Public Document Pack

A meeting of the

West of England Combined Authority Audit Committee

will be held on

Date: **Monday, 12 December 2022**

Time: **10.30 am**

Place: **Oak Hall, Bradley Stoke Town Council, The Jubilee Centre, Savages Wood Road, Bradley Stoke, South Gloucestershire, BS32 8HL**

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

Enquiries to:

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West of England Combined Authority Committee Agenda

YOU HAVE THE RIGHT TO:-

- Attend all West of England Combined Authority, Committee and Sub-Committee meetings unless the business to be dealt with would disclose 'confidential' or 'exempt' information.
- Inspect agendas and public reports five days before the date of the meeting
- Inspect agendas, reports and minutes of the Combined Authority and all Combined Authority Committees and Sub-Committees for up to six years following a meeting.
- Inspect background papers used to prepare public reports for a period public reports for a period of up to four years from the date of the meeting. (A list of background papers to a report is given at the end of each report.) A background paper is a document on which the officer has relied in writing the report.
- Have access to the public register of names, addresses and wards of all Councillors sitting on Combined Authority, Committees and Sub-Committees with details of the membership of all Committees and Sub-Committees.
- Have a reasonable number of copies of agendas and reports (relating to items to be considered in public) made available to the public attending meetings of the Combined Authority, Committees and Sub-Committees
- Have access to a list setting out the decisions making powers the Combined Authority has delegated to their officers and the title of those officers.
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OTHER LANGUAGES AND FORMATS

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

Guidance for press and public attending this meeting

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

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

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

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

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

1. EVACUATION PROCEDURE

In the event of a fire, please await direction from the 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.

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. MINUTES

5 - 10

To agree the minutes of the meeting held on 17 November 2022.

5. CHAIR'S ANNOUNCEMENTS

To receive any announcements from the Chair.

6. ITEMS FROM THE PUBLIC (QUESTIONS, STATEMENT 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 Tuesday 6 December 2022**.*

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

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

5. Please note - under 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 Friday 9 December 2022**. Statements should be emailed to democratic.services@westofengland-ca.gov.uk*

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

Next meeting: Thursday, 2 March 2023

West of England Combined Authority Audit Committee

Thursday, 17 November 2022, 10:30am
The Orchard Room at Bailey's Court Activity Centre, Baileys Court Rd, Bradley Stoke, Bristol BS32 8BH

Present:
Cllr Geoff Gollop, Bristol City Council
Cllr Sarah Classick, Bristol City Council
Cllr Jonathan Hucker, Bristol City Council
Cllr Brenda Massey, Bristol City Council
Cllr Trevor Jones, South Gloucestershire Council (as substitute for Cllr Matthew Riddle)
Cllr Winston Duguid, Bath & North East Somerset Council (as substitute for Cllr Hal McFie)
Cllr David Wilcox, Bristol City Council
Cllr John Ashe, South Gloucestershire Council
Cllr John O'Neill, South Gloucestershire Council
Mark Hatcliffe, Independent Member of Audit Committee

Officers In Attendance:
Patricia Greer, Chief Executive
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
Peter Mann, Head of Strategic Transport Integration

Also Present:
Jon Roberts, Tom Foster and Barrie Morris (Grant Thornton, External Audit)
Tariq Rahman and Jeff Wring (Audit West, Internal Audit)

Apologies:
Cllr Hal MacFie, Bath & North East Somerset Council
Cllr Mark Bradshaw, Bristol City Council
Cllr Matthew Riddle, South Gloucestershire Council
Cllr Rob Appleyard, Bath & North East Somerset Council

Minutes

1	**Evacuation Procedure** The evacuation procedure was noted.
2	**Apologies for absence** Apologies for absence had been received from Cllr Mark Bradshaw, Cllr Matthew Riddle, Cllr Rob Appleyard and Cllr Hal McFie. Cllr Trevor Jones attended as substitute on behalf of Cllr Matthew Riddle. Cllr Winston Duguid attended as substitute on behalf of Cllr Hal McFie.
3	**Declarations of Interest under the Localism Act 2011** There were no declarations of interest declared under the Localism Act 2011.

4	**Election of Vice-Chair for Municipal Year 2022/23** The Committee were requested to elect a Vice-Chair for Municipal Year 2022/23. Councillor David Wilcox indicated that he was willing to put his name forward for this position. This nomination was proposed by Councillor Geoff Gollop and seconded by Councillor Sarah Classick. There were no other candidates. On a show of hands, it was unanimously: **Agreed**: That Councillor David Wilcox be elected as Vice-Chair of the West of England Combined Authority for Municipal Year 2022/23.
5	**Chair's Announcements** There were no Chair's announcements.
6	**Minutes** The minutes of the inquorate meeting held on 12 October 2022 were agreed and endorsed subject to the following additions: · In respect of Item 10 the Committee requested that CRSTS be added to the list of items for a possible 'deep dive' study by Auditors. · The Committee also requested that the risk register relating to buses and the forward plan of future items be brought to the next meeting.
7	**Items from the Public (Questions, Statements and Petitions)** Five statements had been received from Members of the Public in advance of the meeting. These statements had been published and circulated. One member of the public attended the meeting and addressed the Committee for up to three minutes on the topic of his statement as follows: · Joe Aldous, local bus services. The Chair of the Committee stated that he, in consultation with the Chair of the Authority's Overview & Scrutiny Committee, would ensure that the situation with local bus services be looked into as a matter of urgency with the Committees using their powers to influence decision-making where possible whilst noting the possible significant reputational risk the situation posed for the Authority. The statements received would be referred to the Metro Mayor for his attention as the local decision-maker.
8	**Consideration of the recommendations of the Authority's External Auditors** The Chair introduced this item stating that the report was being considered by the Combined Authority Committee on the rise of this meeting. The Chair informed the Committee that Grant Thornton had been reappointed as the Authority's Auditors for the period after March 2023. The Chair of the Committee had circulated the following written statement to the members of the Committee in advance of the meeting:

“There are so many potential issues raised, that I thought it might be worth outlining the areas that I feel we need to focus on.
Just to be clear, I am not trying to stop members raising other issues, but I do feel we need to focus if we are to be effective.
As a committee our initial concerns were around the severance matter and these were raised in September 2021, the wider governance issues arose later in the autumn and were discussed at both scrutiny and audit committee.
The severance matter remains a concern as the role of Monitoring and 151 officer should have been a critical check and balance in the decision-making process. I believe we are all agreed on that and see the intended publication of the protocol as recognition of that.
Whilst it is important those lessons are learnt and such a situation is never allowed to happen again, further detailed discussion is unlikely to produce any better outcome. I suggest we note the seriousness of the failure to use statutory officers and urge the immediate adoption and publication of the new protocol.
I suggest we then move on to the wider governance issues for the bulk of our discussion. I know all members will have views on those issues, but I suggest we don’t try to redo the excellent work that the auditors have done!
I give a few comments below which indicate my own views
I suggest we focus on the Auditors recommendations and the officers’ responses to those recommendations. Are the responses specific enough to deliver measurable improvement? I suggest that we try to focus on the action plan and require officers to set measurable indicators rather than informal promises, and that we emphasise the importance of co-working on all aspects of the authority’s decision making including its responses to this auditor’s report.
It is depressing that it has taken 14 months for this report to be presented. It is concerning that responses still talk of matters being looked at in the New Year. I suggest we emphasise that these issues are urgent and require immediate action. I suggest we ask for a reworked action plan and officer response to be brought to our next audit committee meeting and that both should be agreed between WECA and the UAs. I recognise that is a tight time frame as publication would be 5th December.
Reacting to issues raised by the auditors is not optional and should not be vague. We should request a clear timeline for each area of work arising from this report with details of how it will be implemented
I conclude by emphasising that it is not Audit Committee’s responsibility to design and implement the action plan. That lies with the committee directing officers. It is not even our responsibility to design mechanisms for monitoring. However, we should expect to receive regular reports with robust evidence to indicate improvements being made and we should request officers to establish that process urgently.
I will be representing the audit committee view at the Committee at 1pm after our meeting. I will happily change and will try to summarise these at the end of the discussion”

The West of England Combined Authority Audit Committee were requested to consider a report and submit their views upon a report prepared for the Combined Authority’s Committee meeting, called under section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.

Jon Roberts, Barrie Morris and Tom Foster attended the meeting on behalf of Grant Thornton and set out the findings of the report in detail.

Members had also been requested to pre-submit any questions on the report to External Auditors or to officers of the Authority. Written responses from officers had been circulated.

Jon Roberts explained that the report related to the 2020/21 External Audit of the West of England Combined Authority. During this work the external auditor (Grant Thornton) had determined that some issues had required further consideration. Grant Thornton's work focused on investigating those issues, the results of which were set out in their "VfM Report on Governance". The full report was attached at Appendix 2. The report included 3 statutory recommendations, 2 key recommendations and 4 Improvement recommendations.

The Audit Committee was asked to consider the report and make any recommendations and comments to the Committee for its consideration.

Following a lengthy discussion, including contributions from the Chair, Councillors O'Neill, Duguid, Hucker, Wilcox and Mark Hatcliffe and question to officers, the Chair stated that he did not feel that the responses from the Combined Authority in respect of the Auditor's findings were adequate and he therefore recommended that the Combined Authority Committee adjourned its planned meeting for that afternoon so that those responses could be reconsidered. He also called for an early sight of any action plan and how the Authority was measuring its progress against the action plan. The committee was unanimous in supporting these proposals and wished to stress they considered the matter as urgent from the Committee for these proposals which had been supported by other members during the debate.

