



# The Audit Findings for West of England Combined Authority

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Year ended 31 March 2019

8 October 2019



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

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# Headlines

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

<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Authority and its income and expenditure for the year; and</li> <li>• 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.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our audit work commenced on site during July 2019, draft accounts were published in accordance with the statutory deadline by the 31 May 2019. However, when our audit visit began on the 15 July 2019, we identified that the published primary statements were not finalised. We were unable to agree the accounts to a working trial balance and whilst an updated version of the trial balance was supplied on the 23 July, we identified that there were likely to be further amendments arising. Following regular discussion with officers we agreed to defer the audit until September 2019 when a full set of accounts that both the Authority and accounts preparation team (PWC) had confidence in.</p> <p>During July and August the finance team and PWC worked on understanding potential errors within both the debtors, creditors and agency liability note and corresponding impact on the comprehensive income and expenditure statement (CIES) and other disclosures throughout the accounts.</p>	<p>A revised statement of accounts and supporting working papers were provided to us on 9 September 2019. Our additional audit work was undertaken in September and October 2019.</p> <p>Our findings are summarised on pages 5 to 14. We identified adjustments to the financial statements that have resulted in a £139k adjustment to the Authority's Total Comprehensive Income and Expenditure Statement and Balance Sheet including a £37k increase in the reported surplus on provision of services. A number of changes were also made to the supporting statements and disclosure notes as a results of the adjustments referred to above.</p> <p>Audit adjustments are detailed in Appendix C</p> <p>We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is now substantially complete except for following outstanding matters:</p> <ul style="list-style-type: none"> <li>• outstanding query in respect of the agency liability note</li> <li>• receipt of management representation letter and</li> <li>• review of the final set of financial statements.</li> </ul> <p>We have concluded that the other information to be published within the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited</p> <p>The delays and issues outlined above have resulted in additional audit work we will require a variation to the scale fee to be charged to the Authority. This fee variation will also be subject to approval by PSAA.</p>
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# Headlines

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

<b>Value for Money arrangements</b>	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that West of England Combined Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. <b>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 15 to 19.</b>
<b>Statutory duties</b>	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: <ul style="list-style-type: none"> <li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>to certify the closure of the audit.</li> </ul>	We have not exercised any of our additional statutory powers or duties. <b>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</b>

## Acknowledgements

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

# Summary

## Overview of the scope of our audit

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

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

## Audit approach

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

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

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

## Conclusion

**We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 16 October 2019.**

Our proposed draft audit opinion is set out in Appendix E.

## Our approach to materiality

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

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

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

# Significant findings – audit risks

## Risks identified in our Audit Plan

### Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper revenue recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors sets out in ISA 240 and the nature of the revenue streams at the Authority, we have determined the risk of fraud arising from revenue recognition can be rebutted, because:

- There is little incentive to manipulate revenue recognition
- Opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of combined authorities, including West of England Combined Authority mean that all forms of fraud are seen as unacceptable.

## Commentary

### Auditor commentary

There are no changes to the assessment reported in the audit plan that we do not consider this to be a significant risk for West of England Combined Authority.

**Our audit work has not identified any issues in respect of revenue recognition.**

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the main course of business as a significant risk.

### Auditor commentary

#### We have:

- gained an understanding of the accounting estimates, critical judgements applied and decisions made by management and consider their reasonableness
- evaluated the design effectiveness of management controls over journal entries for appropriateness
- obtained a full listing of journal entries, identify and tested unusual journal entries for appropriateness and corroboration
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

**We set out later in this section of the report our work and findings on key accounting estimates and judgements.**

**Our audit work at the Authority has not identified any issues in respect of management override of control.**

# Significant findings – audit risks

## Risks identified in our Audit Plan

### Valuation of pension fund net liability

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

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.6 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Commentary

### Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuations;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing additional procedures suggested within the report. This has included:
  - review of the scope of the actuary's work;
  - review of the source data provided to the actuary to confirm its validity and completeness
  - performing checks on accounting policy disclosures in relation to IAS 19
  - reviewing the duration of liabilities of the Authority to ensure assumptions used are appropriate to the asset and liability profile of the authority;
  - reviewing if there are any departures from the actuary's recommended assumptions – one departure noted for duration of liability (weighted average of when future cashflows will be paid), which is a measure of how mature the employer is. The actuary have used an assumption of 26 years which is outside of the normal range identified by our auditor's expert (PWC), however as the majority of WECA pension fund members are active rather than pensioners, they will have a longer duration of liabilities and the assumption seems reasonable. See page 10 for consideration of other assumptions.
  - performing additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over roll forward valuation.
  - obtaining assurance from the auditor of Avon Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

See also detailed review of estimation process in key judgement and estimates section.

