

The West of England Combined Authority Audit Progress Report and Sector Update

Year ending 31 March 2022

Audit Committee 2 March 2023



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Combined Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a Combined Authority.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 6 February 2023

Financial Statements Audit

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

We produced a further Audit Findings Report in late November and presented this to the Audit Committee on 12 December 2022, together with a verbal update.

We subsequently issued an unqualified audit opinion on the Combined Authority's financial statements for the year ended 31 March 2022 on 22 December 2022.

We issued a final Audit Findings Report on that date and requested this be circulated to Audit Committee members.

At that time we were unable to issue our certificate for the year because we had not completed:

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

The National Audit Office (NAO) issued the guidance regarding the Whole of Government Accounts work for 2020/21 in July 2022 and so we do not expect to be in a position to complete that aspect of our work in the foreseeable future..

Value for Money

2020/21

We had previously reported our interim findings to the Audit Committee on 28 April 2022 and 12 October 2022. Our Governance Report was presented to the Committee meeting on 17 November 2022.

This Governance Report contained:

- three statutory recommendations;
- two key recommendations; and
- four improvement recommendations.

The three statutory recommendations that arose from that work were considered by the Combined Authority in a public meeting on 9 December 2022.

Our Auditor's Annual Report for 2020/21 was issued on 22 December 2022 and we requested this be circulated to Audit Committee members.

2021/22

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

At the time of writing, this risk assessment was in progress and we expect to report our findings in the Spring.

Audit Deliverables

2020/21 Deliverables

	Planned Date	Status
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money (VFM) work.	December 2022	Issued 22 December 2022
Certificate The certificate confirms that the audit has been completed.	December 2022	Issued 22 December 2022

2021/22 Deliverables

Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Combined Authority's 2021/22 financial statements and the Auditor's Annual Report on the Combined Authority's Value for Money arrangements.	April 2022	Presented to April 2022 Audit Committee
Audit Findings Report The Audit Findings Report will be reported to the Combined Authority's Audit Committee on completion of our work.	November 2022	Issued 22 December 2022
Auditors Report This includes the opinion on your financial statements.	November 2022	Issued 22 December 2022
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	Spring 2023	See pages 4

2022/23 Deliverables

Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Combined Authority's 2022/23 financial statements and the Auditor's Annual Report on the Combined Authority's Value for Money arrangements.	TBC	We expect to present this to the next Audit Committee meeting.
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Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Audit Market Developments

Financial Reporting Council Report On The Quality Of Local Audit

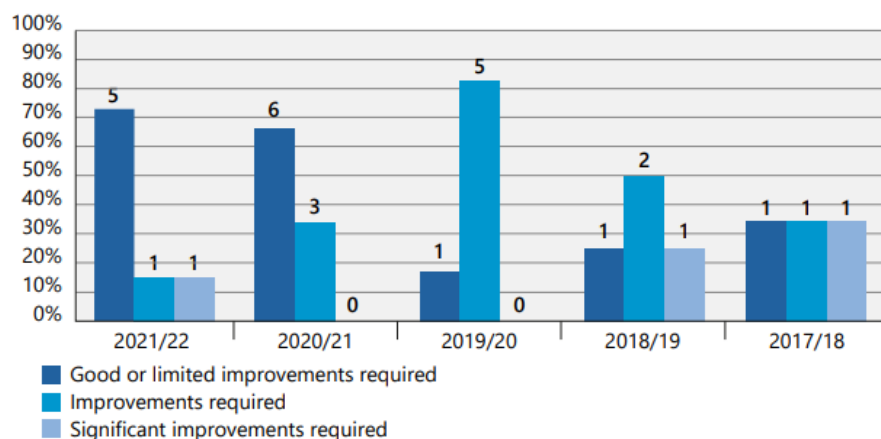
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



Grant Thornton – Nearly 60 councils at risk of ‘running out of money’ next year

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts.

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of 2022/23.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will “continue to unwind through the long tail of Covid-19” with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: “Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

“Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils’ financial sustainability in the face of economic instability.



“Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up.”

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector’s ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: “With no spending review and no fair funding review, CIPFA shares Grant Thornton’s concerns about the financial sustainability of some in the sector.

“While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector.”



