approach was agreed.

3.3 I refer to the observations of the Auditor at various points in the report, including:

- p. 23 "It was therefore reasonable from the Chief Executives perspective to believe that involving those individuals in a discussion on severance terms for a senior colleague could unfairly influence any future negotiations about their own departure and could result in a conflict of interest."
- "We are satisfied that it was reasonable for the Chief Executive to believe there was a potential conflict of interest that needed to be managed relating to both statutory officers."
- P 24 "We accept that the Chief Executive was acting in good faith and had taken significant action to ensure the legality of the process."
- P27 "We have reviewed the initial report developed by HR, and the legal advice that was sought the assumptions that had been made. These steps were comprehensive, professional and reasonable."

I am further supported in that view in the light of the fact the Auditor did not otherwise intervene, issued no advisory notice or seek judicial review.

### **4. Comments from the Chief Finance Officer (S73 Officer)**

4.1. Having considered the matter, I have concluded there is no requirement to issue a section 114 (2) report.

4.2. The Local Government Finance Act, places certain responsibilities on the CFO.

4.3. Section 114 (2) requires that the chief finance officer (S73 officer) to “make a report under this section if it appears to him that the authority, a committee of the authority, a person holding any office or employment under the authority:

- a) has made or is about to make a decision which involves or would involve the authority incurring expenditure, which is unlawful,
- b) has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the authority, or
- c) is about to enter an item of account the entry of which is unlawful”.
- d) Section 114 (2) requires consultation with the Head of Paid Service and the Monitoring Officer (MO) which has been undertaken
- e) Section 114 (2a) also obliges the S73 officer to send a copy of the report to the Combined Authority’s auditors and to every member of the authority.

4.4. The Chief Executive received advice from Bevan Brittan that stated in relation to the lawfulness of the termination payment of £58,784 made up of £36,950 settlement payment plus £21,834 pay in lieu of notice that draws the conclusion that a reasonable argument can be made to support the position that the Chief Executive had authority to agree the settlement.

4.5. Indeed, the External Auditors legal advice from Bates Wells was “Whilst the matter (of whether the Employments and Appointments Committee or the Chief Executive) (having the authority) is arguable either way, given a court would have to come down one side or other on the issue, we take the view that the better interpretation is that the Committee had the appropriate delegated authority – the outcome of a court action would however be uncertain. As such, we have recommended the Authority approve (ratify) the severance arrangements and payment. Given the lack of clarity, and the fact that the Chief Executive obtained legal advice supporting her position, we do not suggest that an advisory notice would be advisable in this situation”

4.6. In coming to my view, I have also been minded to also consider the fact that:

- a) The External Auditors report concludes in section 5 that the severance payment was approved at Committee and concerns over its lawfulness were largely mitigated.

- b) The Monitoring Officer does not feel the need to issue a Section 5 report.
- c) The Combined Authority has already recognised the full cost of the exit payment in the published draft accounts 2021/22 .

## **5. STATUTORY RESPONSE TO THE REPORT IN THE PUBLIC INTEREST**

- 5.1. Written Recommendations are issued under the provisions of the Local Audit and Accountability Act 2014. The Act sets out a number of statutory requirements that a Local Authority must comply with following the publication of the Report.
- 5.2. The Combined Authority is required under the Act to consider the recommendations of the Report and decide what action to take in response in public at a dedicated Combined Authority meeting held within one month from publication.

## **6. Publicising the Report**

- 6.1. Following receipt of the Report, the Combined Authority is required to ensure that it is brought to the attention of public, elected members, its partner organisations and stakeholders.
- 6.2. The report is publicised on the homepage of the Combined Authority's website, which provides a link to the detailed dedicated webpage.
- 6.3. The Combined Authority has also proactively contacted partner organisations to share the report such as the Local Enterprise Partnership and the Combined Authority's regulators.
- 6.4. Full copies of the report were sent to the relevant Members of Parliament.
- 6.5. The report was sent to all members of the Combined Authority's Audit Committee, including independent Members.
- 6.6. All Combined Authority staff have been briefed.
- 6.7. The external auditor has issued the Secretary of State for Levelling Up, Housing and Communities with a copy of the report.

## **7. Responding to the Report**

- 7.1. Within a period of one month beginning with the day upon which the Combined Authority received the report, the Combined Authority is required to hold a Combined Authority Meeting (this meeting) to consider the report.

7.2. In considering this report, Members of the Combined Authority are asked to vote on the recommendations, response and action plan or amend these as they see fit.

7.3. The notice includes all relevant details of this meeting to comply with the Local Audit and Accountability Act 2014 requirements. In addition, the agenda and supporting papers for this meeting have been published to comply with the Local Government Act 1972 requirements.

7.4. Following the Combined Authority Meeting, the Combined Authority is required to publish a public notice, approved by the external auditor, that summarises the outcome of the meeting. That notice will be published in both the local press and on the Combined Authority's dedicated webpage following this meeting.

7.5. In considering the Report and the proposed action plan, Members may also wish to reflect upon their personal responsibilities and the Combined Authority's constitutional and legal responsibilities, under two further areas. These are the Seven Principles of Public Life, better known as the Nolan Principles, and the Combined Authority's "best value" duty under the Local Government Act 1999 – details of which can be read here:  
<https://www.gov.uk/government/publications/revised-best-value-statutory-guidance>.

7.6. The Local Government Act 1999 introduced the duty of "best value" for all local authorities. This duty requires Combined Authorities to "make arrangements to secure continuous improvement in the way in which its functions are exercised having a regard to a combination of economy, efficiency and effectiveness".

## **8. Finance Implications, including economic impact assessment where appropriate:**

8.1. the costs of the exit payment of £58,784 have been fully accounted for and disclosed in the draft 2021/22 published accounts.

8.2. There will be costs associated with the implementation of the recommendations detailed within the report and for the production of the external auditor's report.

8.3. The costs of responding to this report are yet to be finalised and an update regarding any associated costs will be presented to a future meeting of Cabinet for consideration and approval if necessary.

8.4. The External Auditor has been asked to and is yet to provide at the time of

writing this report, the fees that will be charged to the West of England Combined Authority either as incurred to date or a forecast total cost through to completion, The External Auditor is gathering this information together.

**Richard Ennis – Interim Director of Investment and Corporate Services**

**9. Legal Implications:**

9.1. This report to Combined Authority sets out the statutory background to the auditor's report and the obligations falling on the Combined Authority as a consequence. In particular, the Combined Authority is reminded that it has a duty to consider and respond to the report as detailed in section 3 of this report.

9.2. The written recommendations are issued under the provisions of the Local Audit and Accountability Act 2014 ("the Act"). The Combined Authority must comply with the requirements of the Act in responding to the report.

9.3. In particular Schedule 7 paragraph 4 on the Act provides that as soon as reasonably practicable after receiving the report the Combined Authority must:

- a) publish the report and a notice identifying the subject matter of the report on the Combined Authority's website.
- b) permit the public to inspect the report at all reasonable times without payment, make a copy of it, or any part of it, and be supplied with a copy of it, or any part of it, on payment of a reasonable sum.
- c) supply a copy of the report to each of its members and its auditor panel (if it has one).

9.4. Paragraph 5 of Schedule 7 further requires the Combined Authority to consider the report or recommendation(s) at a meeting held before the end of the period of one month beginning with the day on which it was sent to the Combined Authority. At that meeting the Combined Authority must decide:

- a) whether the report requires the Combined Authority to take any action;  
or
- b) whether the recommendation(s) is/are to be accepted; and
- c) what if any action to take in response to the report or recommendation(s).

9.5. The recommendations and proposed actions by the Combined Authority are set out in the body of this report and accompanying Action Plan.

9.6. Paragraph 9 of Schedule 7 goes on to provide that information contained in the Report is not to be treated as exempt information under the Local Government Act 1972.

9.7. After considering the Report and its response to it, the Combined Authority must notify the external auditor of its decisions and publish a notice containing a summary of those decisions which has been approved by the external auditor.

9.8. The recommendations seek to comply with statutory requirements following the issue of written recommendations by the Combined Authority's external auditors. The actions recommended also seek to improve the governance of the Combined Authority in line with the Combined Authority's Constitution and promote the Combined Authority's statutory duty of best value and continuous improvement.

***Stephen Gerrard, Interim Director of Legal Services & Monitoring Officer***

## **10. Human Resources Implications**

10.1. As noted in the report, the Audit recommendations have been accepted, and an action plan for addressing the recommendations is attached as an Appendix.

10.2. In respect of the recommendation to review the leadership structure, as noted in the action plan, the structure of the Authority is regularly reviewed, and is currently functioning well. Should any changes be made to the structure in the future, these will be conducted in full accordance with HR policy and best practice.

10.3. In respect of the recommendation to ensure that regular performance reviews of senior staff are carried out and are documented fully, this has already been happening and will continue to take place, as identified within the Action Plan.

10.4. In respect of the Auditor's comment on undertaking staff surveys, regular surveys already take place, with the most recent one (conducted in October 2022) demonstrating positive results for the Combined Authority. Surveys will continue to be conducted on a regular basis, with appropriate actions taken where necessary.

**Alex Holly, Head of People and Assets**

### **Appendices:**

Appendix 1 – Action Plan in response to Audit

Appendix 2 Grant Thornton's "VfM Report on Governance"

**West of England Combined Authority Contact:**

Report Author	Contact Details
S Gerrard	Director Law and Governance



## Appendix 1 Action Plan in response to Audit

SR1	<p>The Mayor and the UA leaders have participated in a mediation process led by an agreed regional chair. This is undertaken under agreed confidentiality to allow a full and frank exchange between the participants. This work is ongoing and the leaders and the Mayor have all been engaged.</p> <p>The results of these sessions will culminate in a number of workshops to build and consolidate the work.</p> <p>It is anticipated that one of the outcomes of the workshops will be a protocol for future working. It is proposed that all the Chief Executives will continue to engage in this work at the appropriate time, including developing regional priorities and strategy.</p>
SR2	<p>Consultation and engagement processes have developed over the last year, particularly since the lifting of the last of the Covid restrictions. The Mayor now meets on a regular basis one to one with the leaders of the UAs. The CA Ch.Ex meets with her UA counterparts one-to-one on a similar basis. In addition, there are monthly meetings of all the CEOs from the CA and the UAs. There is engagement with the respective service areas in the CA and UAs and agreement on proposals are reached where possible at an operational level before reference to CEOs or members.</p> <p>An officer delivery board has been established and meets twice a month to review progress on agreed projects and to provide challenge and support to project to ensure timely delivery.</p>
SR3	<p>A protocol has been prepared and shared earlier this year with the Auditor and Chair of Audit, which has been designed to manage the rare cases of conflict of interest by statutory officers. This will be posted on the council's website. This is designed to reflect the unusual circumstances that in a small authority there may not always be another employee able to discharge the role of deputy.</p>
KR1	<p>The management structure is kept under constant review. The current management team has been substantially refreshed since late 2021 and is functioning well as can be seen from the CA's achievements over the last 12 months. Following the work on regional priorities and objectives a revised management structure, if appropriate, will considered and brought to the CA Committee in the new year.</p>
KR2	<p>The current monitoring officer has agreed arrangements to ensure that officers engaging legal support do it within an agreed framework and external firms understand their obligations to the CA, including when to escalate issues directly to the Monitoring Officer.</p>
IR1	See SR1
IR2	<p>Recognising that any constitutional changes require the unanimous support of the Mayor and there UA representatives, proposals for possible changes will be consulted upon with a view to bring acceptable proposals to a meeting in the new year.</p>
IR3	<p>These have been recorded this year and will continue to be so. The requirement for continuing professional development and wider engagement with the professional community will continue to be a requirement for all officers and will continue to form part of any performance review.</p>
IR4	Agreed as currently appropriate and actioned

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# West of England Combined Authority

VfM Report on Governance

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FINAL

November 2022



# Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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## Appendix A – Explanatory Note on Recommendations

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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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# Executive Summary



## Introduction

### Introduction

This report relates to the 2020/21 External Audit of the West of England Combined Authority (the Combined Authority). It provides a commentary on the results of the additional audit procedures carried out to support our assessment of Value for Money (VfM). This should be read in conjunction with our Annual Auditor's Report.

For the avoidance of doubt, reference to the "Monitoring Officer" and the "Chief Finance Officer" referred to in this report, exclusively refer to former incumbents who have since left the Combined Authority. Both posts have now been filled in a temporary capacity and the current incumbents are not referred to in this report from this point.

### Background and objective of this review

In July 2021, a serving Director on the senior management team entered into discussion with the Chief Executive of the West of England Combined Authority about their future. The opportunity was taken to negotiate an exit in advance of a management restructure that the Chief Executive was starting to consider at this stage but had not yet developed. A series of options were considered and developed by the Human Resources team, including resignation and serve of notice, redundancy and a mutually agreed severance settlement. In due course, a mutually agreed severance settlement was agreed upon as the best option.

Potential conflicts of interest were identified by the Chief Executive relating to the Chief Finance Officer and the Monitoring Officer. This arose from the Chief Executive's belief that the officers might themselves be exiting the organisation in the near future, either of their own volition (Chief Finance Officer) or as a result of future restructuring decisions (Monitoring Officer). These conflicts of interest caused the Chief Executive to prevent their involvement in the severance process for the Director. This decision severely limited the Chief Finance Officer and Monitoring Officer's ability to make sure their statutory duties were properly discharged in regard to the severance settlement, including the need to ensure that the correct process was being followed, which is necessary and important even if the individuals are conflicted. This caused both officers significant concern.

At West of England Combined Authority's Audit Committee on 9 December 2021, we advised the Committee of work undertaken as part of the statutory external audit regarding the proposed severance payment to the Director of Infrastructure.

Our updated Audit Findings Report also informed the Committee:

- that we had required further disclosure in the draft accounts and Annual Governance Statement of the current strained relationships within the West of England; and
- that we had designated a risk of significant Value for Money weakness impacting on the Combined Authority's governance arrangements, due to these strained relationships.

We informed the Committee that this risk would now be considered and reported against in our forthcoming Auditor's Annual Report of the Combined Authority's overall arrangements for delivering Value for Money. This work would also assess and comment on the findings from the work we had previously completed on the director severance issue.

Since the Audit Committee meeting, the severance matter was addressed at the extraordinary Combined Authority Committee of 17 December 2021. **The minutes of this meeting reflect a degree of dissatisfaction from some members and, particularly, the fact that, supported by external legal advice, the Monitoring Officer had also communicated significant concerns at the meeting.**

The Audit Committee Chair was also in attendance at the Combined Authority Committee of 17 December 2021 and made a statement to the Committee highlighting a number of their concerns.