The Auditor's confirmed that any follow up audit would take place in the next financial year.

The Committee also requested that the Auditor's consider audits into the following areas:

- Rail and bus funding;
- CRSTS

Agreed:

(1) That the Audit findings on governance be noted and Grant Thornton be thanked for bringing the report to the Committee;

(2) To recommend to the Combined Authority Committee that the proposed response by the Authority not be accepted as adequate and that the Audit Committee call upon the Combined Authority Committee to adjourn its proposed meeting in order to reconsider its response in light of the detailed comments made by the Audit Committee;

	(3) That the Committee note the need for a response within 30 days of the final report being received from Grant Thornton and note the importance that the response should be jointly worked; (4) That the officers action plan was not acceptable and that a jointly worked action plan be brought back to the next meeting of Audit Committee, with specific proposals for dealing with each recommendation; (5)That the Authority, in consultation with the Unitary Authorities, work up a detailed timeline and also agrees key measureable performance indicators that will help show direction of travel. Timeline and KPIs also to be presented to the next available Audit Committee; (6) That the Audit Committee expect regular reports setting out measurable actions against targets and progress made; (7) That the additional suggestions for audit work in the areas of Rail and bus funding and CRSTS be noted.
9	**The Audit Findings for the West of England Combined Authority** The Committee were asked to note a report which provided 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. The Audit Finding's report included the following key information: · Financial Statements · Significant Risks · Key Judgements and Estimates · Value for Money Arrangements The Interim Director of Investment and Corporate Services stated that there had been an issue identified relating to a land purchase that should have been accrued for in 2020/21 which had been accounted for in the wrong accounting year of 2021/22 and for which an adjustment will need to be made given it is a material sum. The Auditors were investigating whether this applied to any other transactions. The following issues were identified: · Actuaries had been assisting with the work on pensions liabilities. · Investigative work was being undertaken with journal entries to identify both the poster and the approver, although it was noted that only the appropriate officers could approve such entries – the follow-up work on the auto-reversing was set out in Appendix B; · The Audit work was carried out in accordance with requirements with further investigations if necessary with the VfM and Governance work; The Committee agreed that the Chair could sign off the final accounts on behalf of the Committee.

	Agreed: (1) That the External Auditor's VfM report be noted; (2) That the Chair of the Audit Committee be authorised to sign off the accounts on behalf of the Committee.
10	**Internal Audit Update** Tariq Rahman and Jeff Wring, Audit West (Internal Audit) submitted a report updating the Committee on the Internal Audit work 2022/23. The report summarised the first six months of audit work and a further report would be brought to the Committee. Work planned for 2023/24 would be reported to a future meeting. Internal Audit had 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 had been detailed in the Action Plan attached at Appendix 1. The management response to these recommendations was attached at Appendix 2. Management confirmed that the focus was on integration and improvement issues including agreements with UAs and North Somerset Council. The Government reimbursed the cost of carrying a concessionary fare passenger using a formula. It was noted that there were no plans to alter the 9am start for use of a concessionary travel card. **Agreed**: That the areas under review be noted and the progress against the Internal Audit plan as of 20 October 2022 be noted.
	Date of Next meeting: Monday, 12 December 2022, 10.30 am, Oak Hall, Bradley Stoke Town Council, The Jubilee Centre, Savages Wood Road, Bradley Stoke, South Gloucestershire, BS32 8HL

WEST OF ENGLAND
Combined Authority

WEST OF ENGLAND AUDIT COMMITTEE

12 DECEMBER 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 (updated as at 30 November 2022).

The letter of representation is attached at Appendix 2.

Summary

This report includes the following key information:

- Financial Statements
- Significant Risks
- Independence and Ethics

Appendices:

- A – Action Plan – Audit of Financial Statements.
- B – Follow-Up of Prior Year Recommendation.
- C – Audit Adjustments
- D – Fees
- E – Audit Opinion

Recommendations The Audit Committee are asked to note the report.

Contact officer: Richard Ennis

Position: Interim Director of Investment and Corporate Services

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Grant Thornton

The Audit Findings for The West of England Combined Authority

Year ended 31 March 2022

30 November 2022

Contents

Page 14

Your key Grant Thornton team members are:

Jon Roberts
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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: 30 November 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.

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.

Financial Statements

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

- the 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.

We produced an initial Audit Findings Report in late October 2022 and presented this to the Combined Authority's Audit Committee on 17 November 2022. We also provided the Audit Committee with a verbal update of our progress at that meeting.

This report sets out progress since that meeting and, for ease of reading, all changes are in red text. However, it should be noted that there have been less than two weeks between the date of writing this report and the Audit Committee meeting on 17 November 2022.

We will issue 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.

Since the Audit Committee on 17 November 2022 we have identified issues regarding:

- REFCUS payments;
- Employee benefits / other service expenditure; and
- Completeness of expenditure and additional testing.

Further information on these emerging issues is contained on pages 11 and 12

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

We have also raised three 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.

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 presented 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 the three statutory recommendations that arose from that work. We expect these recommendations to be considered by the Combined Authority in a public meeting on 9 December 2022.

This Auditor's Annual Report will include the statutory recommendations included in 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. Our Auditor's Annual Report will include a link to the governance report but will not repeat the findings in detail.

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 in March 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.

Page 16

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 we issued three 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 March 2023.
- 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

As noted on page 3, since our previous Audit Findings Report was issued on 26 October a number of issues have been identified and extended testing is being undertaken.

Further information on these emerging issues is contained on pages 11 and 12.

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. However, additional testing has been required in some areas as noted on pages 11 and 12.

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 12 December 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

Page 18

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	Commentary
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	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 finalise 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 testing found that bank journals (i.e. journals that are initiated from the bank statements – such as investment income) were not appropriately authorised prior to posting on the general ledger. It was assumed that review of the monthly bank reconciliation and other control accounts obviated the need for the journals to be reviewed. We do not consider this appropriate as this increases the opportunity to process something inappropriately and bypasses the review and approval check that would prevent anything unusual or incorrect from being posted. Management have confirmed that from November 2022 the process for bank journals has been brought into line with that for other journals and they are now posted in the system following the required approval process. Our audit work to date has not identified any other 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; • obtained 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; 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 Our audit work to date has not identified any issues in respect of Combined Authority's Pension Fund net liability, although some queries are outstanding. Please see page 10 for additional commentary in this area.

2. Financial Statements - Significant risks

Risk	Commentary
The revenue cycle includes fraudulent transactions (rebutted)	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. 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: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including WECA, mean that all forms of fraud are seen as unacceptable. We therefore did not consider this to be a significant risk for The West of England Combined Authority. 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.
The expenditure cycle includes fraudulent transactions (rebutted)	Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "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. We have rebutted this presumed risk for WECA because: • expenditure is well controlled and the Authority has a strong control environment; • there is very little incentive for management to mis-represent expenditure; and • the Authority has clear and transparent reporting of its financial plans and financial position to those charged with governance. We therefore did not consider this to be a significant risk for The West of England Combined Authority. 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.

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	●

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

Light Purple

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
Processing of journals	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. However, the Authority was unable to provide a report listing the journals processed in the year, the poster and the approver. 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.	In Appendix A we have recommended that the Combined Authority contacts its software provider in order to enable this bespoke report to be produced. 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. Management response We have agreed this recommendation as noted in Appendix A.
REFCUS Payments	Our testing on REFCUS payments made in 2021/22 identified one payment made in September 2021 which related to the previous financial year. As this payment was material, we undertook additional testing and identified a further 6 payments relating to 2020/21 that had not been accrued for. We are in the process of completing additional testing on the accruals relating to 2021/22 and similar issues are arising in the testing completed to date.	This sum was material (£6.9m) and so a prior period adjustment will be required. We have repeated our 2020/21 recommendation regarding strengthening the Combined Authority's arrangements in this area. Management response To be provided please.

Page 23

2. Financial Statements - matters discussed with management

Significant matter	Commentary	Auditor view and management response
Employee benefits and other service expenditure	Our testing of employee benefits (payroll) identified a number of transactions that had been incorrectly mapped to employee benefits rather than other service expenditure. We needed to perform additional testing in this area as the expenditure had not been captured in our sample for other service expenditure.	The amount (c£2m) was above performance materiality and so Note 5 of the financial statements will be emended to reflect this. Total expenditure is unchanged. Management response To be provided please.
Completeness of expenditure and additional testing	Our testing of payments made in the new financial year identified one item that had not been accrued for in 2021/22. We are in the process of undertaking additional testing on payments made since the year end and have extended the coverage of this testing to include June 2022.	We have repeated our 2020/21 recommendation regarding strengthening the Combined Authority's arrangements in this area. Management response To be provided please.

Page 24

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.

Page 25

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work in 2021/22
Written representations	A letter of representation will requested from the Combined Authority, and a draft version will be included in the Audit Committee papers for 12 December 2022. We will update this draft letter of representation should any matters come to light during the remainder of our audit work.

2. Financial Statements - other communication requirements

Page 26

Issue	Commentary
Confirmation requests from third parties	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. We have had a positive response from the Combined Authority's bankers. 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.
Accounting practices	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.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management has been provided.