Our audit work has not identified any issues in respect of valuation of pension fund net liability, see page 8 for consideration of the impact of the McCloud judgment.

# Significant findings – audit risks

## Risks identified in our Audit Plan

### Potential impact of the McCloud judgement

The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.

The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.

The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds but also for other pension schemes where they have implemented transitional arrangements on changing benefits.

## Commentary

### Auditor commentary

Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies.

The Authority has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was a possible increase in pension liabilities of £99k and an increase in service costs for the 2019/20 year of £20k. A £35k adjustment will also be made to reflect the actual investment performance in the financial year of the fund (the original IAS 19 calculation was based on an estimate).

The Authority has agreed to incorporate the revised actuarial valuation into its 2018-19 financial statements. We have assessed the reasonableness of the adjustment and are satisfied that the approach and assumptions used by the actuary in the calculation of the estimate are reasonable.

# Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for NNDR appeals- £2.8m</b>	Under the 100% Business Rate Retention Pilot, the Authority are responsible for repaying a proportion of successful rateable value appeals. The NNDR appeals provision is for appeals made to the Valuation Office Agency in respect of NNDR valuations. These estimate of reductions to NDR income are made by officers at the three billing authorities participating in the 100 % Business Rate Retention Pilot. The estimate has been made using Valuation Office Agency data and analysis of successful appeals. The provision has increased by £205k in 2018/19.	<ul style="list-style-type: none"> <li>We have agreed the amounts which make up the appeals provision to the NNDR3 return submitted by the three billing authorities</li> <li>We have undertaken further testing on the reasonableness of these estimates including a review of the utilisation of the provision at the three billing authorities.</li> <li>Assurance gained that the provision is accurately stated and is adequately disclosed in the financial statements.</li> </ul>	 <b>Green</b>

## Assessment

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

# Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment		
<p><b>Net pension liability – £2.6m</b></p> <p>The Authority's net pension liability at 31 March 2019 is £2.6m (PY £1.7m) comprising the Avon Pension Fund Local . The Authority uses Mercer actuary to provide actuarial valuations of the Authority's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £0.9m net actuarial loss during 2018/19.</p>	<ul style="list-style-type: none"> <li>We have assessed the Authority's actuary, Mercers, to be competent, capable and objective.</li> <li>We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2018/19 roll forward calculation carried out by the actuary and have no issues to report.</li> <li>We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions.</li> </ul>	 <b>Green</b>		
Assumption	Actuary Value	PwC range	PWC comments	Assessment
Discount rate	2.5%	2.4% to 2.5%	Assumption is reasonable and towards the more optimistic end of expected range.	 Amber
Pension increase rate	2.3%	2.2% to 2.3%	Reasonable	 Green
Salary growth	3.7%	3.1%-4.35%	Reasonable	 Green
Life expectancy – Males currently aged 45 / 65	26.3 / 23.7	24.8 – 26.3 / 22.2 - 23.7	Assumption is based on the CMI 2015 model and allowance is towards the more prudent end of the expected ranges. Overall we are comfortable they are reasonable	 Green
Life expectancy – Females currently aged 45 / 65	29.0 / 26.2	27.9 - 29.0 / 25.0 - 26.4	Assumption is based on the CMI 2015 model and allowance is towards more prudent end of expected ranges. Overall we are comfortable they are reasonable	 Green

## Assessment

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

## Significant findings – key judgements and estimates (continued)

Summary of management's policy	Audit Comments	Assessment
<b>Net pension liability – £2.6m (continued)</b>	<ul style="list-style-type: none"> <li>We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>We have confirmed there were not significant changes to the 2018/19 valuation method.</li> <li>We conducted an analytical review to confirm reasonableness of the Authority's share of Avon Pension Fund's pension assets.</li> <li>Our work confirms that the increase in IAS 19 estimate is reasonable.</li> <li>Disclosure in respect of estimate in the financial statements is reasonable.</li> </ul>	 <b>Green</b>

### Assessment

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

# Going concern

## Our responsibility

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

## Going concern commentary

### Management's assessment process

Management's assessment concludes that the Combined Authority was established under the West of England Combined Authority Order 2017 and could therefore only be discontinued by Statutory prescription. Even if this were to occur, the statutory services it provides would need to continue to be provided to the local population and the assets would remain in the public domain. The Code is clear that in a similar scenario of Local Government reorganisation, where services are expected to transfer from one authority to another, the presumption that the authority is a going concern is not negated.