On 3<sup>rd</sup> February 2022 we briefed the Audit Committee Chair and Audit Committee to confirm that we would undertake this review, within the context of the statutory audit duties, set out in the Local Audit Accountability Act 2014 and the National Audit Office's (NAO) Code of Audit Practice. Furthermore, given the nature and potential significance of the issues, we also considered it important that this briefing was extended to a wider group of key stakeholders, including the Chief Executive, Chief Finance Officer and the Combined Authority Committee's membership of the unitary authority Leaders and Mayor.



## The Scope of our review

To assist the understanding of our further work regarding the identified risk of significant VfM weakness, we established six areas of focus to enable us to target and report our work on the issues raised. These fall into two broad themes: General governance issues and Issues specific to the severance matter:

Area of Focus	Areas identified for Review
Governance - General governance issues	1 Partner Relationships
	2 The Constitution
	3 Turnover of Senior Staff
Governance - Issues specific to the Severance Matter	4 Conflicts of interest regarding severance
	5 The approach to obtaining legal advice
	6 The rationale for the award of severance

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## Summary of findings by theme

Area of Focus	Audit consideration	Key Findings
<b>Wider governance</b>		
<b>1. Partner Relationships</b>		<b>Significant Weakness Requiring Statutory Recommendations (Recommendations SR1 and SR2).</b>
<p>Despite recent challenges around relationships and engagement between the Combined Authority and its constituent councils, plans are now in train to address difficulties and move forward in a constructive way through an ongoing independent review. This area is a key area of governance within the NAO's audit expectations.</p> <p>The planned review of the terms of reference for the Joint Committee could have implications for funding arrangements between the Combined Authority and the Unitary Authorities</p>	<p>Review the partnership governance arrangements between the Combined Authority and councils and progress against the plans to address current difficulties, following the ongoing review</p> <p>Consider the scope and implications of the planned review of the Joint Committee terms of reference.</p>	<p>The poor state of professional relationships we found during the period of this review between the Combined Authority Mayor and the representatives of the other members of the Combined Authority, and between some Chief Officers, reflect a significant weakness in partnership governance. We are concerned that the ongoing poor state of relationships could start to limit the ability to work together to optimise strategic opportunities in future. External perceptions of disfunction could also begin to affect the reputation of the Combined Authority with central government and other partners, ultimately affecting the ability to raise further funding and undermining public confidence. This becomes increasingly important in the context of increasing competition for devolved funding from other devolved regions and new county deals, and government's need to prioritise devolution decisions and activity.</p> <p>In addition to Statutory Recommendations SR1 and SR2 we have also made one Improvement Recommendation (IR1).</p>
<b>2. The Constitution</b>		<b>Area for Improvement (Not a Significant Weakness)</b>
<p>The Combined Authority's constitution proved difficult to apply when considering the severance matter and was acknowledged by all sides (including legal advisors) as being in need of review and clarification.</p>	<p>Specific identification of the key problematic areas and assessment of the Combined Authority's proposed response in conducting its planned review.</p>	<p>We have noted a number of specific areas where the Combined Authority Constitution would benefit from revision (see detailed findings section 2). In the context of the relationship challenges, strengthening of the Constitution beyond fulfilling the basic requirements will help to mitigate issues arising in future. We note that amendments to the Constitution will require unanimous agreement by the Combined Authority Members.</p> <p>We have made one Improvement Recommendation (IR2).</p>
<b>3. Turnover of senior staff</b>		<b>Significant Weakness Requiring Key Recommendation (KR1)</b>
<p>In recent months, the Combined Authority has lost, or is about to lose, the services of an experienced Director of Infrastructure, its Monitoring Officer, its Chief Finance Officer and a number of other senior officers. Given the expansion of its role and scale, losing continuity of this number of senior and statutory officers at this time could prove highly problematic for the proper administration of the Combined Authority and its ability to deliver its objectives.</p>	<p>Identification and commentary on whether there are any underlying issues contributing to the loss of key staff.</p> <p>Assessment of future plans to replace key roles with appropriately experienced individuals.</p>	<p>Following the Combined Authority Committee's refusal to endorse the proposed management restructure, there is a pressing need to finalise the future management structure, with the approval of the Combined Authority Committee, to provide clarity and enable the recruitment of permanent officers to key roles to support the strategy. At present this reflects a significant weakness in arrangements.</p> <p>We did not identify any general issues with management culture contributing to the loss of key staff. We are satisfied that key roles have been backfilled in the short term to enable operations to continue to function.</p> <p>We have made one Key Recommendation (KR1).</p>

Area of Focus	Audit consideration	Key Findings
<b>Severance issue</b>		
<p><b>4. Conflicts of interest regarding severance</b></p> <p>On the basis that they felt there were conflicts in place, the Chief Executive did not initially involve the two statutory officers (Monitoring Officer and Chief Finance Officer) when agreeing severance with the previous Director of Infrastructure. Because of this, the Chief Executive commissioned external legal advice to support their decision making.</p> <p>The former Monitoring Officer considered this was not effective working.</p>	<p>Commentary on the matter of statutory officer conflicts and the engagement of external legal advice.</p> <p>Assess the steps being taken to ensure that the Combined Authority has procedures to protect the interests of statutory officers and to remove any uncertainty about responsibility.</p>	<p><b>Significant Weakness Requiring Statutory Recommendation (SR3).</b></p> <p>We are satisfied that it was reasonable for the Chief Executive to have identified potential conflicts of interest on this matter in regard to both the Monitoring Officer and the Chief Finance Officer. We accept that the Chief Executive was acting in good faith and had taken significant action to ensure the legality of the process, however the third party advice that was obtained did not remove the need for the role of the all statutory officers to be effectively discharged. The route chosen to manage the potential conflicts demonstrates the need to be more vigilant in ensuring the complementary roles of the statutory officers in protecting the Authority from risk. Appropriate action was not taken to ensure that the statutory duties of the Monitoring Officer and Chief Finance Officer roles were appropriately discharged by the incumbent officers or through alternative arrangements. In addition, we note that the Chief Executive was not well served by the Combined Authority's Constitution which provided no guidance on how conflicts of interest between statutory officers should be managed or sufficient clarity on the use of delegated powers (See section 2 of this report). Significant reliance therefore was placed on the third party legal advisors to interpret the intention of the Constitution.</p> <p>In our view, the Chief Executive's decision not to inform the statutory officers of the severance transaction at an earlier stage and the failure to manage the potential conflict effectively, was a significant weakness that placed the Combined Authority at the potential risk of committing to an unlawful payment. The issue of the risk of unlawful payment is explored further in Section 5. The specific roles of the three statutory officers are key checks and balances that the legislation puts in place to ensure that major financial and operational decisions are lawful and in the best interests of the Combined Authority. It is important to note that these also serve to protect any single statutory officer from inadvertently exposing the Combined Authority to risk. In this context and the absence of adequate alternative arrangements to manage any conflict of interest, it was not unreasonable for the Monitoring Officer to resort to intervention in the process.</p> <p>We have made one Statutory Recommendation (SR3).</p>
<p><b>5. The approach to obtaining legal advice</b></p> <p>Conflicting legal advice was obtained by different officers at different points in the process.</p>	<p>To assess how the Combined Authority managed that conflict and in particular what steps are being taken to ensure that future differences are handled in an open manner.</p>	<p><b>Significant Weakness Requiring Key Recommendation (KR2)</b></p> <p>In our view, the role of Monitoring Officer as Head of Legal Services is particularly important when it comes to commissioning and interpreting third party legal advice. Advice is usually sought based on very specific terms of reference and highly reliant on the information supplied to the advisor. The Monitoring Officer is party to the wider context and can exercise professional experience to ensure that the right advice is sought and the right information given. It is important to recognise that it is not uncommon for legal advisors to differ in their judgements, especially where legislation or constitutional clauses are not clear and judgement has to be made. In practice, legal advice is often sought specifically because the legal position requires interpretation and judgement. The difficulty in reaching a consensus on the lawfulness of the severance transaction that arose in this case, highlights the risk that arises when legal advice is sought independently of the Monitoring Officer.</p> <p>By bypassing the Monitoring Officer in this case, and failing to make alternative provision for the discharge of the Monitoring Officer's responsibilities, the statutory protections provided by the Monitoring Officer's role were significantly weakened.</p> <p>In addition to one Key Recommendation (KR2), we have also made two Improvement Recommendations (IR3 and IR4).</p>



Area of Focus	Audit consideration	Key Findings
<b>Severance issue</b>		
<p data-bbox="114 344 533 403"><b>6. The rationale for the award of severance</b></p> <p data-bbox="114 424 533 547">Clarity is required on the rationale for proposing the severance payment and how the payment and its terms was constructed.</p>	<p data-bbox="544 344 846 504">Assessment of the rationale for recommending the severance and supporting the amounts and arrangements proposed.</p>	<p data-bbox="857 344 2123 373"><b>Significant Weakness Requiring Statutory Recommendation (SR3)</b></p> <p data-bbox="857 394 2123 580">It was the Chief Finance Officer’s statutory duty to undertake an assessment of value for money to protect the Combined Authority from the risk of overpayment in regard to the Director of Infrastructure’s exit package. If there was a conflict of interest, this duty should have been passed to a nominated deputy. Without this assurance, it is understandable that Combined Authority members would be unsure as to whether VfM had been achieved and therefore felt it necessary to abstain from the vote when the matter was brought to the Combined Authority Board in December 2022.</p> <p data-bbox="857 601 2123 761">In our view, due to a potential conflict of interest, the Chief Finance Officer was not able to discharge their statutory duty to ensure VfM. The deputy CFO was consulted in some specific areas, for example, in regard to affordability within the budget. However, no satisfactory alternative arrangement was made to enable the broad range of the CFO’s statutory function to be formally exercised through the deputy or any other means, prior to the severance package being agreed with the Director of Infrastructure. This reflects a significant weakness in arrangements.</p> <p data-bbox="857 782 2123 1096">The Director of Infrastructure approached the Chief Executive regarding an exit from the organisation before firm plans had been developed for any management restructure, however it is reasonable to accept that a significant change to the requirements of the role was already being considered by the Chief Executive at this point and may have become apparent to the Director. This is also not incompatible with the Chief Executive’s later assertions that there were skills and experience aspects in relation to the current needs of the Combined Authority for that role beyond the original recruitment criteria. A number of points had to be considered, including the length of time and cost of different options to enable the exit of the Director. There was therefore a reasonable rationale for entering into discussion over options for the mode of exit. We have reviewed the initial options report developed by HR, and the legal advice that was sought to support the assumptions that had been made. Setting aside the weaknesses identified under key areas of focus 4 and 5, these steps were otherwise comprehensive, professional and reasonable.</p> <p data-bbox="857 1117 2123 1367">While it may be possible to develop counter arguments to the evaluation of a severance package as the preferred option, we are satisfied that the rationale that was followed is reasonable. On the issue of whether the best value was achieved from this decision, we take the view that there is doubt here, particularly given that there is no documented evidence of performance or capability issues on the part of the Director. In addition, we note that the proposed restructuring of the role was eventually rejected by the Combined Authority Committee and the current role has continued to be performed on a temporary basis by a nominated deputy. However, this risk is sufficiently mitigated due to the relatively low value of the settlement in comparison to the cost and operational benefits of the alternative options.</p> <p data-bbox="857 1388 2123 1415">We have incorporated this Significant Weakness into our third Statutory Recommendations (SR3).</p>



# Summary of findings and recommendations

## Our overall Conclusion

### SIGNIFICANT WEAKNESS IN GOVERNANCE ARRANGEMENTS

We have completed our review and have identified five significant weaknesses in the Combined Authority's arrangements to secure value for money in its use of resources which all fall under the VfM theme of Governance. The presence of such a large number of significant governance weakness is a major concern. Our summary findings on each of the six Areas of Focus defined in our scope are set out on **pages 5 to 7**. In order to address these weaknesses we have raised a number of recommendations.

We have provided an explanatory note on the various types of audit recommendation included in this report in **Appendix A**.

### Statutory recommendations

We have raised three Statutory Recommendations which must be enacted as a matter of urgent priority by the West of England Combined Authority. These Statutory Recommendations reflect the discharging of the auditor's statutory powers under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Combined Authority to discuss and respond publicly to the report.

The statutory recommendations are as follows:

1. The Mayor and members of the Combined Authority represented by the Council Leaders, must commit to improving their working relationship and demonstrate that significant progress has been made within a reasonable timeframe, to be determined by the Mayor and Combined Authority. This should include a role for independent mediation and the constructive consideration of advice arising from this process (SR1).
2. A formal protocol should be agreed between member organisations within the Combined Authority to commit to consultation on key proposals, that they should define, at an earlier stage. Combined Authority members should engage effectively in this process, to help mitigate points of contention before they are published and debated in public. This should include a commitment to deliver proposals on a reasonable timetable (SR2).
3. In future, where there is a potential conflict of interest affecting individual statutory officers, adequate steps must be taken to ensure the statutory duties of these officers are effectively discharged (SR3).

Further detail on these statutory recommendations and the Combined Authority's response are provided on pages 10 to 12.

### Key recommendations

We have raised a further two Key Recommendations which must also be enacted as a matter of urgent priority by West of England Combined Authority. These Key Recommendations reflect the NAO Code of Audit Practice requirement that where auditors identify significant weaknesses as part of the body's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Combined Authority.

The key recommendations are as follows:

1. The future management structure of the Combined Authority should be reviewed in order to ensure it is fit for purpose in the context of new funding awards and strategic priorities and this must include appropriate consultation and agreement by the CA Committee (KR1).
2. The Constitution of the Combined Authority should be revised to define the conditions under which it is acceptable for other officers and members to seek independent legal advice, without reference to the Monitoring Officer and/or Head of Legal Services (KR2).

Further detail on these key recommendations and the Combined Authority's response are provided on **pages 13 and 14**.

### Other Improvement Recommendations

We have made four other Improvement Recommendations (IR1 to IR4). These recommendations, if implemented should improve the arrangements in place at the Combined Authority, but are not a result of identifying significant weaknesses in the Combined Authority's arrangements.

Further detail on these improvement recommendations and the Combined Authority's response are provided on **page 15**.

# Recommendations

# Statutory recommendation 1 (SR1)



## Recommendation

***The Mayor and members of the Combined Authority represented by the Council Leaders, must commit to improving their working relationship and demonstrate that significant progress has been made within a reasonable timeframe to be determined by the Mayor and Combined Authority. This should include a role for independent mediation and the constructive consideration of advice arising from this process (SR1).***

## Why/impact

Urgently required to safeguard the future growth and success of the Combined Authority in attracting investment to the region.

## Auditor judgement

This reflects the need to address a significant weakness in the Combined Authority's ability to deliver value for money in its use of resources.

## Summary findings

See Section 1.