2. Financial Statements - other communication requirements

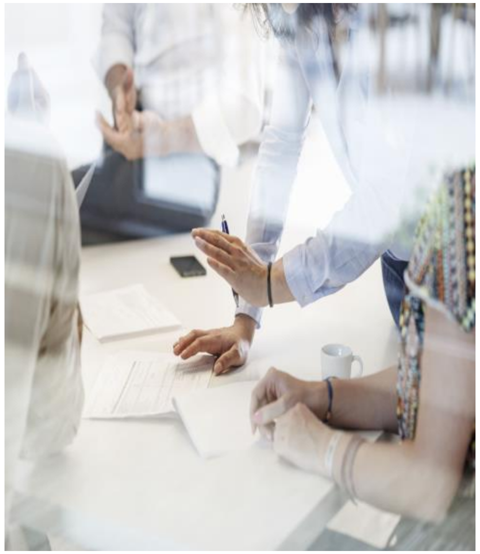
Our responsibility

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).

Issue	Commentary
Going concern	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: • 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 • 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. 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: • the nature of the Combined Authority and the environment in which it operates • the Combined Authority's financial reporting framework • the Combined Authority's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We previously recommended to the Audit Committee that the Combined Authority's Annual Governance Statement for 2021/22 should be revisited to ensure it reflected the significant weaknesses identified in our governance report. The statutory recommendations within this report are being considered by the Combined Authority in a public meeting on 9 December 2022.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • 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, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters based on the work completed to date. We will review the Annual Governance Statement once it has been revisited (see above). 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.
Specified procedures for Whole of Government Accounts	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. No additional work is required as the Combined Authority does not exceed the threshold set by the NAO. However, the NAO have not yet issued the instructions to auditors and so we have been unable to complete our work in this area.
Certification of the closure of the audit	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. We will also refer to the WGA submission as noted above.



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 require 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.

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 in March 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. Please note that all fee variations are subject to approval by PSAA.

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)

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 three 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.

Assessment	Issue and risk	Recommendations
High	There were a number of issues identified regarding the accuracy of the Authority's creditors in 2020/21 and this was also the case this year.	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. **Management response** To be provided please.
Low risk	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. 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.	We recommend that the Combined Authority contacts its software provider in order to enable this bespoke report to be produced. **Management response** Our ICT Provider is in the process of arranging the bespoke report that is required.
Low risk	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.	We recommend that the Combined Authority reviews the appropriateness of providing administrative rights to operational staff. **Management response** All admin access has been removed where feasible to do so taking into account the size of the current team.

Impact

- 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
Partial	There were a number of issues identified regarding the accuracy of the Authority's creditors in 2020/21. 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. 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. **Management response** 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.	The Combined Authority has implemented a reversing journal process which has strengthened its arrangements in this area. Our work on creditors and the associated figures such as grants received in advance and the agency creditor is still in progress. However, as noted on page 11, we have again identified issues regarding year-end liabilities and additional work is in progress in this area.

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 quantified any misstatements which impact on the Combined Authority's primary financial statements. However, we are still working on the emerging issues on pages 11 and 12.	None.	None.	None.
Overall impact	£0	£0	£0

Page 35

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 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.	✓

C. Audit Adjustments

Page 36

Misclassification and disclosure changes (cont'd)

Disclosure	Comments	Adjusted?
Note 11 Officers' remuneration	We identified a number of errors within this disclosure note: • Chief Executive: incorrect pensions contribution used; • Director of Business skills: incorrect salary used; • Director of infrastructure: The note did not separate the salaries for the two officers that held this position during the year – the disclosures are required to reflect postholder(s) rather than the actual position. Additional election payment not included. • Director of investment and corporate services: Holiday pay omitted – the officer left the role at the year end and therefore was entitled to pay for holiday not used. • Interim Director of Legal Services was shown as starting on 1 January whereas this was 31 January. The disclosed payments were therefore for 2 months rather than 3 months. • The £50k and above bandings note incorrectly included the senior staff that were disclosed separately. • The 'number' within the exit packages disclosure was confused with the 'amount' and the draft accounts disclosed 59 exit packages over £40k whereas there was just one exit package.	✓
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.	
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

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***	£66,418	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 the final fee for the 2021/22 financial statements audit once the work has been completed and approval from PSAA has been obtained.

*** As advised to the Audit Committee on 17 November 2022, this includes legal advice from Bates Wells (£19,418), GT Time charge for challenging the payment (£13,000) and Governance report (£34,000). This fee will be determined by PSAA and we will advise the Audit Committee on this in due course.

**** 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. 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

Page 46

Commercial in confidence

Grant Thornton

Our ref:
Your ref:

Cllr G Gollop
Chair of Audit Committee
The West of England Combined Authority

via e-mail

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

T +44 (0)117 305 7600

13 September 2022

Dear Cllr 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

Grant Thornton

grantthornton.co.uk

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[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
2 Glass Wharf
Bristol
BS2 0EL

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

The West of England Combined Authority
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of The West of England Combined Authority for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the Authority's financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

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

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Authority's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

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

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include valuation of defined benefit net pension fund liabilities, year-end provisions, year -end accruals and fair value estimates.

vi. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

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

viii. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Authority has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

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

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

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

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

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

xiv. The prior period adjustments disclosed in Note [X] to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment. We continue to believe that the Authority's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

   a. the nature of the Authority means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

   b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

   c. the Authority's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Authority's ability to continue as a going concern need to be made in the financial statements

xvi. The Authority has complied with all aspects of ring-fenced grants that could have a material effect on the Authority's financial statements in the event of non-compliance.

Information Provided

xvii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Authority's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Authority via remote arrangements from whom you determined it necessary to obtain audit evidence.

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

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

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

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

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

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

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

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

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

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Authority's Audit Committee at its meeting on 12 December 2022.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Authority

ITEM: 08

REPORT TO: **AUDIT COMMITTEE**

DATE: **12 DECEMBER 2022**

REPORT TITLE: **TREASURY MANAGEMENT STRATEGY 2023/24 INCLUDING TREASURY MANAGEMENT 2022/23 MONITORING UPDATE**

DIRECTOR: **RICHARD ENNIS, INTERIM DIRECTOR OF INVESTMENT & CORPORATE SERVICES (s73 OFFICER)**

AUTHOR: **STEVE FINNEGAN, FINANCIAL ACCOUNTANT**

Purpose of Report

1. The Chartered Institute of Public Finance and Accountancy's, (CIPFA), Treasury Management in the Public Services Code of Practice, requires the authority to approve a Treasury Management Strategy before the start of each financial year. The 2023/24 Strategy will be submitted to the January 2023 West of England CA Committee for approval alongside the 2023/24 budget papers.

Recommendations. That the committee:

(a) Note the Treasury Management Strategy for 2023/24 and recommend any amendments prior to it being submitted to the January 2023 West of England CA Committee for approval;

(b) Note the 2022/23 Treasury Management monitoring update as detailed at the end of Appendix 1.

Background / Issues for Consideration

2. The 2022/23 Treasury Management Strategy, as informed through our Treasury advisors, ArlingClose, was approved by the WECA Committee on 28 January 2022. The 2023/24 Strategy builds on the foundations of the previous year and has been updated to reflect the recovery from Covid-19 and current economic factors, credit risk and cash flow forecasts.
3. WECA's Treasury Transactions are entirely investment based at present with no identified need for long-term borrowing for capital financing within the immediate

future. Short-term borrowing will be considered as part of normal cashflow operations where appropriate.

4. From April 2019, WECA took on responsibility for managing its own investment portfolio, a service that was previously managed on our behalf by Bath and North East Somerset, (BANES), Council.

5. In the early years of operation, WECA has continued to maintain significant cash balances as detailed business cases and feasibility studies are developed. The focus of Treasury Management is to protect the security of public funding whilst continuing to generate healthy financial returns from our cash holdings which has become increasingly challenging in the current economic climate.

6. The 2023/24 Treasury Management Strategy, and update on 2022/23 performance, is detailed as Appendix 1 to this report.

Consultation

7. Decisions on treasury management investments and borrowing are made daily as delegated to the Director of Investment and Corporate Services, (and designated staff), who must act in compliance with the Treasury Management Strategy. Reports on treasury management performance are presented to the WECA Committee, with the Audit Committee being responsible for scrutinising the governance framework that drives treasury management decisions.

8. Regular dialogue is maintained with our treasury advisor's, ArlingClose, particularly in relation to the consideration of longer-term investment opportunities.

Risk Management/Assessment

9. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code).

10. The primary objective of the strategy is to safeguard public funding whilst generating reasonable financial returns from cash balances held. Within the strategy, there is a list of approved investment options with financial values and durations firmly linked to the credit worthiness, and risk, of each investment option.

11. ArlingClose provide regular updates in terms of changes to individual credit ratings and/or economic outlooks which might impact on current or future investment holdings.

Public Sector Equality Duties

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

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

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

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

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

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

Finance Implications, including economic impact assessment where appropriate:

17. The base budget for the income generated from WECA investments is £670k per annum for 2023/24. As per 2022/23 we are predicting to exceed this base budget next financial year due to

    (a) the holding of high cash balances and

    (b) generating financial returns over and above the budgeted level through ‘forward deals’ and diversifying the authority’s investment portfolio.

18. Any surpluses generated in 2023/24 will be transferred to a specific Treasury Management earmarked reserves in order to address predicted shortfalls in investment income in future years as per the approved reserves policy.

