



Informing the audit risk assessment for West of England Combined Authority 2020/21



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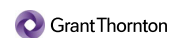


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Purpose

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

Background

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

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

Communication

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

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

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Purpose

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

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General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	COVID-19 which impacted the economy from mid- March 2020 onwards. Continued agency accounting approach for funds held on behalf of parties represented at Joint Committee. Continued increase in grant funding which increases the responsibilities and capacity of the organisation. Significant increase in staff establishment and payroll and pensions liabilities for the organisation as a result of approved investment fund activity and regional economic recovery.
2. Have you considered the appropriateness of the accounting policies adopted by West of England Combined Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Due to Covid-19, the implementation of IFRS 16 Leases had been delayed and is now effective 1 April 2022. The main changes include the recognition of almost all leases on the Balance Sheet by lessees due to the distinction between operating and finance leases being removed. The standard will affect primarily the accounting for the Authority's operating leases. The Authority's activities as a lessor are not material and hence WECA does not expect any significant impact on the financial statements. WECA intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).
3. Is there any use of financial instruments, including derivatives?	Financial Instruments are held in accordance with the Annual Approved Treasury Management Strategy. We can confirm that the Authority holds no derivatives.
4. Are you aware of any significant transaction outside the normal course of business?	We are not aware of any transactions that have been made outside the normal course of business.

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General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	We are not aware of any changes in circumstances that would lead to impairment of non-assets.
6. Are you aware of any guarantee contracts?	We are not aware of any guarantee contracts.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	We are not aware of loss contingencies nor un-asserted claims that may affect the financial statements.
8. Other than in house solicitors, can you provide details of those solicitors utilised by West of England Combined Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	There are no open litigations. WECA only has one in house lawyer so additional capacity is bought in from the constituent authority in house legal teams, other Combined Authority legal teams, legal firms on the Crown Commercial and Wiltshire Legal framework agreements and Counsel as and when required.

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General Enquiries of Management

Question	Management response
9. Have any of the West of England Combined Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	We are not aware of any reported items of fraud or non-compliance with laws and regulations or uncorrected misstatements from our service providers that would affect the financial statements.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	PSTax – VAT, SDLT and ET advice Arlingclose – Treasury Management advice CIPFA – Business Rates and Capital G7 – Financial System

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Fraud

Issue

Matters in relation to fraud

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

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

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

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

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

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

Fraud risk assessment

Question	Management response
<p>1. Have West of England Combined Authority assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Combined Authority's risk management processes link to financial reporting?</p>	<p>The work of Audit West provides assurance that material misstatement due to fraud is not occurring.</p> <p>In relation to the risk management processes linked to the Financial Reporting - The Authority has an established system of reporting for revenue and capital budgets which takes account of this. Financial risks are outlined within the budget setting report and will continue to be monitored and reported through regular budget monitoring reports. The Authority's wider risk management processes continue to be aligned to our Business Plan which is formally reported through the WECA Audit Committee..</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Procurement - Tendering issues, split contracts (value disaggregated to circumvent thresholds), double-invoicing, price-fixing, bid rigging, cartels. Spanning whole period from agreeing a project to contract monitoring, extensions and re-letting. Inflated claims by consultants (low volume of contracts to date)</p> <p>Payroll - False employees, fraudulent overtime, allowance and expenses claims.</p> <p>Grants - Work not carried out, funds diverted, ineligibility not declared. False application or payment of grants to any person, agency or organisation.</p> <p>Internal fraud - Any employee might perpetrate fraud against his or her employer and delegation of responsibilities to officers brings inherent risks. Diverting monies to a personal account, accepting bribes, working elsewhere while claiming to be off sick, wrongfully claiming benefit while working, failing to declare conflicts of interest or acceptance of gifts and hospitality. Staff pre-employment fraud, where false information given to gain employment. Stealing property and selling it on for personal gain.</p> <p>Mandate fraud - Change to a direct debit or bank transfer mandate by fraudster purporting to be an organisation you make regular payments to, for example, a subscription or membership organisation or business supplier.</p> <p>Manipulation of data fraud - Most commonly, employees changing data in order to indicate better performance than actually occurred and staff removing data from the organisation.</p>