## Management Comments

The Mayor and the UA leaders have participated in a mediation process led by an agreed regional chair. This is undertaken under agreed confidentiality to allow a full and frank exchange between the participants. This work is ongoing and the leaders and the Mayor have all been engaged.

The results of these sessions will culminate in a number of workshops to build and consolidate the work. It is anticipated that one of the outcomes of the workshops will be a protocol for future working. It is proposed that all the Chief Executives will continue to engage in this work at the appropriate time, including developing regional priorities and strategy.

# Statutory recommendation 2 (SR2)



## Recommendation

***A formal protocol should be agreed between member organisations within the Combined Authority to commit to consultation on key proposals, that they should define, at an earlier stage. Combined Authority members should engage effectively in this process, to help mitigate points of contention before they are published and debated in public. This should include a commitment to deliver proposals on a reasonable timetable.***

## Why/impact

Urgently required to ensure that key operational decisions regarding the management of the Combined Authority can be made without unnecessary delay or further straining relationships between the members of the Combined Authority Committee.

## Auditor judgement

This reflects the need to address a significant weakness in the Combined Authority's ability to deliver value for money in its use of resources.

## Summary findings

See Section 1.

## Management Comments

Consultation and engagement processes have developed over the last year, particularly since the lifting of the last of the Covid restrictions. The Mayor now meets on a regular basis one to one with the leaders of the UAs. The CA Chief Executive meets with her UA counterparts one-to-one on a similar basis. In addition, there are monthly meetings of all the CEOs from the CA and the UAs. There is engagement with the respective service areas in the CA and UAs and agreement on proposals are reached where possible at an operational level before reference to CEOs or members.

An officer delivery board has been established and meets monthly to review progress on agreed projects and to provide challenge and support to projects to ensure timely delivery.

# Statutory recommendation 3 (SR3)



## Recommendation

**In future, in all circumstances, including where there is a potential conflict of interest affecting individual statutory officers, adequate steps must be taken to ensure the statutory duties of these officers is effectively discharged (SR3).**

## Why/impact

Urgently required to ensure that statutory officers' roles and responsibilities are appropriately discharged where a conflict of interest has been identified. The communication and agreement of appropriate alternative arrangements should be more clearly and transparently undertaken.

## Auditor judgement

This reflects the need to address a significant weakness in the Combined Authority's ability to deliver value for money in its use of resources.

## Summary findings

See Sections 4 and 6.

## Management Comments

A protocol has been prepared and shared earlier this year with the Auditor and Chair of Audit, which has been designed to manage the rare cases of conflict of interest by statutory officers. This will be posted on the Authority's website. This is designed to reflect the unusual circumstances that in a small authority there may not always be another employee able to discharge the role of deputy. This will be kept under review and adapted as necessary.

# Key recommendation 1 (KR1)



## Recommendation

**The future management structure of the Combined Authority should be reviewed in order to ensure it is fit for purpose in the context of new funding awards and strategic priorities and this must include appropriate consultation and agreement by the CA Committee.**

## Why/impact

Urgently required to ensure that the Combined Authority can put in place the management team it requires in order to deliver its strategic goals.

## Auditor judgement

This reflects the need to address a significant weakness in the Combined Authority's ability to deliver value for money in its use of resources.

## Summary findings

See Section 3.

## Management Comments

The management structure is kept under constant review. The current management team has been substantially refreshed since late 2021 and is functioning well as can be seen from the CA's achievements over the last 12 months. Following the work on regional priorities and objectives a revised management structure, if appropriate, will be considered and brought to the CA Committee in the new year.

# Key recommendation 2 (KR2)



## Recommendation

**The Constitution of the Combined Authority should be revised to define the conditions under which it is acceptable for other officers and members to seek independent legal advice, without reference to the Monitoring Officer and/or Head of Legal Services.**

## Why/impact

Urgently required to ensure that the Combined Authority does not get into a position of senior officers obtaining conflicting or duplicate legal advice on the same issue.

## Auditor judgement

This reflects the need to address a significant weakness in the Combined Authority's ability to deliver value for money in its use of resources.

## Summary findings

See Section 5.

## Management Comments

The current monitoring officer has agreed arrangements to ensure that officers engaging legal support do it within an agreed framework and external firms understand their obligations to the CA, including when to escalate issues directly to the Monitoring Officer.



# Improvement recommendations

<i>Recommendation</i>	<i>Report Section</i>	<i>Management Comment</i>
<b>IR1</b> <i>We recommend that consideration of relationships within the Chief Executive Group should be incorporated into any relationship development and mediation work undertaken.</i>	1	See SR1.
<b>IR2</b> <i>We recommend that the Constitution be reviewed, as previously considered by Combined Authority members. This should incorporate the new Monitoring Officer protocol but also focus on the specific ambiguities raised in recent legal advice including the definition of statutory roles, delegated powers, managing conflicts of interest, decisions on all senior staffing matters including restructure and severance. The results should be reported to Committee and used alongside the points we have raised as a basis for revision. There may be value in reviewing other combined authority constitutions to optimise the opportunity to improve the document in these areas.</i>	2	Recognising that any constitutional changes require the unanimous support of the Mayor and their UA representatives, proposals for possible changes will be consulted upon with a view to bring acceptable proposals to a meeting in the new year.
<b>IR3</b> <i>We recommend that the annual performance reviews of senior officers be formally recorded, including reasonable steps taken to manage issues and provide access to resources to enable skills development as appropriate.</i>	5	These have been recorded this year and will continue to be so. The requirement for continuing professional development and wider engagement with the professional community will continue to be a requirement for all officers and will continue to form part of any performance review.
<b>IR4</b> <i>We recommend that the Monitoring Officer role retains its current seniority at Director level in any future restructure or that sufficient safeguards are implemented to protect the authority and influence of the role.</i>	5	Agreed as currently appropriate and actioned.

# Statutory basis of the audit

The local audit of bodies such as the Combined Authority is performed under a different statutory framework than that applying to the corporate world. Under the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice, local authority auditors are required to perform a wider scope of audit than just the statement of accounts. This involves a VfM audit, which has been extended in this year's NAO Code update, that covers three prescribed 'Code Criteria':

- financial sustainability;
- improving economy, efficiency and effectiveness; and
- governance (including partnership working).

We are required to produce a comprehensive narrative within an Auditor's Annual Report at the end of this process, which is a public facing independent report on the Combined Authority's arrangements. If significant weaknesses are identified, we are required to raise 'Key recommendations', which are formally defined under the Code of Audit Practice as arising if, 'in the auditor's professional view, it is reasonable to conclude that the matter could be of interest to the audited body or the wider public'.

The wider scope of local audit also includes additional formal powers and duties that are required for more significant issues. These include:

- the ability to apply to the Court for a declaration that an item of account is contrary to law;
- the use of an advisory notice to make an application for judicial review; or
- the responsibility to report matters in the public interest; and to make written statutory recommendations (which are reserved for more serious matters than the key recommendations referred to earlier).

These powers can be instigated directly by the auditor, or in response to questions raised and objections made by local government electors, when the audit of the accounts is advertised.

For the avoidance of doubt, we have considered the application of these powers in this VfM review.

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by officers and members of the Combined Authority, constituent councils, and external stakeholders with whom we have engaged during the course of our review.

## Additional VfM Code Work

As already noted, we have identified governance arrangements as an audit risk. This requires additional work to inform our auditor's judgement on VfM. The work has been undertaken in line with the requirements of the Code and associated auditor guidance. This review helps us discharge our responsibilities under the Code and will include the reporting of any significant weaknesses in arrangements and other points for improvement identified during the review. Any fee variation is subject to approval from Public Sector Audit Appointments Ltd (PSAA) which is responsible for appointing auditors and setting audit fees for relevant authorities that have chosen to opt into its national scheme of auditor appointments.

# Detailed findings

# 1. Partner relationships

## Wider Governance – Partner relationships

Despite recent challenges around relationships and engagement between the Combined Authority and its constituent councils, plans are now in train to address difficulties and move forward in a constructive way through an ongoing independent review. This area is a key area of governance within the NAO's audit expectations.

The planned review of the terms of reference for the Joint Committee could have implications for funding arrangements between the Combined Authority and the Unitary Authorities.

### Audit considerations

- Review the partnership governance arrangements between the Combined Authority and councils and progress against the plans to address current difficulties, following the ongoing review
- Consider the scope and implications of the planned review of the Joint Committee terms of reference.

## 1.1 Partner relationships

The Mayor and Chief Executive of the West of England Combined Authority, and the Leaders and Chief Executives of the three constituent unitary councils, have acknowledged that the relationships between members of the Combined Authority remain strained at the current time. This is partly attributable to inherent tensions built into the governance structure that was established on the creation of the Combined Authority in 2017. Specifically, we observe that the tension arises between the West of England Mayor's mandate to create and deliver a regional strategy and the desire of individual authorities to retain and protect their own political and strategic areas or remits. In both cases, the parties can point to a political mandate through a popular vote. This tension is common to the combined authority model generally and has been played out across the country. In the West of England, in addition to any political differences that might be expected, the dynamic is further complicated by local circumstances, that include:

- the existence in parallel of a separately constituted Joint Committee that includes North Somerset Council as an additional member but outside of the Combined Authority.
- the co-existence of the West of England Mayor and the Bristol City Mayor over part of the same footprint (noting that the latter is due to be abolished within 2 years following the recent referendum).
- the Constitutional requirement for significant elements of Combined Authority business to require unanimous voting, which effectively allows any member to veto a decision.

It is in this context that we have considered the implications of challenged partner relationships within the Combined Authority, and the steps being taken to resolve the issues. Because of the inherent challenges outlined above, a constructive and collaborative working relationship between partners is fundamental to the ability to continue to reach consensus, approve the use of devolved funding and attract funding and deliver value to the region. We have reviewed the Minutes of the Combined Authority Committee and joint Board meetings since the election of the new West of England Mayor.

We have concluded that, the day-to-day business of the Combined Authority in regard to its budget and financial allocations to projects has continued effectively in 2021 and to date in 2022. In addition, we note that significant new funding has been brought into the region and been allocated to approved projects, including those impacting on individual unitary authorities via the Investment Fund. This provides assurance that the Combined Authority has not become dysfunctional and has continued to deliver benefit to residents in the region. However, there have been some notable points of contention that, in our view, have damaged the reputation of the Combined Authority in the public eye.

We note that a key meeting in October 2021 was cancelled at short notice, following a disagreement over the lack of consultation on a key agenda item. We attended the meeting in April 2022 and observed that, although some business was able to proceed, this was another confrontational encounter played out in public. In our view, this fell short of constructive challenge or a spirit of effective collaboration.

The key points of contention in 2021 and 2022 have been primarily related to Combined Authority governance and management arrangements, rather than funding decisions. These have included:

- the failure of the Combined Authority's attempt to restructure senior management to better align to Mayoral priorities on 15 October 2021 (this is covered in more detail in Section 4).
- a specific severance payment for a member of the Combined Authority director team on 17 December 2021 (see section 4).
- A proposal by the Unitary authorities to revise Joint Committee governance on 8 April 2022.
- discussion over the future accommodation of the staff of the Combined Authority on 8 April 2022.

## 1.2 Conclusion – partnership governance

The poor state of relationships between Combined Authority Committee members and between Chief Officers, we found during the course of this review, reflects a significant weakness in partnership governance. We are concerned that the ongoing poor state of relationships could start to limit the ability to work together to optimise strategic opportunities in future. External perceptions of disfunction could also begin to affect the reputation of the Combined Authority with central government and other partners, ultimately affecting the ability to raise further funding and undermining public confidence. This becomes increasingly important in the context of increasing competition for devolved funding from other devolved regions and new county deals, and government's need to prioritise devolution decisions and activity.

We note that the members of the Combined Authority have recognised the relationship challenges and have attempted to initiate a review and mediation process. While we welcome this, we are concerned that progress has stalled and there has been limited improvement.

### SR 1 - Statutory Recommendation

*The Mayor and members of the Combined Authority represented by the Council Leaders, must commit to improving their working relationship and demonstrate that significant progress has been made within a reasonable timeframe to be determined by the Mayor and Combined Authority. This should include a role for independent mediation and the constructive consideration of advice arising from this process (SR1).*

The level of collaboration and consultation on proposals put forward to the Committee have been poor. Proposals have been presented to members as complete for decision, with little or no attempt to seek views or reach consensus.

This has reduced the options open to members to either approve or reject at the risk of appearing to be standing in the way of progress and therefore creates a culture of distrust. This confrontational approach has overshadowed legitimate arguments around the benefits of a transparent decision-making process and the fact that members should remain at arms-length from delegated management decisions (while continuing to provide scrutiny and challenge).

### SR 2 - Statutory Recommendation

*A formal protocol should be agreed between member organisations within the Combined Authority to commit to consultation on key proposals, that they should define, at an earlier stage. Combined Authority members should engage effectively in this process, to help mitigate points of contention before they are published and debated in public. This should include a commitment to deliver proposals on a reasonable timetable.*

The Chief Executive group is highly influential in regard to Combined Authority relationships, even though the members of this group have no direct constitutional role. This arises from the close support they provide to the elected leaders and their role in setting the agenda for collaboration at operational level. This influence could be used to help mitigate political tensions, but there are some poor relationships between the chief executives of the member councils and the Combined Authority which are contributing to the tensions.

### IR1 - Improvement Recommendation

*We recommend that consideration of relationships within the Chief Executive Group should be incorporated into any relationship development and mediation work undertaken.*

## 1.3 Joint Committee Governance

The West of England Joint Committee incorporates all of the members of the Combined Authority with the addition of North Somerset Council. The Joint Committee is a separate legal entity predating the Combined Authority, responsible for funding from earlier rounds of devolution. Between January 2020 and October 2021 Joint Committee and Combined Authority business was dealt with on a joint meeting basis, moving to separate meetings run consecutively on the same day from December 2021. This recognised the significant strategic overlap, helped co-ordinate business and streamlined arrangements to enable more efficient meetings. In April 2022, the unitary authorities put forward a proposal to separate the governance arrangements. This was to further clarify the separate roles of the statutory bodies and reinforce North Somerset's position as separate from the Combined Authority, but was also focused on the future of the LEP. The direction of travel set by the government's Levelling Up White Paper (February 2022) established Combined Authorities as the preferred model for receiving further devolved powers and funding in the future and to take over the functions of the LEP.

## 1.4 Conclusion – Joint Committee

The members of the Joint Committee are within their constitutional rights to propose this change. We are concerned that this is being influenced by the poor relationships with the Combined Authority and it risks the establishment of two competing regional hubs for devolution which runs counter to the intent of the White Paper. We will continue to monitor these developments but make no recommendation at this time.

# 2. The Constitution

## Wider Governance – Constitution

the Combined Authority’s constitution proved difficult to apply when considering the severance matter and was acknowledged by all sides (including legal advisors) as being in need of review and clarification..