Legal Implications:

19. Treasury management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy’s *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority’s legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code

Appendices:

Appendix 1 – WECA Treasury Management Strategy for 2023/24 and Monitoring update for 2022/23

Background papers:

WECA Treasury Management Strategy 2022/23 – approved by WECA Committee on 28 January 2022

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 Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: democratic.services@westofengland-ca.gov.uk

West of England Combined Authority

Treasury Management Strategy Statement 2023/24

1. Introduction

1.1 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has substantial sums of money invested and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

1.2 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a Treasury Management Strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

2. External Context

2.1 **Economic background:** The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, recent changing government policy responses, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

2.2 The Bank of England (BoE) increased Bank Rate by 0.75% to 3.0% in November 2022, the largest single rate hike since 1989 and the eighth successive rise since December 2021. The decision was voted for by a 7 v 2 majority of the Monetary Policy Committee (MPC), with one of the two dissenters voting for a 0.50% rise and the other for just a 0.25% rise.

2.3 The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected to remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising in spite of a labour shortage in the markets as a whole.

2.4 The UK economy grew by 0.2% between April and June 2022, but the BoE forecasts Gross Domestic Product (GDP) will decline 0.75% in the second half of the calendar year due to the squeeze on household income from higher energy costs and goods prices. Growth is then expected to continue to fall throughout 2023 and the first half of 2024.

2.5 CPI inflation is expected to peak at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets with a peak of 5.25%. However, the BoE has stated it considers this path to be too high, suggesting that the peak in interest rates will be lower, reducing the risk of inflation falling too far below target.

2.6 The labour market remains tight for now, with the most recent statistics showing the unemployment rate fell to 3.5%, driven mostly by a shrinking labour force. Earnings were up strongly in nominal terms by 6% for total pay and 5.4% for regular pay but factoring in inflation means real total pay was -2.4% and regular pay -2.9%. Looking forward, the MPR shows the labour market weakening in response to the deteriorating outlook for growth, leading to the unemployment rate rising to around 6.5% in 2025

2.7 Interest rates have also been rising sharply in the US, with the Federal Reserve increasing the range on its key interest rate by 0.75% in November 2022 to 3.75%-4.0%. This was the fourth successive 0.75% rise in a pace of tightening that has seen rates increase from 0.25%-0.50% in March 2022. Annual inflation has been slowing in the US but remains above 8%. GDP grew at an annualised rate of 2.6% between July and September 2022, a better-than-expected rise, but with official interest rates expected to rise even further in the coming months, a recession in the region is widely expected at some point during 2023

2.8 Inflation has been rising consistently in the Euro Zone since the start of the year, hitting an annual rate of 10.7% in October 2022. Economic growth has been weakening with an expansion of just 0.2% in the three months to September 2022. As with the UK and US, the European Central Bank has been on an interest rate tightening cycle, pushing up its three key interest rates by 0.75% in October, the third major increase in a row, taking its main refinancing rate to 2% and deposit facility rate to 1.5%.

2.9 **Credit outlook:** Credit default swap (CDS) prices have followed an upward trend throughout the year, indicating higher credit risk. They have been increased by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic. CDS price volatility has been higher in 2022 compared to 2021 and this year has seen a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

2.10 The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them to negative from stable. There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability. However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

2.11 **Interest rate forecast:** The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target. While interest rate growth expectations reduced during October and November 2022, multiple interest rate rises are still expected over the horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher. A more detailed economic and interest rate forecast provided by Arlingclose is in **Appendix A**

2.12 Yields are expected to remain broadly at current levels over the medium-term, with 5-, 10- and 20-year gilt yields expected to average around 3.6%, 3.7%, and 3.9% respectively over the 3-year period to September 2025. The risks for short, medium and longer-term yields are judged to be broadly balanced over the forecast horizon. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

2.13 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 2% for the West of England

CA balances, and 1.8% for RIF balances. Lower levels of interest received on RIF balances due to longer term investments of funds being limited. Higher rates can only be achieved through retaining a proportion of our portfolio as long terms investments such as property, equities and mixed asset funds.

3. Local Context

3.1 On 31st October 2022, the Authority held £401m of investments, and £40m in short term borrowing. This is set out in further detail at **Appendix B**.

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

3.3 The Authority's capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall to £230m by the end of 2023/24 as capital grants are used to finance capital expenditure and earmarked reserves are spent on their intended purpose.

4. Investment Strategy

4.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Since 1 April 2022, the Authority's investment balance has ranged between £280m and £401m, and similar levels are expected to be maintained in the forthcoming year.

4.2 As well as holding investments in its own right, the Authority also acts as Accountable Body for the West of England Revolving Investment Fund (RIF) holding Government Grants until they are ready to be distributed to Local Authorities and other organisations for approved project spend over the coming years.

4.3 The funds are invested primarily to protect the capital and, to achieve a high level of capital security, investments are made predominantly with Central Government, Local Authorities and Banks with high credit ratings. See **Appendix C** for Treasury Monitoring.

4.4 Interest earned on RIF investments is re-invested into the Fund.

4.5 **Objectives:** The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. Given the current level of CPI at 11% this will be impossible to achieve with fixed term deposits alone. However, we will continue to consider further longer-term investments within our overall investment portfolio, such as pooled funds, which will achieve a higher rate of return. Any temporary liquidity issues that may arise throughout the year will be dealt with by short term borrowing.

4.6 **Strategy:** The Authority expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income. The Authority aims to further diversify into more secure and/or higher yielding asset classes during 2023/24. A reduced proportion of the Authority's surplus cash remains invested in short-term unsecured bank deposits and money market funds. This diversification will represent a continuation of the strategy adopted in 2022/23 with outer limits set for treasury management operations.

4.7 **Business models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

4.8 **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types as detailed in *Figure 1*, subject to the cash limits (per counterparty), and the time limits shown.

Figure 1: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£10m	Unlimited
Secured investments *	25 years	£15m	Unlimited
Banks (unsecured) *	13 months	£10m	Unlimited
Building societies (unsecured) *	13 months	£10m	£20m
Registered providers (unsecured) *	5 years	£10m	£50m

Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10m	£60m
Real estate investment trusts	n/a	£10m	£50m
Other investments *	5 years	£10m	£20m

This table must be read in conjunction with the following notes

a) **Minimum Credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is **no lower than A-.** Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

   For entities without published credit ratings, investments may be made either:

   (i) where external advice indicates the entity to be of similar credit quality; or

   (ii) to a maximum of £10m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

b) **Banks and building societies unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

c) **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

d) **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

e) **Registered providers (unsecured):** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

f) **Money Market Funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

g) **Strategic Pooled funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

   The Authority may consider further investment in Pooled Funds during 2023/24 with a view to providing further diversification and the potential for earning a higher investment yield on long-term investment balances. Cash that is not required to meet any short or medium-term liquidity can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local West of England CA services.

   Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

h) **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

i) Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

j) **Operational bank accounts:** The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £500,000 per bank. This is a relatively low risk as deposits tend to be only held overnight and can be moved without notice. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

k) **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Authority's treasury advisers, ArlingClose, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

l) **Other information on the security of investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will either be deposited with the UK Government, (via the Debt Management Office), invested in government treasury bills or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

m) **Environmental, Social & Governance (ESG) Investments:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code. The Authority recognises it can further enhance its efforts through its investment decisions and activity. The Authority will consider options for investments of short-term funds with institutions who ring fence the use of such funds for ESG related matters. The Authority will continue to use the Arlingclose ESG and Responsible Investment Service, designed to guide and advise authorities on incorporating and monitoring ESG in its treasury investment decisions.

n) **UA Short Term Loan Facility:** In order to assist the West of England Unitary Authorities who may continue to face cashflow challenges following Covid-19, the Authority has implemented a short-term loan facility and this will be operated within the parameters of the approved Treasury Management Strategy.

o) **Investment limits**: The maximum that will be lent to any one organisation, (other than the UK Government), will be £10 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. The Authority's revenue reserves, which could be made available to cover any investment losses, are forecast to be £2.5 million on 31st March 2023. There is also a £1.1m Treasury Management Earmarked Reserve available.

Figure 2: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£15m per country (AAA sovereign rating)
	£10m per country (AA+ sovereign rating)
Registered providers and registered social landlords	£50m in total
Unsecured investments with building societies	£20m in total
Loans to unrated corporates	£20m in total
Money market funds	unlimited
Real estate investment trusts	£50m in total

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast. The Authority will spread its liquid cash over at least five providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

5. Borrowing Strategy

5.1 The Authority currently holds £40m of short-term loans for cash flow purposes. The balance sheet forecast shows that the Authority does not expect the need to borrow in 2023/24.

5.2 **Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

5.3 **Strategy:** The Authority does not currently have any underlying need to borrow long-term to fund capital expenditure. The CA holds no long-term loans and no long-term borrowing is anticipated during 2023/24. Therefore, a debt-free strategy will be maintained until such time as the Authority determines that its capital strategy and prioritised programme of investment requires consideration of any borrowing decision.

5.4 As part of its approach to liquidity management, the Authority may borrow short-term loans to cover any unplanned cash flow shortages as they arise. Rather than always keeping cash on instant access for unplanned cash flows, (where security and liquidity will mean yields will be low), the Authority will retain the option of short-term borrowing at low rates to enable it to explore increasing investments in longer-term and more diversified assets. The Authority will test access to borrowing occasionally even where this is not required to ensure liquidity is available.