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Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within West of England Combined Authority as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>There has been one suspected fraud case raised since April 2020. This is in the area of Adult Education, whereby it is alleged that a provider has falsified their returns on the number of learners supported. This case is awaiting the conclusion to a formal investigation but will not materially impact upon the authority's accounts.</p> <p>We communicate risk issues (including fraud) to those charged with governance in the following way: The Risk Management Framework - updates provided to the Audit Committee; Decision making reports to the WECA Committee; S73 Officer Reports as necessary; Internal Audit Reports - regular updates to the Audit Committee; Whistle blowing procedures; Annual Governance Statement & Assurance Framework to Audit Committee; The WECA Business Plan - regular updates to WECA Committee and Scrutiny; Risk management routinely discussed and considered at Directorate Management Team meetings; Revenue Budget setting and Capital Programme reports We have also run informal fraud workshops with staff and members of the WECA Audit Committee</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within West of England Combined Authority where fraud is more likely to occur?</p>	<p>As mentioned above, there is an alleged fraud that we are aware of in Adult Education. Falsifying data required to confirm the appropriate and relevant use of grant funding is a growing risk. Upon the conclusion of the investigation we will review our processes to determine whether any additional internal controls are required.</p> <p>As we accelerate the Combined Authority's role in the delivery of major capital projects, there will be a growing risk in terms of the commissioning of major construction contracts. We will keep this risk under review.</p>
<p>5. What processes do West of England Combined</p>	<p>The Authority has a Counter-Fraud Strategy which has been approved by the Senior Management Team</p>

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Fraud risk assessment


Question	Management response
<p>6. How do you assess the overall control environment for West of England Combined Authority, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Reasonably strong.</p> <p>The work of Audit West provides assurance along with the Head of Internal Audit Opinion, We have an Assurance Model and Annual Governance Statement also in place.</p> <p>The Financial Reporting process and internal controls and governance processes, including Audit West's Reasonable Assurance model, assessment of specific areas of audit work, segregation of duties and counter fraud policies minimise the potential for misreporting.</p> <p>Whistleblowing policy in place;</p> <p>The audit committee continues to grow in their awareness and effectiveness in terms of constructive challenge of internal controls. An independent, business member of the Audit Committee has recently been appointed which will add to the committee's strength.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>We are not aware of any areas where there is potential for misreporting.</p>

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Fraud risk assessment

Question	Management response
<p>8. How do West of England Combined Authority communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>All HR and IT Policies are available to all staff and they have been signposted to these on several occasions.</p> <p>The Whistle blowing policy applies to staff, members, suppliers, contractors, volunteers and anybody acting on behalf of the Authority.</p> <p>The WECA Anti Money Laundering Policy and WECA Counter Fraud Strategy have been communicated and are available to all staff in the Useful Information Section of the website.</p> <p>No significant issues have been reported to date.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Highest risk posts are those who are able to commit the authority to significant spend, mainly Chief Executive and Directors of Infrastructure, Business and Skills and Corporate Services. Also the Head of Capital Projects Delivery in terms of commissioning major construction contracts;</p> <p>WECA has a clear and tight levels of financial delegation whereby only few officers are able to commit high levels of spend. Segregation of duties is in place and dual authorisation required for higher spend.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>We are not aware of any related party relationships or transactions that could give rise to instance of fraud.</p> <p>All LEP Board members have to formally declare any known relationship with the operations of the Combined Authority.</p>

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Fraud risk assessment

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

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Law and regulations

Issue

Matters in relation to laws and regulations

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

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

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

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

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does West of England Combined Authority have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Combined Authority's regulatory environment that may have a significant impact on the Combined Authority's financial statements?</p>	<p>Decision reports to WECA and Joint Committees require legal and financial implications to be signed off. The work of Statutory Officers and Internal Audit includes a focus on compliance with law and regulation. In addition, it takes assurance through S151 Reports, Internal audit reports, Whistle blowing procedures and the Annual Governance Statement and Assurance Framework.</p> <p>Staff employed in critical posts have the relevant professional qualifications, skills and knowledge.</p> <p>Statutory Officers – Head of Paid Service, Monitoring Officer and Section 151 Officer meet on a regular basis to consider key Financial and legal issues faced by the authority.</p> <p>We are not aware of any changes to WECA's regulatory environment that would have a significant impact on WECA's financial statements.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The following reports are taken to the Audit Committee on a cyclical basis in order to provide assurance:</p> <ul style="list-style-type: none"> • The Monitoring & Evaluation Framework • The Risk Management Framework • Internal Audit Reports • The Assurance Framework • Decision making reports to WECA • S73 Officer Reports as necessary
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>There are no instances of non-compliance or suspected non-compliance with laws and regulation since 1st April 2020 that we are aware of.</p>