### Audit considerations

- Specific identification of the key problematic areas and assessment of the Combined Authority’s proposed response in conducting its planned review.

## 2.1 Specific areas of weakness within the Constitution

The Combined Authority Constitution is its founding document and compliance with the clauses it contains is a legal requirement. The current Constitution is broadly functional and covers the basic areas that would be expected. However, in our review of the documentation that supported the severance matter (see section 4), we noted a number of instances where a lack of clarity in the wording of the Constitution had contributed to disagreement over how it should be applied and left it open to interpretation. Specific instances include:

- The way that the delegated powers of the Chief Executive are described in regard to staffing matters for senior staff are very vague and include general clauses that are open to interpretation.
- The definition of Chief Officers, Statutory Officers, Directors and other members of the senior management team referred to in the document is not clear.
- Lack of clarity over circumstances and threshold at which the Appointments Committee and/or the Combined Authority Committee is required to become involved in staffing matters relating to senior officers (e.g. recruitment, changes to terms and conditions, dismissal, restructuring, redundancy and severance).
- Clarity on the extent of the Chief Executive’s delegated powers to agree exit packages of various kinds with Directors and members of the senior management team, without reference to the Appointments Committee and/or the Combined Authority Committee.
- The absence of a process to be used in the case of a conflict of interest between senior officers in general and statutory officers in particular.
- Lack of clarity on the role of the Monitoring Officer in regard to the commissioning of legal advice and the conditions under which it is acceptable for other officers and members to seek independent legal advice, without reference to the Monitoring Officer. This should include a process of approval that should include escalation to the Combined Authority Committee

We note that a new protocol for the Monitoring Officer’s working arrangements has now been developed (see comment in Section 4). While this goes some way to addressing the specific issue of a conflict of interest involving the Monitoring Officer, we do not think that this goes far enough in addressing a number of issues with the wording of the Constitution listed above or fully explores the role that the Monitoring Officers at the constituent member councils might play.

## 2.2 Conclusion

Although the Constitution is not a particularly deficient example of its type, we have noted a number of specific areas where it would benefit from revision. In the context of the relationship challenges, strengthening of the Constitution beyond fulfilling the basic requirements will help to mitigate issues arising in future.

### IR2 - Improvement Recommendation

*We recommend that the Constitution be reviewed, as previously considered by Combined Authority members. This should incorporate the new Monitoring Officer protocol but also focus on the specific ambiguities raised in recent legal advice including the definition of statutory roles, delegated powers, managing conflicts of interest, decisions on all senior staffing matters including restructure and severance. The results should be reported to Committee and used alongside the points we have raised as a basis for revision. There may be value in reviewing other combined authority constitutions to optimise the opportunity to improve the document in these areas.*

In addition, in section 5 we have made a key recommendation in regard to access to legal advice.



# 3. Turnover of Senior Staff

## Wider Governance – Staff Turnover

In recent months, the Combined Authority has lost, or is about to lose, the services of an experienced Director of Infrastructure, its Monitoring Officer and its Chief Finance Officer, and a number of other senior officers. Given the expansion of its role and scale, losing continuity of this number of senior and statutory officers at this time could prove highly problematic for the proper administration of the Combined Authority and its ability to deliver its objectives.

### Audit considerations

- Identification and commentary on whether there are any underlying issues contributing to the loss of key staff.
- Assessment of future plans to replace key roles with appropriately experienced individuals.

## 3.1 Recent Turnover at the Combined Authority

We note that since 1 May 2021, staff turnover in senior roles has been high, including 3 of the 4 senior directors and 2 of the 3 statutory officers. Over this period, the following officers have left or are in the process of leaving:

- Director of Infrastructure
- Director of Investment and Corporate Services (Chief Finance Officer)
- Director of Legal Services (Monitoring Officer)
- Head of Communications
- Head of Capital delivery
- Head of Transport
- Head of Performance and Planning

This is in the context of a team of 34 people with salaries in excess of £50,000 per annum (as at 31<sup>st</sup> March 2021) and represents a significant proportion of the senior team. We have discussed the operational implications of this with current senior management team members and the Mayor, and note that these roles are currently being covered either by interim appointments, consultants or other team members acting in the role, pending new appointments. In the short term, operational activity appears to be able to continue to operate effectively.

We have attempted to ascertain the reasons for the departures. Direct documentary evidence from exit interviews and questionnaires is incomplete (these are voluntary), although we have been able to review some. There has been no recent staff satisfaction (Pulse) survey or equivalent. Taking into account that feedback from leavers is not usually objective, we conclude that there are a combination of themes that have driven the high turnover:

- We accept that some turnover would be expected as a result of the election of a new Mayor who may have a different style of working from their predecessor.
- There is some feedback that the management culture has shifted to become less collaborative and inclusive, with some examples given of excessive or inappropriate pressure or a disrespectful tone being applied. The poor relations with the other unitary authorities has also been a factor.

- It is reasonable to assume that the proposed management restructure may have influenced the thinking of some officers.
- Two of the three statutory officers have resigned, in part over concerns around the governance of the severance payment, and in part due to general concerns over governance arrangements and a breakdown in relationships within the leadership group. The reasons given in these cases echo some of the concerns noted by other leavers about how management interact with one another.
- It is reasonable to assume that COVID conditions may have impacted on working culture or caused those considering leaving to postpone their decision until COVID restrictions had been lifted, resulting in a short-term higher level of turnover.

## 3.2 Conclusions

We did not identify any general issues with management culture contributing to the loss of key staff. We are satisfied that key roles have been backfilled in the short term to enable operations to continue to function.

Following the Combined Authority Committee's refusal to endorse the proposed management restructure, there is a pressing need to finalise the future management structure with the approval of the Combined Authority Committee to provide clarity and enable the recruitment of permanent officers to key roles to support the strategy. At present this reflects a significant weakness in arrangements.

### KR1 - Key Recommendation

*The future management structure of the Combined Authority should be reviewed in order to ensure it is fit for purpose in the context of new funding awards and strategic priorities and this must include appropriate consultation and agreement by the CA Committee.*

# 4. Conflicts of interest regarding severance

## Severance – Conflict of interest

On the basis that they felt there were conflicts in place, the Chief Executive did not initially involve the two statutory officers (Monitoring Officer and Chief Financial Officer) when agreeing severance with the previous Director of Infrastructure. Because of this, the Chief Executive commissioned external legal advice to support their decision making.

The former Monitoring Officer considered this was not effective working.

### Audit considerations

- Commentary on the matter of statutory officer conflicts and the engagement of external legal advice.
- Assess the steps being taken to ensure that the Authority has procedures to protect the interests of statutory officers and to remove any uncertainty about responsibility.

## 4.1 Background to the severance payment

In May 2021, the new West of England Mayor was directly elected to lead the Combined Authority. As is reasonable to expect, the new Mayor set a fresh strategic direction.

It is the role of Chief Executive of the Combined Authority to equip the organisation to deliver against the Mayor's priorities. In line with this role, the Chief Executive began to consider a different management restructure over the Summer of 2021 to ensure that the team was appropriately configured. As part of this initial thinking, the Chief Executive appears to have been considering changes to the role of Monitoring Officer, as emerged subsequently in the proposed restructure paper that was circulated to members of the Combined Authority in October 2021.

In July 2021, a serving Director on the senior management team entered into discussion with the Chief Executive about their future. We have seen evidence to indicate that the Chief Finance Officer was involved in the initiation of this discussion and was also seeking to initiate a similar discussion on their own account. In the case of the Director, but not the Chief Finance Officer, the opportunity was taken to negotiate an exit ahead of the formal restructure proposals being developed.

A series of options were considered and developed by the Human Resources team, including resignation and service of notice, redundancy and a mutually agreed severance settlement. In due course, a mutually agreed severance agreement was settled upon as the best option (see section 6).

The Chief Executive did not act unilaterally and took steps to consult with the Mayor and the Head of Human Resources. We would point out that the latter role is a conventional employee, does not enjoy the equivalent statutory protections and independence of action afforded to the Chief Finance Officer and Monitoring Officer, and is therefore less well equipped to provide challenge. Under normal circumstances, the Combined Authority's other statutory officers would have been consulted on the proposals at this point.

## 4.2 Validity of the conflict of interest

In this case the Chief Executive had concerns that both statutory officers would have a conflict of interest were they to be involved. The Chief Executive was concerned that the officers were either already considering leaving the organisation or may have been aware that a restructure was being planned for the near future that could affect them or would become aware in due course when the plans were fully developed and announced. It was therefore reasonable from the Chief Executive's perspective to believe that involving these individuals in a discussion on severance terms for a senior colleague could unfairly influence any future negotiations over their own departure and would result in a conflict of interest.

We have established that the restructure that was eventually proposed did not include a change to the Chief Finance Officer role but did for the Monitoring Officer role. In this case, there may have been a potential conflict for the Monitoring Officer relating to the details of the severance decision. In addition, we have also seen evidence that the Chief Finance Officer had also previously raised the possibility of exiting the organisation with the Chief Executive. We are satisfied that it was reasonable for the Chief Executive to believe there was a potential conflict of interest that needed to be managed relating to both statutory officers.

We note that the parties had differing views on the validity of the conflicts of interest.

The Chief Executive took the view that the potential conflict of interest was of sufficient magnitude to justify the total exclusion of both officers from not only the details and approval process for the Director's severance package, but also from any discussion of how to manage the conflict of interest to ensure that the statutory obligations of both officers were adequately discharged (specifically to ensure the lawfulness and value for money of the award of severance).

In the case of the Monitoring Officer, this extended to not informing them that the Director's severance package was being considered and developed. In our view, it was reasonable for the officers to be excluded from involvement in agreeing the details of the package. However, the failure to inform them and consult with them on how to ensure that their statutory duties could continue to be discharged, significantly weakened governance over the process. This resulted in both officers becoming involved despite the potential conflicts and led directly to the prolonged series of challenges and interventions that then arose.



### 4.3 The decision to exclude the statutory officers

The Chief Executive recognised the need for legal advice on the exit package and the restructure, and on the extent of their delegated powers under the Combined Authority's constitution. The advice was sought, without informing the Monitoring Officer, from regular third party legal providers to the Combined Authority. We note that in the original advice on powers to enact restructuring, the advisors recommended approval by the Combined Authority Committee as a way of overcoming ambiguity in the Constitution (although it did not specifically apply this to severance payments).

The later specific legal advice on severance, received initially verbally and then in writing after we have made initial audit enquiries, validated the choice of severance as an option that offered value for money, that compared favourably to the other options (resignation and paid gardening leave, or redundancy). We note that the total direct value of the package was £80,618, including the agreed severance payment itself and paid gardening leave over the notice period but excluding associated costs such as providing cover for the role and the legal and other administrative costs associated with this matter.

The severance package was duly agreed with the Director and announced to the senior team along with a proposal to appoint an interim on the 25 August 2021. Both the Monitoring Officer and the Chief Finance Officer were very concerned to find out shortly after that the severance package had been agreed with the Director, without consulting them. There followed an ongoing exchange of communications where the Monitoring Officer set out their significant concerns to the Chief Executive. Many of the concerns related to the lack of access to information that would enable the Monitoring Officer to discharge their legal duties and protect the Combined Authority from risk. At this stage the Monitoring Officer felt that they had no choice but to intervene in the process and was not able to accept the Chief Executive's assertion that there was a conflict of interest as a reason not to take action.

A difference of opinion also emerged in regard to the lawfulness of the severance payment and the extent of the Chief Executive's delegated power to action this without formal approval from the Combined Authority Committee. This originated from a difference of professional legal interpretation between the Chief Executive's advisors and the Monitoring Officer and their advisors. This is explored further in Section 5.

### 4.4 The significance of the role of Statutory Officers

Local authority legislation, which includes combined authorities, is set up in a way that mitigates the risk that could arise if key decisions were made on the prerogative of a single individual executive officer. It does this by dividing responsibility for elements of any key decision between a triumvirate of roles defined by statute. This includes the Head of Paid Service (in the case of the Combined Authority, this is incorporated into the role of Chief Executive, which is standard practice in local government), the Monitoring Officer (Director of Legal Services) and the Chief Finance Officer (Director of Investment and Corporate Services).

The legislation endows each statutory officer with specific powers and duties that can be exercised independently of other officers or elected members. In normal circumstances, a Chief Executive would be expected to consult with the two other statutory officers to manage the risks and protect the interest of the Combined Authority:

- the Monitoring Officer is responsible under statute for ensuring that the process and the options offered fell within legal boundaries set by local government legislation and the Combined Authority's Constitution.
- the Chief Finance Officer is responsible under statute for making sure that value for money had been safeguarded and the relevant financial disclosures were made.

Management restructures and role changes impacting on senior officers are common in local government. However, it is not common for the statutory officers not to be informed, at the point a decision is being considered that would normally require their involvement, that a conflict of interest had been identified that required their exclusion from a specific process or decision.

In cases of a conflict of interest, appropriate action must be taken to ensure that the statutory duties outlined above can be appropriately discharged. Appropriate action should include a high level of clarity and transparency in defining the conflict, informing the individuals involved at the earliest opportunity and notifying one or more individuals in key governance and oversight roles, for example, the Audit Committee Chair, so that an agreed way forward can be put in place. It is common practice for the Chief Executive and any conflicted statutory officers to discuss the existence of a conflict and agree an appropriate mitigating strategy. If there is disagreement, external advice can be sought, for example from professional bodies. In the very rare situation of an impasse, after following due process according to the officer employment rules, which may involve suspension of the officer, the matter could be taken to the Combined Authority Committee. If a conflict is confirmed, it is important that alternative arrangements are made to ensure that the full statutory functions of the roles are provided. For example, a nominated deputy or temporary appointment can be put in place to discharge the duties of the statutory officer to make sure the role is covered.

## 4.5 Conclusion

We accept that the Chief Executive was acting in good faith, and had taken significant action to ensure the legality of the process. However, the route chosen demonstrates the need to be more vigilant in ensuring the complementary roles of the statutory officers in protecting the Authority from risk. Appropriate action was not taken to ensure that the statutory duties and responsibilities of the Monitoring Officer and Chief Finance Officer roles were appropriately discharged by the incumbent officers or through alternative arrangements. The advice sought from the third party advisor at various intervals was based on answering specific questions and was not equivalent to the advice of a statutory monitoring officer in scope or in terms of constitutional status, or of a statutory chief finance officer. For example, third party legal advisors can not produce statutory reports under the relevant legislation and do not have the wider overview that such officers are required to have to effectively discharge their roles.

We note that the Chief Executive was not well served by the Combined Authority's Constitution which provided no guidance on how conflicts of interest between statutory officers should be managed or sufficient clarity on the use of delegated powers (See section 2 of this report). Significant reliance was therefore placed on the third party legal advisors to interpret the intention of the Constitution. We note that the Constitution was clear on the appointment of Directors and Statutory Officers being a matter for decision by the Combined Authority as a whole.