Management has considered the Combined Authority's medium term financial plans and future cash flows to July 2020 in considering that no material uncertainties need to be disclosed.

### Auditor commentary

- Management's view is that the Combined Authority is a going concern with no material uncertainties that would require disclosure. We would concur with this view.
- The Chief Finance officer has prepared the going concern assessment.

### Work performed

We reviewed management's assessment of going concern provided to us, in conjunction with our knowledge and understanding of the Combined Authority.

### Auditor commentary

We did not identify any material uncertainties that would require additional disclosure.

### Concluding comments

We did not identify any issues with the Combined Authority's use of the going concern assumption. Management's assessment of the appropriateness of the going concern assumption concluded that the Combined Authority was a going concern with no material uncertainty. We concur with this judgement.

Our audit opinion is unmodified in respect of going concern.

# Other communication requirements

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

Issue	Commentary
① <b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Chair of the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
② <b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed
③ <b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ <b>Written representations</b>	A letter of representation has been requested from the Authority, which is included in the Audit Committee papers.
⑤ <b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to all the Authority's bank and investment counterparties. This permission was granted and the requests were sent. <b>All requests received were returned with positive confirmation, however one request was not received. In substitution of receiving this confirmation alternative procedures have been carried out to confirm this balances. We can conclude that the balance is accurately stated.</b>
⑥ <b>Disclosures</b>	<b>A number of disclosure amendments have been identified and reported within Appendix B.</b>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<b>As highlighted on page 3. Following regular discussions with officers we agreed to defer the audit until September 2019 when a full set of accounts that management have confidence in together with appropriate supporting documentation, was made available. This enabled us to complete our testing and resolve outstanding queries.</b> <b>We now have a small number of queries outstanding.</b>

# Other responsibilities under the Code

Issue	Commentary
<p>① <b>Other information</b></p>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p><b>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – see appendix E.</b></p>
<p>② <b>Matters on which we report by exception</b></p>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p><b>We have nothing to report on these matters</b></p>
<p>③ <b>Specified procedures for Whole of Government Accounts</b></p>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. However, we have not undertaken this work at the Combined Authority as it is not required as the Authority does not exceed the threshold.</p>
<p>④ <b>Certification of the closure of the audit</b></p>	<p>We intend to certify the closure of the 2018/19 audit of West of England Combined Authority in the audit opinion, as detailed in Appendix E.</p>

# Value for Money

## Background to our VFM approach

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

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

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

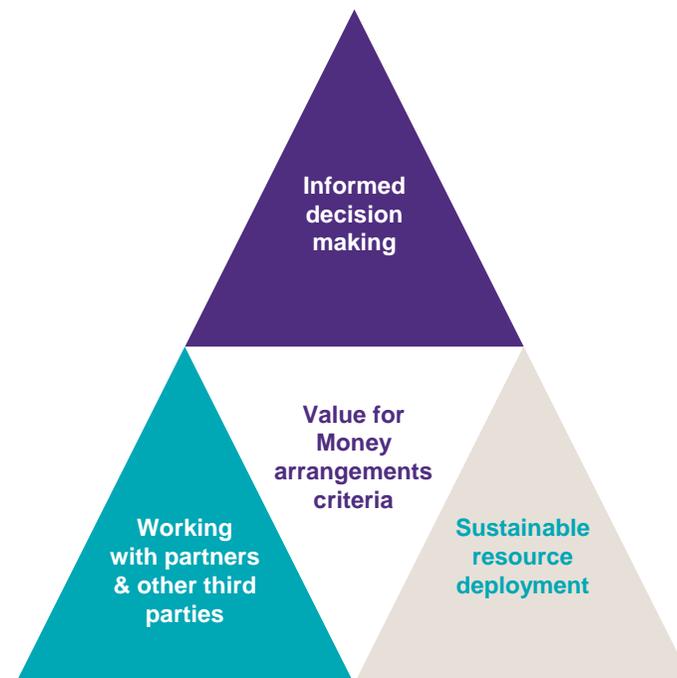
This is supported by three sub-criteria, as set out opposite:

## Risk assessment

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

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

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



# Value for Money

## Our work

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

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

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

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

## Overall conclusion

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

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

## Recommendations for improvement

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

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

## Significant difficulties in undertaking our work

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

## Significant matters discussed with management

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

## Key findings

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

Significant risk	Findings and Conclusion
<p><b>1 Medium Term Financial Plan (MTFP)</b></p> <p>The Combined Authority is an evolving organisation taking on more responsibilities as it becomes more established and new opportunities arise. Consequently there are a number of emerging factors which will have an impact on it's financial sustainability and medium term financial plan.</p> <p>We will review the revised MTFP prepared as part of the 2019/20 budget process to assess the clarity of the information provided and the factors used to inform the assumptions that underpin the strategy</p>	<p>The proposed budget for 2019/20 and MTFP was presented to the West of England Combined Authority Committee in February 2019. This included a four year capital programme of £118 million which includes both approved and proposed capital schemes. The indicative schemes will need to be brought back to the WECA committee for further approval before they can be progressed and enables officers a guide to prioritising resources to work up schemes for future consideration. At the same meeting approval was provided for a prioritisation process to develop an indicative 20 years financial allocation for capital investment. The mayoral budget also included a 5 year medium term forecast for running costs based on reasonable assumptions in respect of pay and inflation.</p> <p>Due to the uncertainty that surrounds the future funding and timing of responsibilities of the Combined Authority, in February 2018 a narrative MTFP was presented to the West of England Combined Authority Committee which detailed key assumptions and known increases in income and expenditure. This summarised the financial considerations for the next three years and included the sustainability of funding, alignment of investment proposals with the strategic plan and the key financial challenges and opportunities. This was not formally updated within the 2019/20 budget papers although financial considerations in terms of known income and expenditure for the medium term and were included along with known risks.</p> <p>The draft 2018/19 financial statements contain a narrative section in relation to WECA's medium term financial outlook highlighting the potential risks which could affect WECA finances over the short and medium term including the end of the 100% business rate retention pilot, housing capacity funding which has been allocated over three years to 2020/21 and £2m of funding which has only been allocated to 2019/20 to provide programme management and delivery capacity specifically within the Combined Authority.</p> <p>Nationally, a reformed system of Local Government Finance, including 75% Business Rates Retention and a review of Fairer Funding, will be introduced in 2020/21. Unless the Combined Authority is included in some way in that system of financing, the direct capital grants from DfT will need to be re-instated. The narrative statement also includes details of WECA's new responsibilities from 2019/20 and the relevant grant allocations for Adult Education and Public Transport policy and delivery across the next two years. Also outlined are details of future investment opportunities to bid for government funding aligned to WECA's priorities, including a £4.5m bid to the European Social Fund (ESF) to establish a Skills Innovation Fund with provisional allocation of £1m in 2019/20 and £3.5m in 2020/21.</p> <p>WECA have developed a four year prioritised Investment Programme to the period 2023, linked to both its Investment Fund and Transforming Cities Fund. Allocations are linked to WECA's strategic objectives and regional priority outcomes and objectives as set out in the WECA operating framework. In June 2019, allocations of Investment Programmes to 2023 total £253m, leaving a balance of £96m still to allocate. <b>A report presented to the July 2019 WECA committee meeting approved the allocation of £350m to progress a significant number of projects to the delivery stage. £20m is also set aside to respond to future opportunities and challenges.</b></p> <p><b>Conclusion</b></p> <ul style="list-style-type: none"> <li>We recognise that WECA is an evolving organisation meaning that there are a number of emerging factors which will have an impact on it's financial sustainability and medium term financial plan.</li> <li>Now that plans are being developed to prioritise resources and develop detailed projects, WECA should look to formalise a MTFP which reflects known and agreed projects and associated funding streams once they are confirmed. The plan should remain flexible as new opportunities for projects and funding are identified.</li> </ul>