5.5 **Sources of borrowing:** The approved sources of short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Avon Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

5.6 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing

- hire purchase
- Private Finance Initiative
- sale and leaseback

5.7 **Short-term and variable rate loans**: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits as detailed in the treasury management indicators.

6. Treasury Management Indicators

6.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

6.2 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

Credit risk indicator	Target
Minimum portfolio average credit rating	A-

6.3 **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice.

Liquidity risk indicator	Target
Total sum borrowed in past 3 months without prior notice	£40m

6.4 **Interest rate exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

6.5 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2022/23	2023/24	2024/25	+3 years
Limit on principal invested beyond 364 days as % of total cash balance	50%	30%	20%	20%

7. Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

7.1 **Financial Derivatives:** Authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 113A of the Local Democracy, Economic Development and Construction Act 2009 removes much of the uncertainty over authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

7.2 **Markets in Financial Instruments Directive (MiFID II)**: As a result of the directive, Local Authorities will be treated as retail clients, but can opt up to professional client status, providing that they meet certain criteria which includes having an investment balance of at least £10m and the persons authorised to make investment decisions on behalf of the Combined Authority having at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies must assess that these persons have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

8. Financial Implications

The budget for the West of England CA investment income in 2023/24 is £4 million, based on an average investment portfolio of £200 million at an average interest rate of 2.00% and making an allowance for impairment as required.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, then 50% of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or lower interest rates payable in future years.

9. Other Options Considered

9.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the West of England Mayor and Chief Executive, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Appendix A – Arlingclose Economic & Interest Rate Forecast – November 2022

Underlying assumptions:

- UK interest rate expectations have eased following the mini-budget, with a growing expectation that UK fiscal policy will now be tightened to restore investor confidence, adding to the pressure on household finances. The peak for UK interest rates will therefore be lower, although the path for interest rates and gilt yields remain highly uncertain.
- Globally, economic growth is slowing as inflation and tighter monetary policy depress activity. Inflation, however, continues to run hot, raising expectations that policymakers, particularly in the US, will err on the side of caution, continue to increase rates and tighten economies into recession.
- The new Chancellor dismantled the mini-budget, calming bond markets and broadly removing the premium evident since the first Tory leadership election. Support for retail energy bills will be less generous, causing a lower but more prolonged peak in inflation. This will have ramifications for both growth and inflation expectations.
- The UK economy is already experiencing recessionary conditions, with business activity and household spending falling. Tighter monetary and fiscal policy, alongside high inflation will bear down on household disposable income. The short- to medium-term outlook for the UK economy is bleak, with the BoE projecting a protracted recession.
- Demand for labour remains strong, although there are some signs of easing. The decline in the active workforce has fed through into higher wage growth, which could prolong higher inflation. The development of the UK labour market will be a key influence on MPC decisions. It is difficult to see labour market strength remaining given the current economic outlook.
- Global bond yields have steadied somewhat as attention turns towards a possible turning point in US monetary policy. Stubborn US inflation and strong labour markets mean that the Federal Reserve remains hawkish, creating inflationary risks for other central banks breaking ranks.
- However, in a departure from Fed and ECB policy, in November the BoE attempted to explicitly talk down interest rate expectations, underlining the damage current market expectations will do to the UK economy, and the probable resulting inflation undershoot in the medium term. This did not stop the Governor affirming that there will be further rises in Bank Rate.

Forecast:

- The MPC remains concerned about inflation but sees the path for Bank Rate to be below that priced into markets.
- Following the exceptional 75bp rise in November, Arlingclose believes the MPC will slow the rate of increase at the next few meetings. Arlingclose now expects Bank Rate to peak at 4.25%, with a further 50bp rise in December and smaller rises in 2023.

- The UK economy likely entered into recession in Q3, which will continue for some time. Once inflation has fallen from the peak, the MPC will cut Bank Rate.
- Arlingclose expects gilt yields to remain broadly steady despite the MPC's attempt to push down on interest rate expectations. Without a weakening in the inflation outlook, investors will price in higher inflation expectations given signs of a softer monetary policy stance.
- Gilt yields face pressures to both sides from hawkish US/EZ central bank policy on one hand to the weak global economic outlook on the other. BoE bond sales will maintain yields at a higher level than would otherwise be the case.

Appendix B – Investment & Debt Portfolio Position

	31-Oct-22 Actual Portfolio £m	31-Oct-22 Average Rate %
Short-Term External borrowing:	40.0	1.50
Other long-term liabilities:	0	0
Total gross external debt	40.0	1.50
Treasury investments:		
Banks & building societies (unsecured)	19.7	1.94
Covered bonds & repo (secured)	0	0
Government (incl. local authorities)	297.0	0.85
Registered Providers	10.0	1.25
Money Market Funds	22.5	1.45
Social Housing Real Estate Investment Trust	5.00	2.85
Other pooled funds:		
CCLA Property Fund	10.0	3.70
Investec	10.0	3.48
Kames	10.0	4.62
Threadneedle	3.5	1.90
M & G	3.5	4.84
Royal London Enhanced Cash Plus Fund	10.0	1.08
Total treasury investments	401.2	1.21
Net debt	361.2	-

Appendix C – Treasury Management Monitoring

The Authority's investment position as at 31st October 2022 is detailed below in Table 1. This shows a balance held of £401m which is an increase from £281m at 31st March 2022.

As shown in the charts, the investment portfolio has been diversified across UK banks, Building Societies and Local Authorities. The Authority also uses AA rated Money Market Funds to maintain short term liquidity with £19.7m invested as at 31st October 2022. The Authority also retains units in pooled funds with £10m invested with the CCLA Property Fund, £10m with Investec, £10m with Kames, £10m with Royal London, £3.5m with Threadneedle and £3.5m with M&G as shown below in Table 2.

The forecast investment income to 31st March 2023 is £3.2m with an average rate of interest earned of circa 1%.

Investments are forecast to fall to £300m by the end of the 2022/23 financial year as capital grants are used to finance capital expenditure and project spend. Investments have been staggered, in terms of maturity dates, to ensure that there is a reasonable balance of available liquidity to finance required spend.

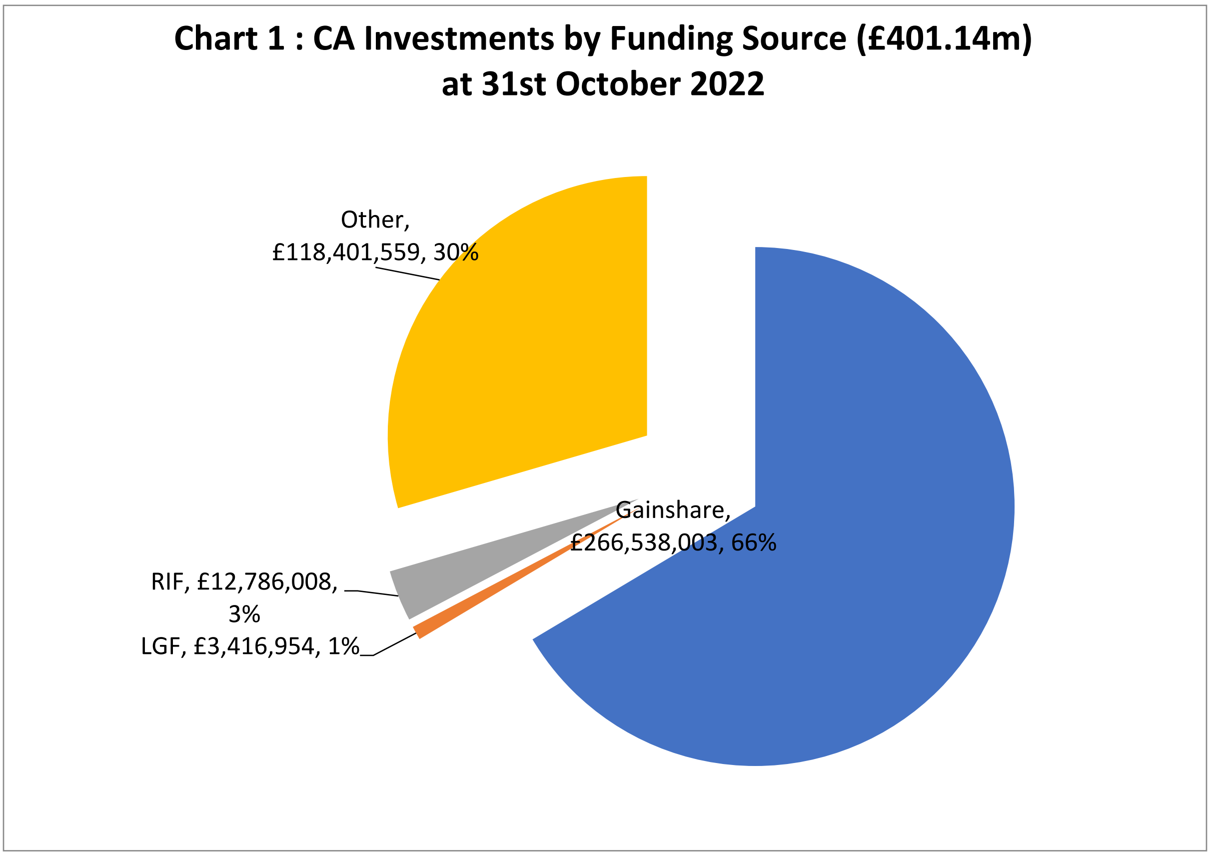
Table 1

The Authority's term of investments are as follows:	**Balance as at 31st Oct 2022 £000s**
Instant Access Funds	32,000
Pooled Including REIT	51,957
Up to 1 month	10,000
1 month to 3 months	35,185
4 months to 6 months	70,000
6 months to 12 months	182,000
More than 12 months	20,000
	401,142