In our view, the Chief Executive's decision not to inform the statutory officers of the severance transaction at an earlier stage, when the matter first came under consideration and the failure to manage the potential conflict effectively, was a significant weakness that placed the Combined Authority at potential risk of committing to an unlawful payment. The issue of the risk of unlawful payment is explored further in Section 5.

The specific roles of the three statutory officers are key checks and balances that the legislation puts in place to ensure that major financial and operational decisions are lawful and in the best interests of the Combined Authority. It is important to note that these also serve to protect any single statutory officer from inadvertently exposing the Combined Authority or themselves to risk. In this context and the absence of adequate alternative arrangements to manage any conflict of interest, it was not unreasonable for the Monitoring Officer to resort to intervention in the process.

### **SR3 - Statutory Recommendation**

In future, in all circumstances, including where there is a potential conflict of interest affecting individual statutory officers, adequate steps must be taken to ensure the statutory duties of these officers is effectively discharged (SR3).

We note that following our earlier discussions with the interim Monitoring Officer, a new protocol has been developed that sets out a clear procedure for dealing with conflicts of interest that involve the Monitoring Officer. We have commented on this issue in Section 2.

# 5. The approach to obtaining legal advice

## Severance – Legal advice

Conflicting legal advice was obtained by different officers at different points in the process.

### Audit considerations

- To assess how the Combined Authority managed that conflict and in particular what steps are being taken to ensure that future differences are handled in an open manner.

## 5.1 Concerns raised by the statutory officers

At the end of August 2021, the severance package was offered to the Director and was committed to by the Combined Authority. We found no indication of inappropriate action on the Director's part in accepting the agreement.

Early in September 2021 we became aware of the concerns of the two statutory officers in our capacity as external auditors. At this stage the Chair of the Audit Committee was also informed of the issue. There were a number of concerns held and expressed by the two statutory officers, but the key issues are summarised as follows:

- The Monitoring Officer and Chief Finance Officer had been excluded from any discussion on the severance package, removing their ability to discharge their statutory responsibilities exposing the Combined Authority to legal and financial risk.
- That the authorisation of the severance package did not clearly fall within the Chief Executive's delegated powers under the constitution and did in fact need approval from the Combined Authority Committee. Without this it would be an illegal payment in the view of the Monitoring Officer.
- That the value for money offered by the severance option could not be verified.

Between September and December 2021 significant dialogue took place between ourselves and the Combined Authority, and between the Chief Executive and the two statutory officers, who continued to raise concerns. In our view, based on the information available, their concerns had substance that required careful review. This view was shared by the Chair of the Audit Committee, and the Head of Internal Audit.

## 5.2 Contradictory advice on the legality of the payment

In our view, which we expressed to officers at the time, there was an opportunity at this point, for the three statutory officers to pause and reflect on the situation, and to work together to reach a satisfactory conclusion. However, this was not taken and the positions hardened.

In our opinion, all parties should have worked to avoid the breakdown in relationships that had occurred and the confrontational tone of the dialogue that emerged during this time. However, we do consider that the onus was on the Chief Executive as the principal senior officer to take into account the views of the other statutory officers and reach a unified position. Not to do so was a significant weakness in the management of the serious issue that had arisen.

The result of this was that the Combined Authority ended up with two conflicting sets of legal advice on whether or not the severance payment was legal, one commissioned by the Chief Executive and one provided by the Monitoring Officer, supported by commissioned advice from a senior legal advisor. In this case, as auditor we had no option other than to commission our own legal advice in order to form our own view of whether the Combined Authority was about to make an unlawful payment. This third set of independent advice agreed that, on balance, the payment was likely to be unlawful if it was not approved by the Combined Authority Committee. It is important to note that from a value for money perspective, the duplication of legal fees and the cost of senior management time spent on this issue incurred a much greater cost to the Combined Authority, than would otherwise have arisen had the Chief Executive accepted the concerns of the other parties at an earlier stage.

At this point, following further negotiation on the legal position, the Chief Executive agreed that for the avoidance of any doubt, the severance payment would go to Committee for approval, but did not accept that there had been a risk of unlawful payment.

### 5.3 Resolution of the severance issue

There was significant time pressure on approving the severance package which, having already been offered and agreed to by the Director at the end of August 2021, would become a financial commitment in December 2021.

An opportunity to approve the severance package in the October 2021 Combined Authority Committee meeting, was missed. We note that this was cancelled at short notice when members of the Combined Authority opted not to attend following a disagreement over a perceived lack of consultation on the proposed management restructure (see Section 1).

The ongoing poor relationships between the Combined Authority and the leaders of the constituent Unitary Authorities are likely to have been a factor in the general reluctance to take the decision on severance to the Combined Authority Committee. Having taken legal advice, the Chief Executive firmly believed this was not a requirement of the Constitution, and was concerned that if it were taken voluntarily, it would be unnecessarily politicised and potentially voted down. We recognise the potential validity of this concern (See section 1).

As previously noted, the Chief Executive eventually agreed that for the avoidance of any doubt, the severance payment would go to Committee for approval.

In December 2021, the severance agreement was taken to Committee and was approved on the back of a single vote in favour on the part of the Combined Authority Mayor, with two abstentions and one absence. The representatives of the Unitary Authorities expressed significant discomfort in being placed in a position where they had to approve the payment to avoid the potential risk of unlawfulness, but had no opportunity to challenge or amend.

However, despite abstentions from representatives of the member councils the severance payment was approved and concerns over its lawfulness were substantially mitigated.

### 5.4 Conclusion

In our view, the Monitoring Officer with the role of Head of Legal Services at the Combined Authority, is particularly important when it comes to commissioning and interpreting third party legal advice. Advice is usually sought based on very specific terms of reference and highly reliant on the information supplied to the advisor. The Monitoring Officer is party to the wider context and can exercise professional experience to ensure that the right advice is sought and the right information given.

It is important to recognise that it is not uncommon for legal advisors to differ in their judgements, especially where legislation or constitutional clauses are not clear and judgement has to be made. In practice, legal advice is often sought specifically because the legal position requires interpretation and judgement. The difficulty in reaching a consensus on the lawfulness of the severance transaction that arose in this case, highlights the risk that arises when legal advice is sought independently of the Monitoring Officer.

By bypassing the Monitoring Officer in this case, and failing to make alternative provision for the discharge of the Monitoring Officer's responsibilities, the statutory protections provided by the Monitoring Officer's role were significantly weakened.

In our view it is unusual for the Monitoring Officer's advice to be contradicted by other statutory officers based on professional legal or other advice from third party who has no constitutional authority in their own right. If there is a difference of view, the Monitoring Officer can obtain an independent second opinion from alternative legal advisers and/or professional associations. The fact that this was permitted to occur, reflects a significant weakness in management arrangements.

#### KR2 - Key Recommendation

*The Constitution of the Combined Authority should be revised to define the conditions under which it is acceptable for other officers and members to seek independent legal advice, without reference to the Monitoring Officer and/or Head of Legal Services.*

### 5.5 Other matters relating to employment decisions

We note that the demands of any senior officer's role may evolve over time and this may require different skills or experience to fit the organisation's future needs - as appears to have been a factor in the severance decision. When we attempted to follow this up, we found that there was no record of any such matters being recorded and managed through any formal performance review process. If these matters are going to be a factor in any future employment decisions, it is crucial that they are formally recorded and evidenced. Failure to do so could weaken the Authority's case in the event of future legal challenge.

#### IR3 - Improvement Recommendation

*We recommend that the annual performance reviews of senior officers be formally recorded, including reasonable steps taken to manage issues and provide access to resources to enable skills development as appropriate.*

We also note that the proposed restructure sought to downgrade the status of the Monitoring Officer and Head of Legal Services role below the tier of senior director. Monitoring Officer is a statutory role and while they could be changed in terms of grade, the responsibilities under statute would remain the same. We note that a change in grade has been done in other local authorities and a case can be made for reducing costs. However, in the context of the findings of this report and the importance of the role in managing risk, in our view there should be appropriate and sufficient safeguards implemented to ensure that the statutory role of the Monitoring Officer can continue to be delivered unabated of their position within the hierarchy of the management structure.

#### IR4 - Improvement Recommendation

*We recommend that the Monitoring Officer role retains its current seniority at Director level in any future restructure or that sufficient safeguards are implemented to protect the authority and influence of the role.*



# 6. The rationale for the award of severance

## Severance – Rationale for award

Clarity is required on the rationale for proposing the severance payment and how the payment and its terms was constructed.

### Audit considerations

- Assessment of the rationale for recommending the severance and supporting the amounts and arrangements proposed.

## Consideration of the rationale for severance

The key concern of the Chief Finance Officer was the lack of visibility over the steps the Combined Authority had taken to ensure that severance was the most appropriate and cost effective solution. Under normal circumstances, the Chief Finance Officer would be responsible for evaluating this aspect, prior to a decision being made on the preferred option. We note that prior to the severance package being agreed, the Chief Finance Officer had held preliminary informal dialogue with The Chief Executive and Head of Human Resources about their own future which had also referred to the potential exit of the Director, pointing to a potential conflict of interest.

We have considered a number of factors that underpinned the decision to award severance to the Director.

Firstly, although not directly a result of the restructure, there is logic in the argument that the exit of the Director presented an opportunity that would complement this process. Although the Director's approach to the Chief Executive pre-dated the development of firm plans for restructure (see Section 4), it is reasonable to accept that a significant change to the requirements of the role was already being considered by the Chief Executive at this point.

This is not incompatible with the Chief Executive's later assertions that there were issues of compatibility with the skills and experience that would be needed in future for that role that had changed over time as new powers and funding had been accrued. There was therefore a reasonable rationale for entering into discussion over the mode of exit.

We have reviewed the initial options report developed by HR, and the legal advice that was sought to support the assumptions that had been made. These steps were comprehensive, professional and reasonable.

## Conclusion

The key deficiency was that it was the Chief Finance Officer's statutory duty to confirm that the chosen option offered the best value to protect the Combined Authority from the risk of overpayment. If there was a conflict, alternative arrangements needed to be made to ensure that the appropriate statutory functions were discharged (e.g. this duty could have been passed to a deputy). Without this assurance, it is understandable that Combined Authority members would be unsure as to whether the best value had been achieved. In our view, the fact that the Chief Finance Officer was unable to ensure the discharge of their statutory duty to ensure that the best value was obtained from the transaction, prior to the severance package being agreed with the Director of Infrastructure, and that no effective alternative arrangements were put in place, reflects a significant weakness in arrangements.

In this we refer to the Key Recommendation made in section 4 of this report (SR3) regarding the involvement of statutory officers in key decisions. This also links to the Improvement Recommendation to review the Constitution made in Section 2 of this report (IR2).

While it may be possible to develop counter arguments to the evaluation of severance as the preferred option, we are satisfied that the rationale that was followed is reasonable. On the issue of whether the best value was achieved from this decision, we take the view that there is doubt here, particularly given that there is no documented evidence of performance or capability issues on the part of the Director. In addition, we note that the proposed restructuring of the role was eventually rejected by the Combined Authority Committee and the current role has continued to be performed on a temporary basis by a nominated deputy. However, this risk is sufficiently mitigated due to the relatively low value of the settlement in comparison to the cost and operational benefits of the alternative options.

# Appendix

# Appendix A - Explanatory note on recommendations

A range of different recommendations can be raised by the Authority's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference	
Page 51	Statutory	Written recommendations to the Authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Authority to discuss and respond publicly to the report.	Yes	10,11,12
	Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Authority. We have defined these recommendations as 'key recommendations'.	Yes	13,14
	Improvement	These recommendations, if implemented should improve the arrangements in place at the Authority, but are not a result of identifying significant weaknesses in the Authority's arrangements.	Yes	15







## **WEST OF ENGLAND AUDIT COMMITTEE**

**17 NOVEMBER 2022**

### **REPORT SUMMARY SHEET**

#### **AUDIT COMMITTEE– THE AUDIT FINDINGS FOR THE WEST OF ENGLAND COMBINED AUTHORITY**

##### **Purpose**

This paper provides the West of England Audit Committee with Grant Thornton's Audit Findings for the West of England Combined Authority for year ending 31 March 2022

##### **Summary**

This report includes the following key information:

- Financial Statements
- Significant Risks
- Key Judgements and Estimates
- Value for Money Arrangements

Appendices:

- A – Action Plan – Audit of Financial Statements.
- B – Follow-Up of Prior Year Recommendation.
- C – Audit Adjustments
- D – Fees
- E – Audit Opinion
- F – Letter in Respect of delayed VFM work

##### **Recommendations**

The Audit Committee are asked to note the report.

**Contact officer:** Richard Ennis

**Position:** Interim Director of Investment and Corporate Services

**Email:** Richard.Ennis@westofengland-ca.gov.uk

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# The Audit Findings for The West of England Combined Authority

**Year ended 31 March 2022**

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6 October 2022



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

Name : Jon Roberts  
For Grant Thornton UK LLP  
Date: 26 October 2022

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 planning 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 the Combined Authority or all 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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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of The West of England Combined Authority ('the Combined Authority') and the preparation of the Combined Authority's financial statements for the year ended 31 March 2022 for those charged with governance.

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## Financial Statements

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Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Combined Authority's financial statements give a true and fair view of the financial position of the Combined Authority and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work commenced in September 2022 and has been a combination of remote working and an on-site presence at the Combined Authority's offices.

The target date for the completion of Local Government audits is 30 November 2022 and, at the time of writing, that date was over five weeks away.

Our audit work is therefore very much still in progress. We will provide the Audit Committee with a verbal update of our progress at its meeting on 17 November 2022 and will provide a further Audit Findings Report on the completion of our work.

Our findings to date are summarised on pages 5 to 15.

Our audit work has focussed on the two significant risks in the audit plan, namely the management override of controls and the valuation of the pension fund net liability. Please see pages 7, 8 and 10 for more information.

We have also focussed our efforts on analysing the relevant populations in order to furnish management with details of the transactions we wish to test.

To date, we have not identified any adjustments to the financial statements that have impacted on the reported outturn for the year.

Audit adjustments to date are detailed in Appendix C and this will be updated if necessary on the conclusion of our audit.

We have also raised two recommendations for management as a result of our audit work to date in Appendix A. Our follow up of the recommendation from the prior year's audit are detailed in Appendix B.

Whilst our work is still in progress, our anticipated audit report opinion will be unqualified – please see Appendix E.

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# 1. Headlines

## Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Combined Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Combined Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Combined Authority's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

In our audit plan we advised the Audit Committee that we would undertake our risk assessment regarding the Combined Authority's arrangements to secure value for money in the 2021/22 financial year once our work for 2020/21 had been completed.