## Key findings (continued)

Significant risk	Findings and Conclusion
<p><b>2 Measuring and Monitoring Performance</b></p> <p>Recognising 2017/18 was the first full year of operation, good progress was made to develop priorities, objectives and tasks from which the performance of the Combined Authority can be measured in future years. The Authority should ensure that it monitors the performance of the Combined Authority through the performance management framework. The performance management framework should ensure that all objectives have measurable metrics, either based on inputs, outputs or outcomes, against which the Authority can measure its impact and effectiveness and be accountable to stakeholders and tax payers.</p>	<p>The Authority has published an Operating Framework and business plan centred around WECA's objectives of:</p> <ul style="list-style-type: none"> <li>- Driving inclusive growth;</li> <li>- Supporting the region's businesses to grow;</li> <li>- Fostering innovation; and</li> <li>- Investing in infrastructure.</li> </ul> <p>The activities that will be performed to achieve the objectives are set out in detail in the Authority's Annual Report. This provides a summary of key projects and activities delivered during 2018/19 and includes a detailed section on each of the activities included in the 2018/19 business plan, outlining progress made against individual projects. It also includes details of the LEP delivery plan focused on specific metrics for LEP-funded activity including Local Growth Fund, Growth Hub and Invest in Bristol and Bath. The LEP delivery plan references relevant indicators for LEP funded activities including businesses supported, jobs created, funding provided and leveraged.</p> <p>The Authority's Business Plan sets out the activities that WECA will deliver over the 2018-2020 period, including plans to bring further investment into transport, infrastructure to enable more homes, businesses and skills to ensure the West of England is at the forefront of growth and innovation.</p> <p>The 2019/20 business plan was agreed by WECA and the Joint Committee in February 2019.</p> <p>Progress in delivering the business plan is reported quarterly to WECA and Joint Committee. A monitoring and evaluation framework has been updated during 2018/19 which was presented to the November 2018 Audit Committee. This sets out WECA's overall approach to monitoring and evaluation. This updated document brings together all of WECA's reporting requirements into one place and to provide a clear structure for reporting focused on three levels:</p> <ul style="list-style-type: none"> <li>• Delivery of Annual Business Plan. This includes in-year activities that support WECA, the LEP, implementation of the devolution deal and elements of longer term project and programme delivery delivered through the Investment Fund and One Front Door Programme.</li> <li>• Project and Programme delivery, which focuses on schemes funded through the WECA Investment Fund and West of England One Front Door Programme. Evaluation criteria is established for each project/programme, progress is monitored during project and evaluation undertaken once projects are completed.</li> <li>• Longer Term Organisational Impact. Measured through five-year gateway reviews. WECA's first Gateway Review is due in December 2020.</li> </ul> <p>As the Authority's main source of funding, the Investment Fund is the most flexible in terms of timing and availability of both revenue and capital. The process of prioritisation has been more involved and a substantial focus of the fund so far has been on feasibility and business case development work across a number of projects and programmes, it is therefore difficult at this stage to monitor performance through measurable metrics.</p>

## Key findings (continued)

### Significant risk

#### 2 Measuring and Monitoring Performance (continued)

### Findings and Conclusion

WECA have recently produced a four year, prioritised investment programme, each approved scheme business case has it's own monitoring and evaluation plans. An economic model has been developed which will enable different types of investment (transport, housing, employment land, and other land use changes) or a programme of investment to be considered on a consistent basis, against the criteria of economic output, as measured by the GVA generated by the investment alongside other 'balancing' social, environmental and geographic metrics.

WECA's overall aim of achieving clean economic growth will require longer term measurement which takes into account the impact of key schemes that are yet to be delivered. WECA has commissioned an economic model which is providing a baseline against which to evaluate longer term progress and which can be used to evaluate the economic impact of potential schemes. A baseline has been developed in a number of areas although some are in the process of being identified.

It will be important to be able to provide some robust evidence of outputs both to the public and as part of the first government gateway review scheduled to report in December 2020 on the impact achieved by the Investment Fund. Three projects have been identified which will provide the focus for the first gateway review.

### Conclusion

Progress has been made during 2018/19 to develop a performance framework and regular performance reporting. The emphasis of the main source of WECA funding has been on feasibility and business case development for various programmes and projects. It is now important that a baseline is formalised and SMART objectives developed against key projects and key metrics against which the Authority can measure its impact and effectiveness and be accountable to stakeholders and taxpayers.

# Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

## **Audit and Non-audit services**

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

# Action plan

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

	Assessment	Issue and risk	Recommendations
1	 <b>Red</b>	<ul style="list-style-type: none"> <li>Draft accounts that the Authority or accounts preparation team (PWC) had confidence in was not available from the start of the audit <b>and, consequently, the delivery of the audit was deferred by mutual agreement, to September 2019.</b></li> <li>This resulted in delays in the progress of the audit.</li> </ul>	<p>The 2019/20 account closedown process should be improved to ensure the draft accounts published by 31 May 2020 are complete and have been subject to review by senior officers.</p> <p>The structure of the General Ledger (Chart of Accounts) should be reviewed to enable the accounts to be prepared directly from the general ledger.</p> <p><b>Management response</b></p> <p>We fully recognise this issue. The substantial growth in transactions within the ledger during 2018/19 has also affected the ability to produce the statement of accounts. As a priority both the close down process and the current chart of accounts and mapping to the ledger will be reviewed to ensure the processes going forward are improved and streamlined.</p>
2	 <b>Amber</b>	<ul style="list-style-type: none"> <li>A detailed MTFP has not yet been developed. We recognise that WECA is an evolving organisation meaning that there are a number of emerging factors which will have an impact on its financial sustainability and medium-term financial plan.</li> <li>Plans have been developed to prioritise resources to 2022/23 and detailed projects are developing.</li> </ul>	<p>WECA should look to formalise a MTFP which reflects known and agreed projects and associated funding streams once they are confirmed. The plan should remain flexible as new opportunities for projects and funding are identified.</p> <p><b>Management response</b></p> <p>The Investment Fund report to the 19 July 2019 WECA committee details a regional investment programme of £350m up to March 2023. Having finalised this, WECA will revise its future funding assumptions and formalise an MTFP as an integral part of setting the 2020/21 budget (at which point we are expecting more clarity/certainty on future revenue streams)</p>

## Key

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

# Action plan (continued)

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

## Key

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

# Follow up of prior year recommendations

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

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	<p>Due to the uncertainty that surrounds the future funding and timing of responsibilities of the Combined Authority, a narrative MTFP has been presented to the West of England Combined Authority Committee which details key assumptions and any known increases in income and expenditure for the next three years including a three year capital programme.</p> <p>A more detailed medium term financial should be developed based on current knowledge and existing funding streams – with potential future schemes and funding separately identified once funding streams and responsibilities are agreed.</p>	<ul style="list-style-type: none"> <li>A detailed MTFP has not yet been developed. We recognise that WECA is an evolving organisation meaning that there are a number of emerging factors which will have an impact on its financial sustainability and medium-term financial plan.</li> <li>Now that plans have been developed to prioritise resources to 2022/23 and develop detailed projects, WECA should look to formalise a MTFP which reflects known and agreed projects and associated funding streams once they are confirmed. The plan should remain flexible as new opportunities for projects and funding are identified. See page 18.</li> </ul>
2	✓	<p>The risk management framework continues to be developed The risk management framework should become embedded across the Authority.</p>	<ul style="list-style-type: none"> <li>Further work has been undertaken during 2018/19 to embed risk management arrangements within the organization. A risk management framework is now in place.</li> <li>Risk management is embedded both at a strategic and operational levels with a Corporate Risk Register, Directorate Risk Registers are reviewed and updated on a regular basis.</li> <li>Risk management is an integral part of all activities and is considered as a standing item in all committee reports and decision making.</li> <li>Risk management is regularly considered and updated at Directorate and Senior Management team meetings.</li> </ul>

## Assessment

- ✓ Action completed
- X Not yet addressed

# Follow up of prior year recommendations

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

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

## Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

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

## Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Pooled property fund has been misclassified as 'Fair value through Other Comprehensive Income and expenditure' rather than as Fair Value through profit and loss' as required by IFRS 9	141 – Other comprehensive income and expenditure  (141)- Financing and Investment Income and expenditure	9,621 – Financial Assets at Fair Value - P&L  (9,621) – Financial Assets at Fair Value – Other Comprehensive Income and Expenditure'	0
2 A transfer to earmarked reserves of £388k for election costs has been incorrectly transferred to reserves via the Comprehensive Income and Expenditure Account (CIES) rather than directly from the general fund via the Movement in Reserves statement (MIRS)	(388) Mayoral Fund	388 – General Fund	(388)
3 Accrued interest in respect of short term investments, long term investments and cash equivalents had been incorrectly allocated.	0	(63) - Long term investments (139) - Short term investments 202 - Cash and cash equivalent	0
4 The Authority requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was a possible increase in pension liabilities of £99k and an increase in service costs for the 2019/20 year of £20k. A £35k adjustment will also be made to reflect the actual investment performance in the financial year of the fund (the original IAS 19 calculation was based on an estimate).  The Authority has agreed to incorporating the revised actuarial valuation into its 2018-19 financial statements.	99 Cost of services 35 Remeasurement of net defined benefit liability	(134) Pension Liability 134 Pension Reserve	134