Table 2: Pooled Funds

Fund Name	Asset Class	Purchase Value £000s	Fair Value as at Oct £000s	Capital Growth/(Loss) £000s	Total Investment Income Earned £000's
CCLA Property Fund	Property	9,956	10,910	954	859
Ninety One Diversified Income Fund (Investec)	Multi Asset	10,000	8,819	-1,181	914
Aegon Diversified Monthly Income Fund (Kames)	Multi Asset	10,000	8,605	-1,395	1,090
Threadneedle Strategic Bond Fund	Bond	3,500	2,891	-609	139
M&G UK Income Distribution Fund	Equity - UK	3,500	3,520	20	299
Royal London Short Term Enhanced Cash Fund	Cash Plus	10,000	9,767	-233	69
Fundamentum Social Housing REIT	Property	5,000	5,200	200	94
		51,956	49,712	-2,244	3,464

Following the mini-budget in September, the difficult current economic conditions have had a negative impact on our Pooled Funds. These investments are made in the knowledge that capital values will move both up and down on months and quarters, but with the confidence that over a three to five-year period, total returns will exceed interest rates. They provide regular revenue income and in 2022-23 will provide an average total return of 3.7%.



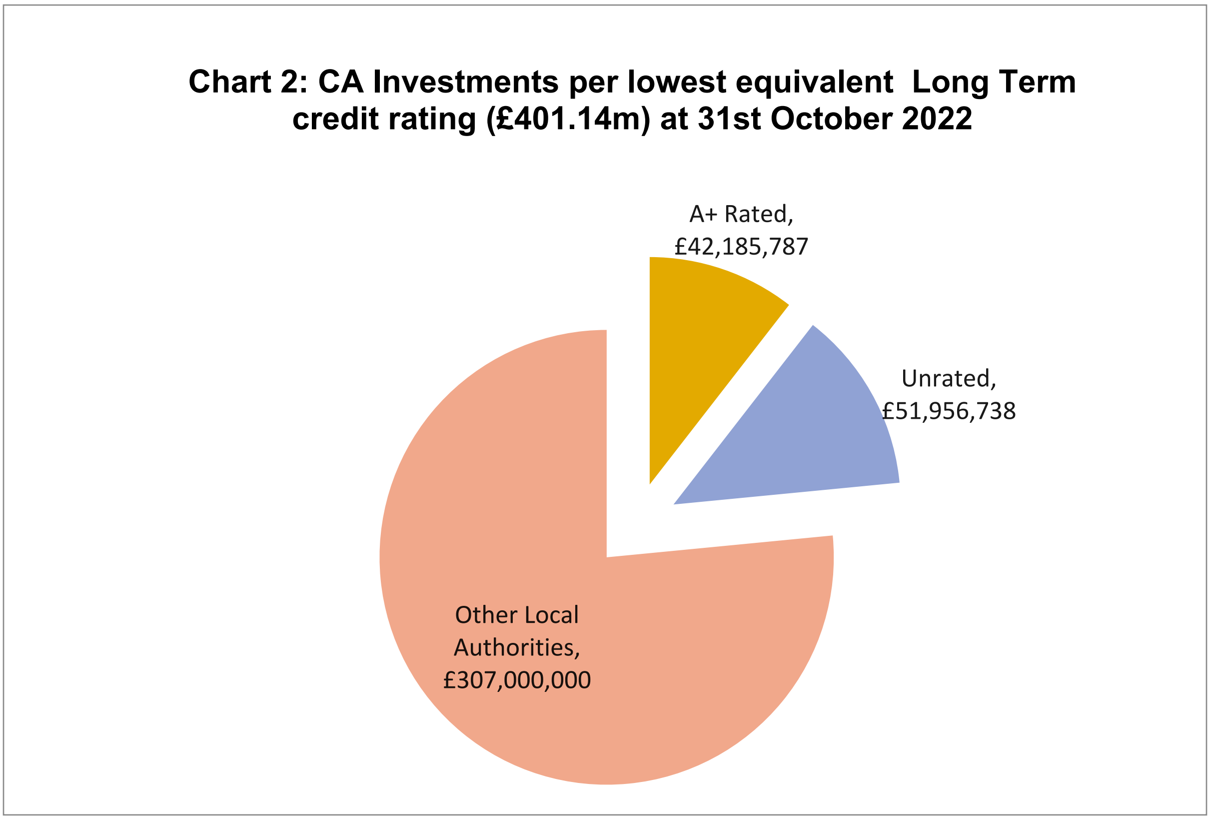


Chart 2: CA Investments per lowest equivalent Long Term credit rating (£401.14m) at 31st October 2022
A+ Rated, £42,185,787
Unrated, £51,956,738
Other Local Authorities, £307,000,000

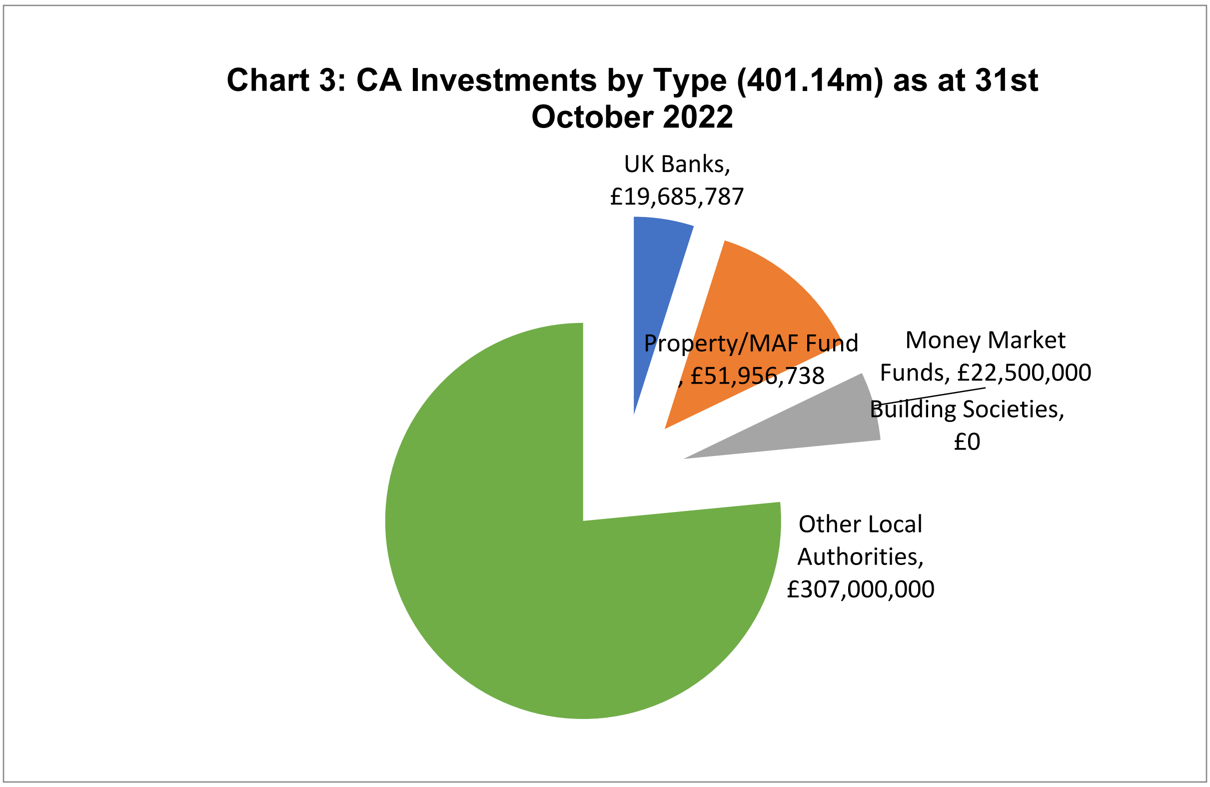


Chart 3: CA Investments by Type (401.14m) as at 31st October 2022
UK Banks, £19,685,787
Property/MAF Fund , £51,956,738
Money Market Funds, £22,500,000
Building Societies, £0
Other Local Authorities, £307,000,000