We expect to present our governance report for 2020/21 to the Combined Authority's Audit Committee on 17 November 2022 and will be in a position to issue our final Auditor's Annual Report for 2020/21, once the Combined Authority has formally responded to any statutory recommendations that are arising from that work.

This Auditor's Annual Report will include the findings from our detailed governance review as well as the findings on financial sustainability, improving economy, efficiency & effectiveness and governance previously reported to the Audit Committee on 28 April 2022 and 12 October 2022.

An audit letter explaining the reasons for the delay to our work for 2021/22 is attached in Appendix F to this report.

We expect to issue our Auditor's Annual Report for 2021/22 by 28 February 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties in 2021/22, although anticipate that we will be issuing a number of statutory recommendations as part of our 2020/21 governance work.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in February 2023.

We also need to complete the Whole of Government Accounts (WGA) procedures set out by the National Audit Office. At the time of writing, the WGA guidance for 2021/22 had not been issued.

## Significant Matters

To date, we have not encountered any significant difficulties or identified any significant matters during the course of our audit.

## 2. Financial Statements

### Overview of the scope of our audit

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

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

### Audit approach

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

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

We have not had to alter our audit plan, as communicated to you on 28 April 2022.

### Conclusion

Our audit work is still in progress.

Based on the satisfactory completion of the outstanding testing we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 17 November 2022 as detailed in Appendix E.

#### Acknowledgements

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

## 2. Financial Statements



### Our approach to materiality

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

We have revised the materiality for the Combined Authority to reflect the actual gross expenditure for year.

We detail in the table opposite our determination of materiality for The West of England Combined Authority.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	£2.575m	This is 1.8% of the Combined Authority's gross expenditure for the year.
Performance materiality	£1.674m	This is 65% of the headline materiality for the year.
Trivial matters	£128k	This is 5% of the headline materiality for the year.





## 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

### Risks identified in our Audit Plan

#### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk in all organisations that the risk of management over-ride of controls is present. Management override is one of the two presumed risks that under auditing standards have to be reflected in all audits, whether in the public or private sector.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement

### Commentary

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- provided management with a listing of the journals selected for testing;
- gained an understanding of the accounting estimates and critical judgments applied/made by management and considered their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates, or significant unusual transactions.

We still need to complete our testing of the potentially unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. This could include, for example, large amounts or journals posted by officers that would not normally be expected to process journals.

Our audit work to date has not identified any issues in respect of management override of controls.



## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of pension fund net liability

The Authority's net defined benefit liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.

The pension fund liability is considered a significant estimate due to its size (£13.778m in the Authority's prior year balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We have therefore identified the valuation of the Authority's pension fund liability as a significant risk

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's net defined benefit liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (the actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

We still need to:

- assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; and
- obtain assurances from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data, and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The Pension Fund audit has not yet been completed.

Our audit work to date has not identified any issues in respect of Combined Authority's Pension Fund net liability. Please see page 10 for additional commentary in this area.

## 2. Financial Statements - Significant risks

Risk	Commentary
<p>The revenue cycle includes fraudulent transactions (rebutted)</p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at WECA, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including WECA, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>We therefore did not consider this to be a significant risk for The West of England Combined Authority.</p> <p>We have reconsidered our original assessment as part of our audit work on the Combined Authority’s financial statements and are satisfied that this rebuttal remains appropriate.</p>
<p>The expenditure cycle includes fraudulent transactions (rebutted)</p>	<p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p> <p>We have rebutted this presumed risk for WECA because:</p> <ul style="list-style-type: none"> <li>• expenditure is well controlled and the Authority has a strong control environment;</li> <li>• there is very little incentive for management to mis-represent expenditure; and</li> <li>• the Authority has clear and transparent reporting of its financial plans and financial position to those charged with governance.</li> </ul> <p>We therefore did not consider this to be a significant risk for The West of England Combined Authority.</p> <p>We have again reconsidered our original assessment as part of our audit work on the Combined Authority’s financial statements and are satisfied that this rebuttal remains appropriate.</p>

# 2. Financial Statements - key judgements and estimates

## Summary of management's approach

### Net pension liability – £13.725m

The Authority's net pension liability at 31 March 2022 is £13.725mm (PY £13.8m) comprising the Avon Local Government Pension Fund defined benefit pension scheme obligation.

The Authority uses Mercer to provide actuarial valuations of the Authority's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed as at 31 March 2019 and was used for the three years from 2019/20 to 2021/22. The latest triennial valuation exercise is currently underway.

Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £2.59m net actuarial gain during 2021/22.

## Audit Comments

- We formed an assessment of management's expert (Mercer). We considered that they are an appropriate expert to undertake the valuation of the pension liability.
- We undertook detailed work to assess the movement of the pension liability in the year and identified the need for a revised actuarial report to be produced.
- We utilised PwC as an auditor's expert to assess the actuary and their assumptions which were considered to be appropriate. See table below.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.80%	2.70% to 2.80%	●
Pension increase rate	3.20%	3.00% to 3.50%	●
Salary growth	1.5% more than CPI	0.5% to 2.5% p.a. above CPI	●
Life expectancy – Males currently aged 45 / 65	24.8 and 23.3	22.2 – 24.8 and 20.7 – 23.3	●
Life expectancy – Females currently aged 45 / 65	27.4 and 25.4	25.7 – 27.5 and 23.8 – 25.5	●

Light Purple

We are satisfied that the estimate has been properly disclosed in the Combined Authority's financial statements.

Please see page 8 for additional commentary in this area.

## Assessment

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

## 2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
<b>Processing of journals</b>	<p>The Combined Authority strengthened its internal controls during the year and journals are now required to be approved within the ledger. Previously there was an inefficient manual process in place.</p> <p>However, the Authority was unable to provide a report listing the journals processed in the year, the poster and the approver.</p> <p>The Financial Accountant needed to undertake a manual exercise, which was completed under our observation, in order to provide this information. We also noted that a member of the finance team had administrative rights and was also able to process, but not authorise, journals. Whilst the Combined Authority is a relatively small organisation, this is unusual as normally staff with administrator access are not able to process journals.</p>	<p>In Appendix A we have recommended that the Combined Authority contacts its software provider in order to enable this bespoke report to be produced.</p> <p>Whilst we welcome this development to the approval process, we suggest the Combined Authority reviews the appropriateness of providing administrative rights to operational staff. We are of the view that the fact that all journals need to be independently reviewed mitigates the risks in this area.</p> <p><b>Management response</b></p> <p>We have agreed this recommendation as noted in Appendix A.</p>

## 2. Financial Statements - other communication requirements

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

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Issue	Commentary
Matters in relation to fraud	<p>We have previously discussed the risk of fraud with the Audit Committee.</p> <p>We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</p>
Matters in relation to related parties	<p>We are not aware of any related parties or related party transactions which have not been disclosed.</p>
Matters in relation to laws and regulations	<p>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work in 2021/22</p>
Written representations	<p>A letter of representation will requested from the Combined Authority, and a draft version will be included in the Audit Committee papers for 10 November 2022.</p> <p>We will update this draft letter of representation should any matters come to light during the remainder of our audit work.</p>

## 2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests to its bankers and those organisations with whom the Authority has funds invested. This permission was granted and the requests were sent.</p> <p>We have had a positive response from the Combined Authority's bankers.</p> <p>We have received responses from most of the organisations with whom the Authority has funds invested and are chasing the small number of outstanding items.</p> <p>As noted on page 3, at the time of writing the target date for the completion of Local Government audits is over five weeks away and these outstanding items are not a cause for concern at this stage.</p>
Accounting practices	<p>We have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.</p>
Audit evidence and explanations/significant difficulties	<p>All information and explanations requested from management has been provided.</p>

## 2. Financial Statements - other communication requirements



### Our responsibility

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

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Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that, for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting.</li> </ul> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Combined Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> <li>the nature of the Combined Authority and the environment in which it operates</li> <li>the Combined Authority's financial reporting framework</li> <li>the Combined Authority's system of internal control for identifying events or conditions relevant to going concern</li> <li>management’s going concern assessment.</li> </ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>a material uncertainty related to going concern has not been identified</li> <li>management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>



## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>We will review the Combined Authority's Annual Governance Statement once our governance report and Auditor's Annual Report for 2020/21 have been issued in order to ensure that any audit findings have been included.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• if the Annual Governance Statement (AGS) does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>We have nothing to report on these matters based on the work completed to date. We will review the AGS upon completion of our Value for Money work for 2020/21.</p> <p>As reported on page 4, we have not commenced our VFM work for 2021/22 and so are not in a position to issue our Auditor's Annual Report for that year.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures on behalf of the National Audit Office (NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>No additional work is required as the Combined Authority does not exceed the threshold set by the NAO.</p> <p>However, the NAO have not yet issued the instructions to auditors and so we have been unable to complete our work in this area.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of The West of England Combined Authority in the audit report, as detailed in Appendix E, due to the fact that our work on the Combined Authority's Value for Money assessment has yet to be completed.</p> <p>We will also refer to the WGA submission as noted above.</p>



# 3. Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

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### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

### 3. VFM - our procedures and conclusions

In our audit plan we advised the Audit Committee that we would undertake our risk assessment regarding the Combined Authority's arrangements to secure value for money in the 2021/22 financial year once our work for 2020/21 had been completed.

We expect to present the our governance report for 2020/21 to the Combined Authority's Audit Committee on 10 November 2022 and will then be in a position to issue our final Auditor's Annual Report for 2020/21, once the Combined Authority has formally responded to any statutory recommendations that are arising from that work.

This final 2020/21 Auditor's Annual Report will include the findings from our detailed governance review as well as the findings on financial sustainability, improving economy, efficiency & effectiveness and governance previously reported to the Audit Committee on 28 April 2022 and 12 October 2022.

An audit letter explaining the reasons for the delay to our work for 2021/22 is attached in Appendix F to this report.

We expect to issue our 2021/22 Auditor's Annual Report by 28 February 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

# 4. Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report \[grantthornton.co.uk\]](https://www.grantthornton.co.uk)

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and no non-audit services were identified which were charged from the beginning of the financial year to the time of writing.

# Appendices

# A. Action plan – Audit of Financial Statements

We have identified two recommendations for the Combined Authority as a result of issues identified during the course of our audit to date. We have agreed these recommendations with management and we will report on progress on these during the course of the 2022/23 audit.

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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Assessment	Issue and risk	Recommendations
Low risk	<p>As reported on page 11, the Combined Authority strengthened its internal controls during the year and journals are now required to be approved within the ledger. Previously there was an inefficient manual process in place.</p> <p>However, the Authority was unable to provide a report listing the journals processed in the year, the poster and the approver and the Financial Accountant needed to produce this manually.</p>	<p>We recommend that the Combined Authority contacts its software provider in order to enable this bespoke report to be produced.</p> <p><b>Management response</b></p> <p>Our ICT Provider is in the process of arranging the bespoke report that is required.</p>
Low risk	<p>Also as reported on page 11, we noted that a member of the finance team had administrative rights and was also able to process, but not authorise, journals. Whilst the Combined Authority is a relatively small organisation, this is unusual as normally staff with administrator access are not able to process journals.</p>	<p>We recommend that the Combined Authority reviews the appropriateness of providing administrative rights to operational staff.</p> <p><b>Management response</b></p> <p>All admin access has been removed where feasible to do so taking into account the size of the current team.</p>

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# B. Follow up of prior year recommendation

We identified the following issue in the audit of the Combined Authority's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit Findings report.

We are pleased to report that this has been implemented.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>There were a number of issues identified regarding the accuracy of the Authority's creditors in 2020/21.</p> <p>We recommended that the Authority should improve the working papers and internal quality assurance arrangements for creditors and the associated figures such as grants received in advance and the agency creditor.</p> <p>We also recommended that consideration should be given to using auto-reversing journals for in-year accruals in order to improve the audit trail for the year-end figures.</p> <p><b>Management response</b></p> <p>We have implemented a newly developed reversing journal import template which the entire Finance Team have been instructed to use going forward. We are in the process of creating a detailed monthly balance sheet reconciliation review process for the accrued income and expenses and prepayments in order to improve the process throughout the year.</p>	<p>Our work on creditors and the associated figures such as grants received in advance and the agency creditor is still in progress. However, the work to date has not identified the level of issues reported in the previous year.</p> <p>The Combined Authority has implemented a reversing journal process which has strengthened its arrangements in this area.</p>

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## Assessment

- ✓ Action completed
- X Not yet addressed

# C. Audit Adjustments

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

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
At the time of writing we have not identified any misstatements which impact on the Combined Authority's primary financial statements.	None.	None.	None.
Overall impact	£0	£0	£0

## Misclassification and disclosure changes

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

Disclosure	Comments	Adjusted?
Note 5 – Expenditure & Income Analysed by Nature	The analysis of the gross expenditure and income in this explanatory note did not originally agree to the consolidated income and expenditure statement (CIES). Both income and expenditure in the CIES were increased by £179k (no net effect) and Note 5 has been updated by increasing Other service expenses by £392k and Government grants and contributions income by £392k. This is due to the Mayoral contribution which was previously netted out.	✓
Note 13 – External Audit Fees	Although trivial, the note to the financial statements setting out the External Audit Fees omitted the additional £16k charged in 2020/21. This is reported as audit fees are deemed to be a sensitive matter. Please see Appendix D for further information on the External Audit Fees for the year.	✓



# C. Audit Adjustments

## Misclassification and disclosure changes (cont'd)

Disclosure	Comments	Adjusted?
Note 10 – Capital grants	The capital grant income disclosed in note 10 had not been updated to reflect the figures in the Consolidated Income and Expenditure Statement (CIES). The CIES figures are correct.	✓
Note 27 - Pension liability sensitivity analysis	The pension liability sensitivity analysis originally disclosed the impact for each 1% p.a. inflation increase instead of 0.1% as recommended by the actuary. We asked for this to be updated so that the note clearly demonstrates how sensitive the figures are to movements in the assumptions.	✓

# C. Audit Adjustments



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## Impact of unadjusted misstatements

At the time of writing we have not identified any misstatements which management have declined to reflect in the final version of the Combined Authority's financial statements.

## Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year's audit which had not been made within the final set of 2020/21 financial statements.

# D. Fees

In our audit plan we stated that the fees for 2021/22 were ‘to be confirmed’ on the basis that we has not undertaken our Value for Money risk assessment for the year.

Also, at the time our plan was issued, the Combined Authority’s draft financial statements were not available and so it was not possible to accurately determine the level of work required for that aspect of our work. The Combined Authority’s gross expenditure (per the draft accounts) increased by over 45% between 2020/21 and 2021/22. This clearly impacts on the complexity of the audit and also has a very real impact on the inputs required for the variable elements of the audit.