# Audit Adjustments

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

## Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Following a review of the draft statement of accounts and re- mapping of trial balance the following adjustments were made to the draft accounts by officers:			
5 Combined Authority Services gross expenditure - review of draft accounts by officers identified errors in the mapping of gross expenditure and income.	(983) - Combined Authority Services Gross Expenditure		(983)
6 Combined Authority Services gross income – review of draft accounts by officers identified errors in the mapping of gross income and grants	1,371 – Combined Authority Services Gross Income		1,371
7 Trade and other debtors – review of draft accounts by officers identified errors in the analysis of debtor and creditor control accounts and accrued interest.		(1,315) - Trade and other debtors	
8 Trade and other creditors – review of draft accounts by officers identified errors in the analysis of debtor and creditor control accounts		(5,639) - Trade and Other Creditors	
9 Agency Creditor – review of draft accounts by officers identified an error in the presentation of income received in advance and the analysis of debtor and creditor control accounts		6,949 – Agency Creditor	
<b>Overall impact</b>	<b>£3</b>	<b>£139</b>	<b>£134</b>

# Audit Adjustments

## Impact of unadjusted misstatements

Our audit findings report dated 30 July 2019 reported an unadjusted extrapolated error of £295k in respect of an under accrual of £225k in relation to 5G REFUCS expenditure. We believed that the accrual had excluded material costs that had not been foreseen. Our subsequent testing identified that the accrual had actually been made and we were not made aware of this at the time. The original unadjusted misstatement is therefore no longer valid and has been removed from this updated version of our report.

# Audit Adjustments

## Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Narrative report</b>	The narrative report did not include any detail in relation to the performance of the Authority. The narrative report should provide balanced performance as well as financial information.	Narrative report expanded to provide detail in relation to the performance of the Authority.	✓
<b>Senior officer remuneration</b>	Note 11 does not disclose the costs of all expected senior officers and Directors.	Expand note 11 to include disclosure in respect of all Senior officers/Directors <b>including details of any secondments.</b>	✓
<b>Movement in Reserves Statement – total column</b>	The Movement in Reserves Statement does not include a total usable reserves and total unusable reserves column as required by the CIPFA code.	Include a total useable and total unusable reserves column within the Movement in reserves statement.	✓
<b>Note 5, Expenditure and income analysed by nature</b>	Expenditure relating to temporary staff, seconded staff and recharges from LEP totalling £844k were incorrectly classified as 'Other Service Expenditure' rather than 'Employee Benefits Expenses' within note 5	Amend note 5 to ensure expenditure analysed by nature is correctly classified across employee benefits and other services expenditure	✓
<b>Note 5, Expenditure and income analysed by nature</b>	We received an updated trial balance on July 19 that included substantial reclassification of amounts disclosed in note 5. Most notable items were a reduction in other service income of £5.587m with majority (£4.724m) being reclassified as 'Local authorities business rates growth and contributions', and £1.54m netting off 'other service expenses' as were expenditure credits and not gross income.	Note 5 income and expenditure be reclassified to reflect updated trial balance	✓
<b>Note 18 and 20</b>	Note 18 and 20 should be disclosed as debtors and creditors rather than trade receivables and trade payables per the CIPFA code.	The final statement of accounts and notes will be amended to reflect classification used within the CIPFA code.	✓
<b>Note 22, Provisions</b>	The note does not provide detail as required by the CIPFA code.	Note 22 should be expanded to disclose; <ul style="list-style-type: none"> <li>- Increase in existing provisions;</li> <li>- Amounts used in year; and</li> <li>- Unused amounts reversed</li> </ul>	✓

