



# Grant Thornton

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19 February 2019

Dear Geoffrey

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

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

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

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

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

**Chartered Accountants**

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

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

Yours sincerely

A handwritten signature in blue ink that reads "Grant Thornton UK LLP". The signature is written in a cursive, flowing style.

Grant Thornton UK LLP

## Response from Audit Committee Chair

### Fraud risk assessment

Auditor Question	Response
Has the Authority assessed the risk of material misstatement in the financial statements due to fraud?	
What are the results of this process?	
What processes does the Authority have in place to identify and respond to risks of fraud?	
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	
Are internal controls, including segregation of duties, in place and operating effectively?	
If not, where are the risk areas and what mitigating actions have been taken?	
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	
Are there any areas where there is a potential for misreporting?	
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	
What arrangements are in place to report fraud issues and risks to the Audit Committee?	
How does the Authority communicate and encourage ethical behaviour of its staff and contractors?	
How does the Audit Committee encourage staff to report their concerns about fraud? Have any significant issues been reported?	
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Authority as a whole or within specific departments since 1 April 2018?	

**Law and regulation**

<b>Auditor Question</b>	<b>Response</b>
What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?	
How does management gain assurance that all relevant laws and regulations have been complied with?	
How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2018?	
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	
Is there any actual or potential litigation or claims that would affect the financial statements?	
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	

Michelle Burge  
Audit Manager  
Public Sector Assurance  
Grant Thornton UK LLP  
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31 March 2019

Dear Michelle

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

Thank you for your letter of the 19 February 2019.

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

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

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

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

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Geoff Gollop', with a long horizontal stroke underneath.

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

## Response from Audit Committee Chair, WECA

### Fraud risk assessment

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

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

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

#### **Law and regulation**

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



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

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