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Impact of laws and regulations

Question	Management response
5. What arrangements does West of England Combined Authority have in place to identify, evaluate and account for litigation or claims?	All claims are controlled by the legal team, in conjunction with our insurers. Where appropriate these are taken to the Board for approval.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	There have been no reports that indicate non-compliance that we are aware of.

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Related Parties

Issue

Matters in relation to Related Parties

West of England Combined Authority are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

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

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Combined Authority must disclose it.

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

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Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in West of England Combined Authority's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and West of England Combined Authority whether West of England Combined Authority has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>There have been no changes to the related parties that were stated in the 2019/20 Financial Statements all are still relevant and apply.</p>
<p>2. What controls does West of England Combined Authority have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Members and Senior Officers are required to complete a register of interests. Members and officers are also required to declare any interests relating to matters to be discussed in each meeting.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Robust procurement controls are operated with contract authorisation limits. The process applies to all commercial activity regardless of whether it involves related parties.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Not applicable. All financial transactions are within the scope of the Financial Delegated Authorities. Delegation to the WECA CEO was approved for emergency spend in response to the Covid pandemic in April 2020, but this delegation was not required.</p>

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Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

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

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Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The main estimate is in relation to Business Rate Appeals.
2. How does the Combined Authority's risk management process identify and addresses risks relating to accounting estimates?	Estimates are based upon accounting knowledge, historical data, review of transactions or known events after the end of the financial year to determine the calculations to provide the necessary provisions.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	As above.
4. How do management review the outcomes of previous accounting estimates?	Reviewed as part of ongoing monitoring.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No changes were made to the estimation processes in 2020/21.

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Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The S73 Officer is a member of Strategic Management Team (SMT). The Finance team have a significant number of staff qualified to Chartered or AAT standard including the Head of Finance. Knowledge acquired as part of that training is applied to relevant areas together with any further training or developments provided by CIPFA in relation to specific areas. Support is also provided by experienced external consultants.
7. How does the Combined Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Internal audit reports are considered where they report on any relevant control weaknesses.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	By monthly reporting of financial data.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	Reporting financial data to SMT; Consideration and examination is also made within the Finance team to consider the robustness of estimates and challenged. Budget managers provide updates - if material on any significant developments. The S73 Officer undertakes a comprehensive review of the draft Statutory Statement of Accounts as they develop through the process.

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Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Yes. Experts in particular fields are used to provide estimates and there is a reasonableness check on the advice given.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes, the management arrangements set out relating to the accounting estimates in Appendix A are reasonable.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	For 2020/21 Accounts, similar to the previous financial year, the audit committee will consider the draft accounts through an informal workshop in advance of formal presentation to committee.

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	The actuarial gains and losses figures are calculated by the actuarial expert Mercer. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Combined Authority responds to queries raised by the administering body, Avon Pension Fund.	The Combined Authority are provided with an actuarial report by Avon Pension (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.
Fair value estimates (including categorisation in the fair value hierarchy)	Financial assets are required to be classified and measured at fair value, with any changes in fair value recognised in Profit and Loss. The valuation should, where material, reflect any change in expected future cash flows. Thus for instance if there arises an expectation that future cash flows from an investment will be reduced this would impact on the current carrying value of that financial instrument.	Annual review of financial instruments to identify where possibility of changed future cash flows	When considered necessary the Treasury advisers will be consulted.	The Authority's Treasury Management Strategy is such that investments are restricted to low risk entities.	No.

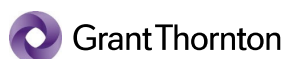
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Appendix A Accounting Estimates

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



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