# Audit Adjustments

## Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Note 28, Financial Instrument</b>	The interest income disclosed are incorrectly split between investment assets and cash and cash equivalent.	Note 28 should be updated to reflect the misclassification of investment income in relation to investment assets and cash and cash equivalent.	✓
<b>Critical Judgements</b>	<p>Grants and contributions are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement, except to the extent that the grant or contribution has a condition that the Combined Authority has not satisfied.</p> <p>The critical judgements note does not include details of the judgement made by the Authority in relation to the recognition of Investment fund income (Gainshare – revenue and capital).</p>	The critical judgement note should be expanded to disclose the basis for determining when to recognise Investment Fund (Gainshare) income.	✓
<b>Various</b>	There were a number of other minor presentational adjustments made to improve the quality of disclosure in the accounts.	Presentational adjustment identified should be corrected in the final version of the statement of accounts.	✓
<b>Note 28, Financial Instruments</b>	Disclosure in relation to the fair value hierarchy of financial assets was not included in the draft statement	The revised statements (note 28) include narrative in relation to the fair value hierarchy of financial instruments.	✓
<b>Financial assets at Fair Value through Income and Expenditure (Balance Sheet and Note 28, Financial Instruments)</b>	The draft accounts did not classify the Authority's investment in the CCLA Property Fund and Money Market Funds as 'Fair Value through Income and Expenditure'	The revised statements disclose the Authority's investments in the CCLA Property Fund as 'Fair Value through Income and Expenditure'	✓
<b>Note 26 (Defined benefit pension scheme) and Note 28 (Financial Instruments)</b>	<p>Note 26 did not include a sensitivity analysis of the potential impact of changes in key actuarial assumptions</p> <p>Note 28 did not include a sensitivity analysis of the potential impact of changes in property price movement and interest rate changes on both investment income and fair value.</p>	A sensitivity analysis has been included in both note 26 and note 28 of the final version of the financial statement.	✓

# Audit Adjustments

## Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Changes to various notes following adjustments made within the CIES and Balance Sheet</b>	<p>Following a review of the draft statement of accounts and re-mapping of trial balance adjustments were made to the draft accounts by officers for the following statements and notes</p> <p>Movement in Reserves Statement</p> <p>Cash flow statement</p> <p>Expenditure and Funding Analysis and supporting notes</p> <p>Note 5 Income and Expenditure analysed by nature</p> <p>Note 6, Combined Authority Services</p> <p>Agency Creditor (note 21)</p> <p>Financial Instruments (note 28)</p>	The revised notes have been reviewed as part of our audit testing and have been correctly restated.	✓
<b>Contingent Liability</b>	Details of a contingent liability were disclosed in the draft accounts but no monetary amounts were disclosed.	Disclosures in respect of contingent liabilities are only required to be disclosed if amounts involved are expected to be material to the accounts. We are satisfied that amounts could not be material and therefore agreed with officers that narrative could be removed.	✓
<b>Note 32, Post Balance Sheet Events</b>	A post balance sheet event note should be Included within the final version of the statement of accounts to reflect the impact of the McCloud ruling.	The revised accounts include a post balance sheet event note in respect of the impact of the McCloud ruling	✓
<b>Glossary</b>	The statement of accounts includes a large number of technical terms.	We agreed with officers that the final statement of accounts should include a glossary of technical terms and acronyms.	✓

# Fees

We confirm below our fees charged for the audit. We have discussed and agreed with officers the nature and extent of additional work that has been required to complete the audit due to delays in receiving the draft accounts and additional testing arising from the issues we identified. The proposed additional fees are set out below and are subject to approval by PSAA Ltd.

## Audit Fees

	Prior Year (2017/18) Fee	Planned (2018/19) Fee	Final (2018/19) Fee
<b>Authority Audit – scale fee</b>	24,200	18,634	18,634
<b>Pensions – IAS 19</b>			1,500
<b>Additional fees due to delayed information</b>			17,000
<b>Total audit fees (excluding VAT)</b>	<b>24,200</b>	<b>£18,634</b>	<b>£37,134</b>

The scale fee is based on the assumption that a full statement of accounts is available together with appropriate supporting schedules at the commencement of the audit. As identified earlier in this report, this has not been the case for the Authority in 2019-20 and additional audit work has been undertaken to progress the audit within a reasonable timescale and ensure that sufficient evidence has been gained to provide assurance over the accuracy of the figures within the financial statements. This work is above and beyond the expectations set out within the Audit Fee Letter. Consequently, additional audit fees will be levied in respect of this additional work. This has been discussed and agreed with officers. The additional fee is subject to approval by PSAA Ltd.

## Non Audit Fees

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

# Audit opinion

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

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

### Report on the Audit of the Financial Statements

#### Opinion

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

In our opinion, the financial statements:

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

#### Basis for opinion

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

#### Conclusions relating to going concern

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

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

# Audit opinion

## Other information

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

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

# Audit opinion

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

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

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

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

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

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

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

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

### Conclusion

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

### Responsibilities of the Authority

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

# Audit opinion

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

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

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

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

## Report on other legal and regulatory requirements - Certificate

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

## Use of our report

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

[Signature to be added]

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

Bristol

[Date to be added]



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