The table below sets out the latest position regarding our audit fees. The Audit Committee should note that any fee variations need to be approved by Public Sector Audit Appointments Ltd (PSAA).

We confirm there were no fees for the provision of non audit services.

Audit fees	2020/21 Fees	2021/22 Fees
Combined Authority Audit (per 2020/21 Plan)	£39,384	£39,384*
Additional fee for 2020/21 financial statements work due to errors identified (agreed by previous Chief Finance Officer and approved by PSAA)	£16,000	N/A
Estimated additional fee for 2021/22 financial statements work due to 45% increase in gross expenditure noted above	N/A	£7,500
Additional fee for 2020/21 Value for Money assessment and reporting**	TBC	N/A
Additional fee for 2021/22 Value for Money assessment and reporting***	N/A	TBC
Total estimated audit fees (excluding VAT)	£TBC	£TBC

\* The fees within Note 13 to the financial statements include the £39,384 here plus the additional fees of £16,000 for 2020/21.

\*\* We will confirm fee for the 2020/21 Value for Money work once we issue our Auditor’s Annual Report for the year. This fee will include the independent legal advice we obtained to inform our findings. This fee will be subject to approval by PSAA.

\*\*\* We will provide the Audit Committee with an update on the expected fees for our 2021/22 Value for Money work once our risk assessment for the year has been completed. Please see page 17 for further information in this respect.

# E. Audit opinion

Our expected audit opinion is included below.

Although our audit is still in progress, we anticipate we will provide the Combined Authority with an unmodified audit report.

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

### Report on the Audit of the Financial Statements

#### Opinion on financial statements

We have audited the financial statements of The West of England Combined Authority (the 'Authority') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

# E. Audit opinion

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

## Other information

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

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

# E. Audit opinion

## Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

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

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

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

## Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on page 21, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## Auditor's responsibilities for the audit of the financial statements

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

# E. Audit opinion

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

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003 and the Local Government Act 1972.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - Journals posted by senior officers
  - Journals processed by unauthorised users
  - Journals with a blank description
  - Journals with certain key words that could be indicative of inappropriate or fraudulent use

# E. Audit opinion

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual journals and those posted by senior officers;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimate related to the defined benefit pensions liability valuation.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA/LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.



# E. Audit opinion

## Report on other legal and regulatory requirements – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

### Matter on which we are required to report by exception – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority’s arrangements in our Auditor’s Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor’s report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

### Responsibilities of the Authority

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

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

# E. Audit opinion

## Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for The West of England Combined Authority for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

### Use of our report

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

Signature:

Jon Roberts, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

# F. Letter in respect of delayed VFM work

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Commercial in confidence



Our ref.  
Your ref.

Clr G Gollop  
Chair of Audit Committee  
The West of England Combined Authority  
via e-mail

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13 September 2022

Dear Clr Gollop

### Value for Money (VFM) Reporting 2021/22

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest.

Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected.

The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money.

The position at The West of England Combined Authority is further complicated by the fact that our VFM work for 2020/21 has yet to be finalised, although we anticipate being able to report this work to the November 2022 Audit Committee.

Taking into consideration the need for an appropriate window between the 2020/21 report and that for 2021/22, we now expect to publish our Annual Audit Letter for 2021/22 no later than 30 April 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Jon Roberts  
Partner





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

**DATE: 17 NOVEMBER 2022**

**REPORT TITLE: INTERNAL AUDIT UPDATE**

**AUTHOR: TARIQ RAHMAN – AUDIT WEST (INTERNAL AUDIT)**

### **Purpose of Report**

1 To Update the Committee on Internal Audit work in 2022/23.

### **Recommendation**

- The Committee are invited to note the areas under review and progress against the plan as at 20<sup>th</sup> October 2022.

### **Background / Issues for Consideration**

2.1 The Committee approved the Annual Audit Plan at its meeting on 28<sup>th</sup> April 2022.

2.2 The tables in section 2.3 summarise the status of work as either complete, work in progress, or scheduled. Through consultation with the Interim Director of Investment & Corporate Services, and the Investment Performance Manager the planned LEP Governance audit review (Internal Audit Reference 22-007W) has been postponed which has enabled additional time to be allocated to the Counter Fraud & Corruption work (22-011W) scheduled for Quarter 4.

2.3 Summary of Audit Work and Status – 2022/23

**Planned Work (As recorded in the approved Internal Audit Plan)**

<b>Internal Audit Ref</b>	<b>Area Under Review</b>	<b>Status</b>
21-011W	Concessionary Travel	Complete – Limited Assurance
22-001W	City Region Sustainable Transport Settlement	Scheduled Quarter 4
22-002W	Project Management – Future Transport Zone	Work In Progress
22-003W	Grant Audit Certification – Growth Hub	Complete – 23 <sup>rd</sup> May 2022
22-004W	Climate Emergency Action Plan	Work In Progress
22-005W	Performance Management	Work In Progress
22-006W	Reasonable Assurance Model – Corporate Governance	Scheduled Quarter 4
22-007W	LEP - Governance	Days reallocated to Counter Fraud & Corruption Review
22-008W	Audit Follow-Up – Core Financial Systems – Data Analytics	Work In Progress
	Audit Follow-Up – Counter Fraud & Corruption	Scheduled Quarter 4
	Audit Follow-Up – IT Audit (Cyber Security)	Work In Progress
	Audit Follow-Up – Project / Programme Management	Work In Progress
22-009W	Payroll	Work In Progress
22-010W	IT Audit – Cyber Security	Scheduled for Q4
22-011W	Counter Fraud & Corruption – National Fraud Initiative & Declaration of Interests	Scheduled for Q4
22-012W	Grant Audit Certification – Future Transport Zone	Complete – 5 <sup>th</sup> October 2022

**Unplanned Work**

22-201W	Business Growth Grants	Complete – Substantial Assurance
22-204W	Grant Audit Certification – Peer Networks	Complete – 11 <sup>th</sup> May 2022
22-205W	Grant Audit Certification – DfT Bus Subsidy Grant	Complete – 5 <sup>th</sup> October 2022
22-206W	Grant Audit Certification – DfT Covid Bus Subsidy Grant	Complete – 5 <sup>th</sup> October 2022

2.4 Internal Audit Work - Review of Compliance with Funding Grant Terms & Conditions

The Combined Authority receives central government grant funding and each grant has terms and condition that have to be complied with and that includes obtaining an independent auditor / accountant review of funding claims submitted and an examination of a sample of grant claim items to verify that the expenditure is eligible.

Internal Audit has carried out five grant certifications:

Funding Description	Funding Body	Grant Offer Letter Date	Funding Claimed (£) 2021/22	Date Grant Auditors Letter Required	Date Grant Auditors Letter Despatched
Core Growth Hub (22-003W)	Business, Energy & Industrial Strategy	4 <sup>th</sup> June 2021	700,000	31 <sup>st</sup> May 2022	23 <sup>rd</sup> May 2022
Future Transport Zone (22-012W)	Department for Transport	9 <sup>th</sup> March 2022	1,945,801	29 <sup>th</sup> April 2022	5 <sup>th</sup> October 2022
Peer Networks (22-204W)	Business, Energy & Industrial Strategy	26 <sup>th</sup> February 2021	99,850	Not specified in Offer Letter	11 <sup>th</sup> May 2022
DfT Bus Subsidy Grant (22-205W)	Department for Transport	15 <sup>th</sup> July 2022?	1,147,621	30 <sup>th</sup> September 2022	5 <sup>th</sup> October 2022
DfT Covid Bus Subsidy Grant (22-206W)	Department for Transport	19 <sup>th</sup> January 2020 (Tranche 1) 27 <sup>th</sup> Oct 2021 (Tranche 8)	4,870,107	Not specified in offer letter - but email request received on 6 <sup>th</sup> May 2022	5 <sup>th</sup> October 2022

The Internal Audit work carried out on the 5 grant areas only found a minor error related to Peer Networks (22-204W). An adjustment of £7,528 was made to the total figure of £107,378 which was to be claimed (as recorded on the Financial System Report).

2.5 Two out of the five 'grant certification' pieces of work were planned, i.e. included in the Internal Audit Plan presented to Audit Committee in April. The remaining three were 'unplanned' and Audit West had to respond to short notice requests to carry out the work. Internal Audit will liaise with the Director of Investment & Corporate Services and Head of Finance to ensure all future grant certification work is programmed / planned which will help ensure the work is completed and respective letters despatched prior to the specified date as recorded in the Funding Body Grant Offer Letter.

2.6 A further piece of 'unplanned' work was requested - an audit review of 'Business Growth Grants' (22-201W). The audit work (reviewing a 10% sample of grant applications – 18 out of 178) resulted in an Audit Report which concluded with an audit opinion that the Business Growth Grants had been appropriately and proportionately verified, validated, and approved in line with scheme requirements and that these grants had been paid accurately and timely to businesses.

2.7 Internal Audit Work – Audit Assurance Reviews / Reports

It is adopted practice to report to Audit Committee if any Audit Reports are assigned a 'Limited Assurance' (Level 2) or 'No Assurance' (Level 1) rating. The 2021/22 Audit Review of Concessionary Travel was issued as a 'Final Audit Report' in July 2022 and a Level 2 'Limited Assurance' rating was assigned. The full report is attached – **Appendix 1.**

## 2.8 Background to Concessionary Travel

The Diamond Travelcard is the Concessionary Travel scheme operating across the West of England Authorities and allows cross-border travel on buses for eligible residents. WECA and North Somerset Council (NSC) are the official Travel Concession Authorities with responsibilities for administering the scheme in the respective areas, which includes calculating the reimbursements due to operators and making the payments. Management of the scheme across the West of England was previously undertaken by South Gloucestershire Council on behalf of the four West of England authorities, who at the time were each Travel Concession Authorities. In 2017 WECA took on the Travel Concession Authority role from its three constituent authorities, and South Gloucestershire Council continued to manage the scheme on behalf of WECA and NSC. In April 2020, WECA took over this scheme management role, on behalf of itself and NSC. The three constituent authorities continue to issue passes to residents in their areas on behalf of WECA, and NSC issues in its area.

## 2.9 The Internal Audit Review – Concessionary Travel

There were four 'Key Control Objectives' recorded in the Concessionary Travel Report's Assurance Summary which were assessed to help form an overall opinion. The Assurance Summary as recorded in the Report is recorded below:

Assessment	Key Control Objectives
Poor	1. To ensure clarity and formal acceptance of responsibilities of WECA, North Somerset and constituent authorities for administration of Concessionary Travel.
Poor	2. To ensure calculation of Concessionary Travel reimbursement payments to bus companies is reasonable, consistent, subject to scrutiny and approval (transparency), and in line with government guidance.
Good	3. To ensure payments processed for Concessionary Travel are accurate, timely and in line with notices issued to bus companies.
Poor	4. To ensure that constituent authorities are issuing Concessionary Travel Passes in line with WECA priorities and government rules.

2.10 The Audit Report Summary Findings recorded that over the last couple of years through the period of the Covid Pandemic the focus of the service has been on supporting operators and processing timely payments. The report did highlight evidence of improvements.

2.11 The three 'High Risk' Weaknesses recorded were:

1) The Agreements setting out the roles and responsibilities of WECA and the West of England Local Authorities in managing the scheme administration and issuing travel passes expired in 2020.

2) The method for calculating the reimbursement rate has not been consistently



applied, although it should be noted that due to the Covid-19 pandemic the latest formal calculations were carried out prior to the service being brought in-house.

3) Calculations of reimbursement rates for bus operators are not being carried out on an annual basis as per requirements in the Department for Transport (DfT) Statutory Instrument.

The 'Management Response' to the Audit Report was positive and all recommendations were agreed to be implemented. The West of England Combined Authority officers have already started to progress implementation of the recommendations for the agreed due date of December 2022. A 'Follow-Up' of the audit will be carried out in Quarter 4 of 2022/23 and the outcomes will be reported to this Committee.

### **Consultation**

3 Report and work undertaken is consulted with the Director of Investment & Corporate Services

### **Other Options Considered**

4 Not applicable

### **Risk Management/Assessment**

5 The internal audit plan is drawn up on a risk basis, using the Reasonable Assurance Model.

### **Public Sector Equality Duties**

6 Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

### **Finance Implications, including economic impact assessment where appropriate:**

7 No direct implications – Cost of service within existing budgets.

### **Legal Implications:**

8 No direct implications

### **Climate Change Implications**

9 No direct implications. However, Climate Change has been considered as a key risk for the Authority which has been identified during the Internal Audit Reasonable Assurance Model process resulting in an audit being included in the 2022-23 Annual Internal Audit Plan.

**Land/property Implications**

10 No direct implications.

**Human Resources Implications:**

11 No direct implications.

**Appendices:**

Appendix 1 – Concessionary Travel Internal Audit Report

**Background papers:**

None

**West of England Combined Authority Contact:**

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

**Final Internal Audit Report**

**Confidential**

**Concessionary Travel – Key  
Controls Review**

**July 2022**

## Executive Summary

### Audit Opinion:

Assurance Rating	Opinion
Level 5	Level 5 - Full Assurance: The systems of internal control are excellent with a number of strengths; no weaknesses have been identified and full assurance can be provided over all the areas detailed in the Assurance Summary.
Level 4	Level 4 - Substantial Assurance: The systems of internal control are good with a number of strengths evident and substantial assurance can be provided as detailed within the Assurance Summary.
Level 3	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	<b>Level 2 - Limited Assurance: The systems of internal control are weak and only limited assurance can be provided over the areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the levels of risk exposure.</b>
Level 1	Level 1 - No Assurance: The systems of internal control 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.

### Assurance Summary:

Assessment	Key Control Objectives
Poor	1. To ensure clarity and formal acceptance of responsibilities of WECA, North Somerset and constituent authorities for administration of Concessionary Travel.
Poor	2. To ensure calculation of Concessionary Travel reimbursement payments to bus companies is reasonable, consistent, subject to scrutiny and approval (transparency), and in line with government guidance.
Good	3. To ensure payments processed for Concessionary Travel are accurate, timely and in line with notices issued to bus companies.
Poor	4. To ensure that constituent authorities are issuing Concessionary Travel Passes in line with WECA priorities and government rules.

## Detailed Report

### Opinion:

Internal Audit has undertaken a review of the risks and controls related to Concessionary Travel and assessed the framework of internal control at level 2. A total of 6 audit recommendations are detailed in the Action Plan.

### Scope and Objectives:

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above. The review focussed on the high-level controls in operation across the service.

### Context & Audit Comment:

As part of the West of England Combined Authority (WECA) 2021/22 Annual Audit Plan, an audit review has been carried out on the adequacy of the framework of risk controls in relation to Concessionary Travel.