ITEM 9

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

DATE: **12th December 2022**

REPORT TITLE: RISK MANAGEMENT

DIRECTOR: **RICHARD ENNIS**

AUTHOR: **MARK WAKEFIELD, HEAD OF CHIEF EXECUTIVE'S OFFICE**

Purpose of Report

1 To provide an update on the operation of the Combined Authority's Risk Management Framework.

2 Present the current Corporate Risk Register (CRR)

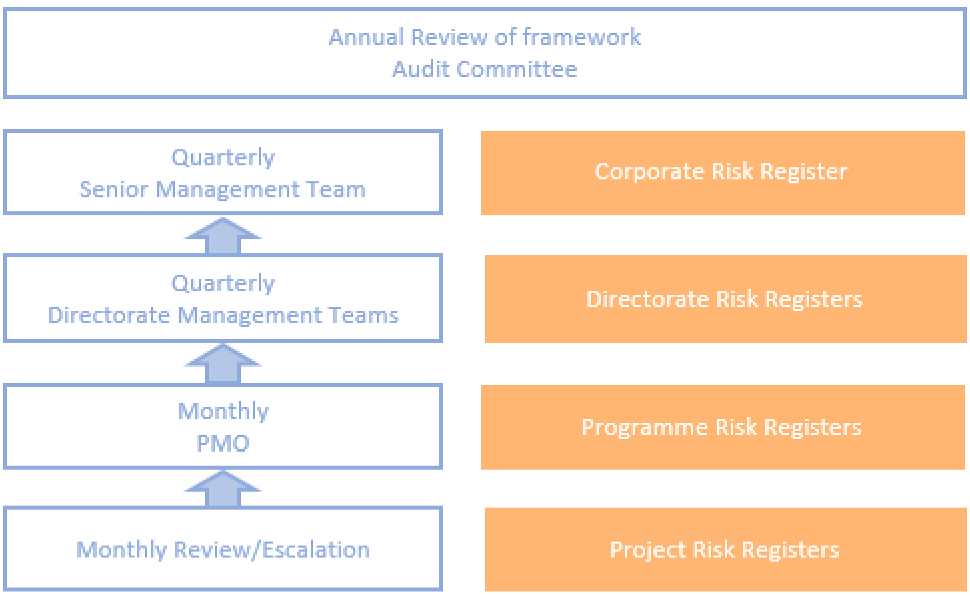
Recommendation

- Audit Committee are asked to endorse the priorities for further developing the risk management framework following its approval in April 2022.
- To note the CRR.

Background / Issues for Consideration

3 The risk management framework is presented annually for approval at audit committee and is monitored and developed during the year to ensure it continues to operate effectively.

4 Arrangements for regular review and escalation of risk are as follows:



5 Reports to SMT require comments on risks and issues before decisions are taken. Individual projects and programmes therefore have management review of risks as appropriate outside the regular timetable.

6 Development to the risk management framework is proposed to request Audit Committee set the risk appetite for the executive to operate within. A more detailed paper for discussion will come to a future meeting.

7 Further development of the risk framework 2023/24 for approval by audit committee is also considering:

a. Areas where separate risk collation/registers add value (eg. Fraud, Climate)
b. Reporting and resourcing arrangements refreshed to account for delivery focused structures
c. Audit Committee receipt of selected risk registers at quarterly intervals
    - Corporate Risk Register
    - Fraud
    - Climate
    - Infrastructure
    - CRSTS
    - BSIP
    - Business & Skills
    - Strategy & Innovation

8 Comments are sought from Audit committee on proposed priorities and additional developments.

Corporate Risk Register

9 The Corporate Risk Register was reviewed in September to update in the context of UK economic and political uncertainty. Mitigations have been kept up to date with a further review in November. (Appendix A)

10 The most notable changes are summarised as follows:

- Inflation risk has become more serious. Key additional mitigation has been development of the inflation report to committee.
- Resourcing and scheduling of major programmes now in the delivery phase (CRSTS and BSIP).
- Audit VfM Report and potential impact on government view of the combined authority and future funding.
- Political decision-making impacting delivery, in the light of May elections and relationship dynamics noted in the audit report.
- Unitary Authority budget pressures impacting project delivery.
- Pandemic specific risk closed.

Consultation

11 The risk framework is updated annually and approved by Audit Committee. The Corporate Risk Register is produced in conjunction with risk and mitigation owners and approved by the senior management team.

Other Options Considered

12 None, Audit Committee have asked to be kept informed.

Risk Management/Assessment

13 Without a formal risk management framework and processes we will be unable to anticipate and take preventative action to avoid risk and will instead incur time and additional cost in managing the consequences of unplanned events.

14 We have provided a copy of our Corporate Risk Register as an appendix to this report.

Public Sector Equality Duties

15 There are no equality implications arising directly from this report.

Finance Implications, including economic impact assessment where appropriate:

16 The monitoring and evaluation framework provides assurance that limited resources will be utilised to their best effect to ensure activity is appropriate and proportionate.

Advice given by: Richard Ennis, Interim Director of Investment and Corporate Services

Legal Implications:

17 The Accounts and Audit (England) Regulations 2015 state that "A relevant authority (the Council) must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk''. The risk management framework meets this requirement and is an essential part of good governance for the Combined Authority.

Advice given by: Stephen Gerrard, Interim Director of Legal and Democratic Services

Climate Change Implications

18 There are no specific climate implications arising directly from this report.

Land/property Implications

19 *n/a*

Human Resources Implications:

20 None arising from this report. If specific workforce risks are identified they will be managed in line with policy and best practice in consultation with the Human Resources Team.

Advice given by: Alex Holly, Head of People and Assets

Appendices:

Appendix A – West of England Combined Authority Corporate Risk Register

Background papers: n/a

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 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

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Updated CRR Proposed Top 10 Risks

WECA Risk Register		Last Updated 30/11/2022											
				Inherent Risk Sco				Residual Risk					
ID	Category	Risk Description	Risk Impact	L	I	Score	Mitigation	L	I	Score	Trend	Risk Owner(s)	Mitigation (action) Owner(s)
CRR030	Financial	External factors, such as energy costs, inflation and conflicts may drive the UK into recession and affect our projects and their benefit to residents.	(a) Project costs could increase by 8-10% or more in individual sectors. (b) Our portfolio of projects may no longer be the the best route to realising benefits for residents, and additional steps may be needed to ensure benefit realisation	5	4	20	(a) Cross cutting assessment of the known and potential financial impacts on programmes and the headroom brought to committee regularly Strengthen the Commercial team, ensure specifications are tight, strong negotiations with suppliers to manage costs. There will an expectation that partners will take a share of cost rises. (b) Monitor the situation and be ready to mobilse, adapt the support available reflecting the Metro Mayors priority to develop opportunitites to tackle cost of living impacts. Ensure benefit realisation is kept under review through highlight reports and the programme review board. Work with Government to make the case for additional funding and support. We have already demonstrated our ability to do this in our response to Covid which saw a realignment of our business and learner support activities and the introduction of our regional recovery and adaptations fund.	4	3	12	↑	Senior Management Team	Senior Management Team
R025	Delivery	Moving to the delivery phase and scaling up the capacity and capability across our partners to deliver additional major programmes, CRSTS, BSIP.	Capacity to deliver multiple major schemes to the same timescale. Market may not be able to meet the demand all at the same time. £250m of works in 24/25. leading to costs outside the funding envelope. Funding awarded by the government may need to be returned. Projects may not have sufficient funding from other sources to realise their benefits. Other projects may be at risk if other funding soures are reallocated.	4	4	16	1. Commercial Frameworks to enable the supply chain to deliver the scale and volumes required. 2. Prioritisation and re-sequencing exercise to minimise concurrent disruption to the network and smoothing demand on the supply chain. 3. Strengthen monitoring of scheme progress and spend through programme highlight reports. 4. Scheme progress and spend forecasts as part of the support and challenge at programme review board monthly. 5. Review of the composition and funding mix of programme, and management of substitution/funding swops between streams to prioritise, within constraints, based on deadlines. 6. Continue to seek local flexibility of funding	3	3	9	NEW	Senior Management Team	Senior Management Team
CRR 031	Delivery	Recruiting/retaining the sklled staff needed as the org structures aroud the delivery of major new programmes, in terms of the scale of the requirement, the cost of living/market pressures and the changes to senior posts/use of interims while structures are developed.	(a) Ability to attract and retain at the right level and specialism, breadth and depth is increasingly difficult in a competitive market and found to be a regional challenge. (b) Time may be needed for new and interim post holders to be fully up to speed which could lead to delays.	4	4	16	(a) Ensure that staff pay and benefits are competitive in the local and regional market, with particular focus on specialist and hard to recruit posts. Contribute to national negotiations on staff pay, alongside our regional local government partners, to influence an outcome based on balancing the cost of living challenges with budgetary pressures Strategic programme delivery partner is being brought into the organisation. (b) Interim directors have been in place for the whole financial year to date. Stable leadership team is developing structures for the organisation that reflects new funding and sustainable resources to deliver.	3	3	9	↑	Senior Management Team	Chief Executive and Head of People & Assets
R024	Financial	Unitary Authority funding settlement from government may impact staff resource and match funding, reducing viability of projects in delivery as well as proposals/business cases in development.	Affected projects may not meet planned milestones and lead to knock on delays to benefit realisation, cost escalation / abortive costs.	5	4	20	1. Early identification in specifying resources applied, project risk logs and via the programme review board process. 2. Pipeline of proposals to replace unviable projects and realise benefits through alternative schemes. 3.Assurance Framework capable of reacting quickly.	4	3	12	NEW	Senior Management Team	Directors of Infrastructure, Finance/ Head of Assurance.
CS-R002	Financial	There is a risk that the way that Government funds Combined Authorities, including its approach to levelling up, will result in less funding to support delivery of projects and priorities as some funding schemes come to an end.	CA capacity is currently resourced through time limited funding streams - Mayoral Capacity Fund and Business Rates Retention pilot, CRSTS and BSIP. Without confirmed longer term funding the CA would not be able to retain high calibre staff, balance its budget or deliver against its priorities, especially for deprived communities	4	5	20	Discussions ongoing with HMRC and Treasury both directly and with other Combined Authorities who are also impacted. A medium term financial plan is in place. Progress made in setting the 2022/23 revenue budget to reduce reliance on short term funding streams through more robust recharging to projects Revised structures in development to reflect delivery of CRSTS and BSIP funding streams. Continue the dialogue to make the case to Government for investment in the region	3	4	12	↔	Chief Executive	Director of Investment & Corporate Services
R026	Reputation	The Value for Money report of the external auditor may affect our reputation with the government and residents.	The combined authority may not be as successful in future bids to the government for funding or powers.	4	4	16	The agreement and implementation of the action Plan addressing all the recommendations.	3	3	9	NEW	Chief Executive	Senior Management Team
WECA-R003	Delivery	There is a risk that Committee members may be unable to reach agreement on key proposals, particularly in the context of imminent elections in the Unitary Authorities.	The CA would be unable to realise the opportunities and benefits emerging from the activities and projects. Funding alloations and project delivery would be delayed, increasing costs and damaging relationships and the reputation of the region.	4	5	20	Our Assurance Framework is agreed anually and sets out how funding decisions are made. Our Investment Programme is agreed. Strong partnership working arrangements are in place to ensure that proposals are developed to support and complement the priorities and objectives of the constituent councils. Noted that good progress made in the January 2022 Committee Cycle where the 2022/23 CA Revenue budget was voted through unanimously. Ongoing activity to build on the relationships with the UAs to support delivery. Political leaders working together on regional priorities to develop a shared position on proposed allocations of available funding streams.	4	4	16	↑	Chief Executive	Senior Management Team
WECA-R007	Legal & Governance	As with any public sector body that administers grant funding, there is a risk of fraud, bribery or corruption.	Financial loss, reputational damage.	3	4	12	Controls & prevention measures incorporated in key operational processes. Annual review of arranagements. Development of a specific fraud risk log for regular review in the service and at audit committee.	2	3	6	↓	Director of Investment & Corporate Services	Head of Grant Management & Assurance
CRR032	Delivery	There is a risk that supported bus services will need to be withdrawn due to higher and unaffordable contract prices caused by continuing low passenger numbers (still only 76% of pre-Covid levels at 30.11.22), fuel costs and driver shortage for operators.	Some communities will see a loss or reduction in their bus service and increased isolation from core health, leisure, shopping and employment opportunities. Fewer sustainable travel options will lead to higher car use.	4	4	16	A full tender process has been undertaken to establish the likely cost of running supported bus services and what options might be available to introduce Demand Responsive Transport schemes as part of the overall bus network. Significant investment through the CRSTS and BSIP programmes will increase the attractiveness of bus use over time, leading to services being less reliant on public subsidy. The CA is working closely with bus operators to promote driver recruitment and retention.	4	3	12	↓	Director of Infrastructure	Head of Integrated Transport Operations
WECA-R008	Delivery	The actions to address the climate and ecological emergencies arent suitably integrated within the work of the Combined Authority.	We wont be able to minimise the carbon contribution from our investments We wont enable the regional economy and infrastructure to be resilient to climate change. Our reputationwill be damaged by not acting to deliver our public commitments We wont use our influence and investments to support natures recovery.	4	4	16	Under the leadership of the Head of Environment, monitoring of the CESAP is now well established. There is a focal point to bring climate impacting proposals and conversations together. Early identification of new opportunities and where delivery is at risk is now emmbedded. We will create a specific risk log for delivery of the CESAP which will be owned by the Environment Directorate	2	4	8	↓	Senior Management Team	Head of Environment

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ITEM: 10

REPORT TO: **AUDIT COMMITTEE**

DATE: **12 December 2022**

REPORT TITLE: APPOINTMENT OF EXTERNAL AUDITOR

DIRECTOR: **RICHARD ENNIS, INTERIM DIRECTOR OF INVESTMENT & CORPORATE SERVICES (s73 OFFICER)**

AUTHOR: **SELONGE RUSSELL, HEAD OF FINANCE**

Purpose of Report

1. Grant Thornton are the appointed External Auditors for the West of England Combined Authority. They were appointed under the Public Sector Audit Appointments, (PSAA), process for the Statements of Accounts period up to, and including, the 2022/23 financial year.

2. The PSAA invited public sector bodies to ‘opt in’ for a further audit period from 2023/24 to 2027/28. The Combined Authority took up this offer, as agreed through a formal decision at the Combined Authority Committee held on the 28 January 2022.

3. The purpose of this report is to confirm the outcome of the PSAA procurement. **Grant Thornton** was successful in winning a contract in the procurement, and PSAA are appointing this firm as the auditor of West of England Combined Authority for five years from 2023/24.

Recommendation:

(a) The Audit Committee is requested to note the appointment of Grant Thornton as the External Auditors for the West of England Combined Authority for five years from 2023/24.

Background / Issues for Consideration

4. The Local Audit & Accountability Act 2014 put in place the framework which allows local authorities to appoint their own external auditors. Prior to 2010, the Audit Commission was responsible for appointments with the work either being undertaken by their in-house auditors or by a limited number of private firms. The Audit Commission was also responsible for standard setting.

5. In August 2010, the then Secretary of State for Communities and Local Government announced that the Audit Commission would be abolished. His stated aims were to reduce costs and improve local democratic accountability by allowing local authorities to appoint their own external auditors from a more competitive market.

6. As part of the transitional arrangements, the Audit Commission undertook a competitive exercise which resulted in a series of regional contracts being awarded to Grant Thornton, KPMG, Ernst & Young and Mazars. The new contracts commenced in 2012 and saved over £25M nationally in audit fees each year.

7. The Audit Commission closed in March 2015 with responsibility for the existing appointments transferring to Public Sector Audit Appointments Limited (PSAA) an independent company established by the Local Government Association.

8. Only the full Combined Authority, (CA), Committee has the ability under the Local Audit & Accountability Act to approve the use of PSAA Ltd to carry out future external audit procurement processes on our behalf although the Audit Committee, being charged with governance, can provide their views to the CA Committee to help inform the decision.

9. The Combined Authority approved the use of the PSAA Ltd in March 2017 which has enabled the CA to come together with other authorities to procure audit services through a sector led organisation and secure the associated economies of scale. To date, Grant Thornton have been our appointed auditor through this process.

10. The current approval covers the external audit of the Statutory Accounts up to and including the 2022/23 financial accounting period. The PSAA formally invited all eligible bodies to opt-in to the national scheme for local auditor appointments for the audits of 2023/24 through to 2027/28, and the Combined Authority accepted this invitation.

11. On 3 October 2022 PSAA provided the outcome of their procurement to let audit contracts from 2023/24. **Grant Thornton** was successful in winning a contract in the procurement, and they proposed appointing this firm as the auditor of West of England Combined Authority for five years from 2023/24.

12. The contracts for audit services from 2023/24 have several differences to those in place for the audits of 2018/19 to 2022/23. Key changes made in response to client feedback include payment terms linked to delivery stages of an audit and additional contract management measures within those permissible with the local audit context.

Consultation

13. Consultation took place with the Audit Committee on 9th December 2021 regarding opting in. The Audit Committee noted the PSAA decision at the meeting held on 17th November 2022.

Public Sector Equality Duties

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

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

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

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

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

Finance Implications:

15. The PSAA process for commissioning external audit services is a free service which enables the CA to benefit from economies of scale as well as accessing national quality assurance of external audit services delivered.

16. PSAA will consult formally on scale fees for 2023/24 in Autumn 2023 and will publish confirmed scale fees for 2023/24 for opted-in bodies on their website by 30 November 2023. As indicated in their recent press release which announced the procurement outcome, the advice to bodies is to anticipate an increase of the order of 150% on the total fees for 2022/23 - noting that the actual total fees will depend on the amount of work required.

Advice given by: Richard Ennis, Interim Director of Investment & Corporate Services

Legal Implications:

17. The Local Audit & Accountability Act 2014 put in place the framework which allows local authorities to appoint their own external auditors. Public Sector Audit Appointments, (PSAA), commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by

s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of each financial year

Advice given by: Stephen Gerrard, Interim Director of Legal

Background papers:

Procurement of External Auditors report to the Combined Authority Committee – 1 March 2017.

Appointing an External Auditor report to Audit Committee – 9th December 2021.

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 Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: democratic.services@westofengland-ca.gov.uk

Next Meeting – 2 March 2023 – Venue TBC

Members are asked to consider the list of forthcoming items:

Informal Pre-meeting Workshop: Internal Audit to provide training to the Committee (TBC – Current Topical Area at the time).

Formal Meeting to include:

- External Audit - Progress Update Report;
- Internal Audit – Audit Plan Consultation on the forthcoming financial year;
- Annual Update - Risk Management and Monitoring & Evaluation Framework;
- Any other reports as required by the Chair and S73 Officer.

<u>Cipfa Training</u>

Members were sent an email on 16 November 2022 with details of Cipfa's Audit Committee training with an example of what they could offer, it would be useful to know the views of Audit Committee members, for example, whether they feel the training would be beneficial and whether members would prefer face-to-face or virtually, etc? This was raised at a recent Audit Ctte meeting as part of the update provided on CIPFA's guidance for audit committees.

Depending on Members' views and availabilities a training session could be arranged for sometime during Jan 2023.

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