### Background

The English National Concessionary Travel Scheme (ENCTS) guarantees free travel for people over state pension age and people with an eligible disability on all eligible local bus services anywhere in England on weekends and from 09:30 to 23:00 on weekdays. Local Authorities can provide further concessions in accordance with their local priorities. Bus operators are entitled to reimbursement for journeys undertaken by residents under the scheme to account for lost revenue and additional costs.

The Diamond Travelcard is the Concessionary Travel scheme operating across the West of England Authorities and allows cross-border travel on buses for eligible residents. WECA and North Somerset Council (NSC) are the official Travel Concession Authorities with responsibilities for administering the scheme in the respective areas, which includes calculating the reimbursements due to operators and making the payments. Management of the scheme across the West of England was previously undertaken by South Gloucestershire Council on behalf of the four West of England authorities, who at the time were each Travel Concession Authorities. In 2017 WECA took on the Travel Concession Authority role from its three constituent authorities, and South Gloucestershire Council continued to manage the scheme on behalf of WECA and NSC. In April 2020, WECA took over this scheme management role, on behalf of itself and NSC. The three constituent authorities continue to issue passes to residents in their areas on behalf of WECA, and NSC issues in its area.

### Audit Summary Findings

WECA's management and administration of the Concessionary Travel Scheme requires improvement in several areas. The service has had to focus its efforts across the last two years on supporting operators by maintaining timely payments in line with temporary government guidance during the Covid-19 period. The pandemic hampered onboarding arrangements which took place during the first national lockdown in 2020, which meant that maintenance of day-to-day service has taken priority over reviewing and updating the management and administrative processes and the related key internal controls. In particular, there are no longer formal agreements in place between WECA and the four West of England Local Authorities since the previous Concessionary Travel agreements expired in 2020. Record-keeping has also suffered, with a lack of formal procedures and guidance notes outlining the complex reimbursement rate calculations, and poor audit trails evidencing previous payment calculations. WECA has not maintained formal oversight of the local authorities that are issuing passes on its behalf and there aren't any formal mechanisms in place for ensuring rules are applied consistently.

Covid-19 payment guidance is to be phased out during 2022/23, which provides an opportunity for a full review of the management of the service and the chance to implement an improved system of internal controls to manage risks as the service returns to normal. While many of the systems reviewed as part of the audit require improvement, there is evidence of improvements already underway, with the agreements between WECA and the local authorities having been drafted, and new system / process notes being compiled. It is also positive to note that operators continued to receive payments throughout the pandemic, along with notification of their reimbursement rates and we are aware there was only one formal challenge to the rate – subsequently withdrawn.

### We identified the following strengths:

- Passenger trip data has continued to be received and held on file throughout the pandemic, as a record of passenger numbers, supporting current and future calculations.
- The correct reimbursement rates are used in calculations for monthly payments, in line with notices issued to operators.

### We identified the following weaknesses:

- The Agreements setting out the roles and responsibilities of WECA and the West of England Local Authorities in managing the scheme administration and issuing travel passes expired in 2020.
- Although some basic procedural notes are in place or in the process of being updated, they do not currently include other key processes such as calculation of reimbursement factors and oversight of constituent authorities issuing travel passes on WECA's behalf.
- The method for calculating the reimbursement rate has not been consistently applied, although it should be noted that due to the Covid-19 pandemic the latest formal calculations were carried out prior to the service being brought in-house.
- Calculations of reimbursement rates for bus operators are not being carried out on an annual basis as per requirements in the Department for Transport (DfT) Statutory Instrument.
- There is no formal process for sign off / approval of new reimbursement rate calculations.
- There is little formal oversight by WECA of the constituent authorities which are issuing passes on behalf of WECA.

### Audit & Risk Personnel:

#### Lead Auditor:

Pete Charles

#### Acknowledgements:

Sincere thanks to the Bus Improvement Manager, Senior Transport Operators Officer, Transport Operations Officer and all service staff for their help and assistance provided throughout the audit review.

ACTION PLAN

HIGH RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
Page 100	<p><b>H1 Contracts and agreements</b> The Managing Authority Agreement for 'day to day' management of the scheme has expired and although WECA has taken back the management responsibility from South Gloucestershire Council, it continues to provide management duties for North Somerset Council without a formal agreement in place.</p> <p>In addition, the Inter Authority Delivery Agreement for the constituent authorities to act as agents to assess eligibility and issue travel passes in their areas expired in March 2020, although the local authorities continue to carry out this role.</p> <p>It is acknowledged that the agreements were updated in 2020 but were not ultimately signed, likely due to the pressure and impacts of Covid-19.</p>	<p>Duties may be carried out by parties without a solid legal basis, leading to potential disputes and legal challenges.</p>	<p>A Managing Authority Agreement should be drawn up between North Somerset Council and WECA in order to detail the duties to be undertaken by WECA in the day-to-day management of the scheme on behalf of itself and North Somerset Council. The Agreement should be agreed and signed by WECA and North Somerset Council.</p> <p>A new Inter Authority Delivery Agreement should be drawn up and signed by all parties, outlining the responsibilities of the constituent authorities as agents for administering travel passes on behalf of WECA.</p>	<p>Revised agreements are being drafted and will be submitted for legal input and discussion with the parties involved.</p> <p>Responsible officer: Andy Strong Completion date: 31 December 2022.</p>



Final Internal Audit Report – Concessionary Travel – 21-011W

HIGH RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
<b>H2</b>	<p><b>Reimbursement Rate Calculation Method</b></p> <p>The method for calculating the reimbursement rate is not consistently applied, although it should be noted that due to the Covid-19 that the latest formal calculations were carried out prior to the service being brought in-house. For one of the four operators reviewed there was not a formal record on file to show how the current figures were calculated.</p>	<p>Incorrect payments may be paid to operators, leading to over- or underspends. Calculations may not be adjusted timely to take into account changes in costs.</p>	<p>A standard model should be adopted for reimbursement rate calculations and reviewed on an annual basis to ensure it complies with government guidance and WECA priorities and resources. This method should be formally documented and approved by Management, with version control recorded on the document.</p> <p>Evidence of the payment calculations made should be retained on file for audit and reference purposes.</p>	<p>Agreed</p> <p>Responsible officer: Andy Strong Completion date: 30 November 2022.</p>

Final Internal Audit Report – Concessionary Travel – 21-011W

HIGH RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
H3	<p><b>Annual review of reimbursement calculations</b></p> <p>Formal calculations of reimbursement rates for bus operators are not being carried out on an annual basis as required by the DfT Statutory Instrument. Based on a sample of four calculations it was noted that there was not any evidence of a formal calculation since 2018/19 for two operators, 2017/18 for one operator and none at all for the fourth operator in the sample. It should be noted that operators continue to receive formal letters from WECA on an annual basis with the reimbursement rates and there have been few challenges which indicates that operators are generally satisfied with the rates in use.</p>	<p>Reimbursements may become out of line with operator costs, resulting in under or over-payments. WECA may be subject to additional challenge from operators.</p>	<p>WECA should make proportionate provision to review the calculations made in accordance with the Authority's standard method at least once in each period of 12 months that the relevant reimbursement arrangement is in operation.</p> <p>Evidence of review of annual calculations should be recorded on file for future reference.</p>	<p>Agreed – this will take the form of an annual submission of basic data from operators to allow a review to be carried out without placing a disproportionately onerous burden on them.</p> <p>Responsible officer: Andy Strong Completion date: 31 December 2022.</p>

Final Internal Audit Report – Concessionary Travel – 21-011W

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
<b>M1</b>	<p><b>Procedural notes</b> Although some basic procedural notes are in place, (covering the reimbursement process for bus operators), or in the process of being updated they do not currently include other key processes such as calculation of reimbursement rates, or interaction and oversight of constituent authorities for issuing travel passes. The process notes that were in place were not version controlled.</p>	<p>Procedures may be applied inconsistently leading to incorrect reimbursement rates and financial loss, or additional costs due to challenges by operators.</p>	<p>The procedural notes for reimbursing bus operators should be updated and finalised to cover existing processes. Additional procedural guidance should be drawn up to cover other key processes, including but not limited to:</p> <ul style="list-style-type: none"> <li>• Calculation of reimbursement factors</li> <li>• Oversight and interaction with constituent authorities for issuing travel passes</li> </ul> <p>These documents should be subject to annual review with recorded version control.</p>	<p>Agreed. Responsible officer: Andy Strong Completion date: 31 December 2022.</p>

**Final Internal Audit Report – Concessionary Travel – 21-011W**

<b>MEDIUM RISK EXPOSURE</b>				
	<b>Weakness Found</b>	<b>Implication or Potential Risk</b>	<b>Recommendation(s)</b>	<b>Responsible Officer Management Comments Implementation Date</b>
<b>M2</b>	<p><b>Approval of Reimbursement Rate Calculations</b> There is no formal process for sign-off / approval of new reimbursement rate calculations.</p>	<p>Calculations could be created with errors or inconsistencies, leading to over- or under-payments to operators. There is also an increased risk of corruption or collusion with operators leading to financial loss and reputational damage.</p>	<p>Reimbursement rate calculations should be approved and signed off by management before being communicated to operators. Evidence of sign off should be recorded on file for audit purposes – providing an audit trail and evidence of management check (accountability).</p>	<p>Agreed Responsible officer: Andy Strong Completion date: 31 August 2022</p>

MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
<b>M3</b>	<p><b>Oversight of Issuing Passes</b> There is little formal oversight by WECA of the constituent authorities which are issuing passes on behalf of WECA. In particular:</p> <ul style="list-style-type: none"> <li>• No information of performance is provided (e.g. passes issued, time taken to process applications)</li> <li>• Monthly information is not provided on stock levels, as required by the DfT.</li> <li>• No verification checks are undertaken to verify that the Agents are issuing passes in line with their responsibilities</li> <li>• There are no regular meetings with individual authorities or as a group to ensure consistency of service across the constituent authorities.</li> </ul>	<p>Procedures may be applied inconsistently leading to incorrect reimbursement rates and financial loss, or additional costs and administration due to challenges by operators.</p>	<p>WECA should implement measures to ensure appropriate oversight of issuing of Concessionary Travel passes, in line with WECA's obligations as the Concessionary Travel Authority for the region, including but not limited to:</p> <ul style="list-style-type: none"> <li>• Obtaining monthly information on performance, such as stock levels (as required by the DfT) and passes issued.</li> <li>• Undertaking verification spot checks or audits on the issuing of passes by the Local Authorities. In respect of online issues, this will involve liaison with the software provider.</li> <li>• Host regular meetings with Officers responsible for issuing travel passes at the constituent authorities to encourage collaboration, transparency and sharing of good/best practice.</li> </ul>	<p>Agreed Responsible officer: Andy Strong Completion date: 30 September 2022</p>

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Reference	Topic	Audit recommendations	Specified completion date	Progress	Change to expected completion date
H1	Contracts and agreements	<p>A Managing Authority Agreement should be drawn up between North Somerset Council and WECA in order to detail the duties to be undertaken by WECA in the day-to-day management of the scheme on behalf of itself and North Somerset Council. The Agreement should be agreed and signed by WECA and North Somerset Council.</p> <p>A new Inter Authority Delivery Agreement should be drawn up and signed by all parties, outlining the responsibilities of the constituent authorities as agents for administering travel passes on behalf of WECA.</p>	31-Dec-22	The Managing Authority Agreement has been drafted and shared with North Somerset Council. On track for MAA to be completed by end of December. A new Inter Authority Delivery Agreement (Travelcard Issuing Agreement) is currently being drafted and will be shared with the WECA constituent authorities by the end of November. On track for completion by end of December.	No change.
H2	Reimbursement Rate Calculation Method	<p>A standard model should be adopted for reimbursement rate calculations and reviewed on an annual basis to ensure it complies with government guidance and WECA priorities and resources. This method should be formally documented and approved by management, with version control recorded on the document.</p> <p>Evidence of the payment calculations made should be retained on file for audit and reference purposes.</p>	30-Nov-22	The previous reimbursement method is currently being updated using data from bus operators. The method of calculating reimbursement is derived from the DfT model which is being revised and reissued by DfT by end of November. Currently on track for the revised model to be approved by management alongside the new rate calculation. Evidence used to calculate rate, including base data provided by operators, is being retained within the CA records.	No change.
H3	Annual review of reimbursement calculations	<p>WECA should make proportionate provision to review the calculations made in accordance with the Authority's standard method at least once in each period of 12 months that the relevant reimbursement arrangement is in operation.</p> <p>Evidence of review of annual calculations should be recorded on file for future reference.</p>	31-Dec-22	The new rate calculation will be valid for 12 months from April 2023. Resources are already in place to review the rate in late 2023 for the 2024/25 financial year. Evidence used to calculate rate is being retained within CA records.	No change.
M1	Procedural notes	<p>The procedural notes for reimbursing bus operators should be updated and finalised to cover existing processes. Additional procedural guidance should be drawn up to cover other key processes, including but not limited to:</p> <ul style="list-style-type: none"> <li>- Calculation of reimbursement factors</li> <li>- Oversight and interaction with constituent authorities for issuing travel passes</li> </ul> <p>These documents should be subject to annual review with recorded version control.</p>	31-Dec-22	Preliminary work has been done in terms of collating core information but this needs to be completed and then signed off. This will be accomplished in good time before the deadline.	No change.
M2	Approval of Reimbursement Rate Calculations	<p>Reimbursement rate calculations should be approved and signed off by management before being communicated to operators.</p> <p>Evidence of sign off should be recorded on file for audit purposes – providing an audit trail and evidence of management check (accountability).</p>	31-Aug-22	<p>A provisional process has been outlined and will be submitted to management for approval before end of November. This will involve sign off by management within both the CA and NSC.</p> <p>Records of all sign-offs will be retained.</p>	Agree new process by mid-Nov and then first actual set of sign-offs to occur 30-Nov-22.
M3	Oversight of Issuing Passes	<p>WECA should implement measures to ensure appropriate oversight of issuing of Concessionary Travel passes, in line with WECA's obligations as the Concessionary Travel Authority for the region, including but not limited to:</p> <ul style="list-style-type: none"> <li>- Obtaining monthly information on performance, such as stock levels (as required by the DfT) and passes issued.</li> <li>- Undertaking verification spot checks or audits on the issuing of passes by the Local Authorities. In respect of online issues, this will involve liaison with the software provider.</li> <li>- Host regular meetings with officers responsible for issuing travel passes at the constituent authorities to encourage collaboration, transparency and sharing of good/best practice.</li> </ul>	30-Sep-22	WECA and LA officers have met to review current practice. Clarification is being sought from the DfT on methodology. Follow up meetings have been arranged. Information is being sought from the LAs on customer satisfaction with the card issuing process. These new arrangements will be confirmed within the Travelcard Issuing Agreement (see H1).	Completed (except for formalisation of processes within agreement as per H1).

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