

**WEST OF ENGLAND COMBINED AUTHORITY:
AUDIT COMMITTEE
25 January 2018**

DRAFT MINUTES

Committee Members:

Cllr Geoffrey Gollop, Bristol City Council (Chair)
Cllr Will Sandry, Bath & North East Somerset Council (Vice-Chair)

Cllr Brian Simmons, Bath & North East Somerset Council
Cllr Donald Alexander, Bristol City Council
Cllr Harriet Bradley, Bristol City Council
Cllr Brenda Massey, Bristol City Council
Cllr Claire Hiscott, Bristol City Council
Cllr Jerome Thomas, Bristol City Council
Cllr John O'Neill, South Gloucestershire Council
Cllr Roger Avenin, South Gloucestershire Council
Cllr John Ashe, South Gloucestershire Council

	<p>WELCOME AND EVACUATION PROCEDURE</p> <p>The Chair welcomed everyone to the meeting and advice was given on the fire evacuation procedure.</p>							
1	<p>APOLOGIES FOR ABSENCE</p> <p>Apologies were noted from Cllrs Roger Avenin, John Ashe and Brenda Massey. Cllr Marion Lewis attended as a substitute for Cllr Roger Avenin.</p>							
2	<p>DECLARATIONS OF INTEREST UNDER THE LOCALISM ACT 2011</p> <p>There were no declarations of interest.</p>							
3	<p>MINUTES</p> <p>The Committee considered the minutes from the meeting of 28 September 2017.</p> <p>The Minutes were otherwise accepted as an accurate record of the meeting.</p> <p>The Committee reviewed the actions from the meeting of 28 September, which will be included in a log to ensure actions are tracked.</p> <table border="1" data-bbox="178 1095 1402 1503"> <tr> <td>Appointment process for an independent member: 'To appoint an independent member to the committee who is neither Local or Combined Authority affiliated' – GG, WS, TR</td> <td>In progress</td> </tr> <tr> <td>Internal Audit Plan 2017/18: 'Three various levels of assessments and reasonable assurance model of 80 audit days to start with but to review the amount of audit days at the end of the year' - TR</td> <td>TBC</td> </tr> <tr> <td>External Audit Update: 'Barrie Morris to forward link to members to document of GT produced national report on combined authorities' – BM</td> <td>TBC</td> </tr> </table>		Appointment process for an independent member: 'To appoint an independent member to the committee who is neither Local or Combined Authority affiliated' – GG, WS, TR	In progress	Internal Audit Plan 2017/18: 'Three various levels of assessments and reasonable assurance model of 80 audit days to start with but to review the amount of audit days at the end of the year' - TR	TBC	External Audit Update: 'Barrie Morris to forward link to members to document of GT produced national report on combined authorities' – BM	TBC
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4	<p>ITEMS FROM THE PUBLIC</p> <p>No public questions or statements had been received.</p>							
5	<p>PETITIONS</p> <p>There were no petitions.</p>							
6	<p>TREASURY MANAGEMENT STRATEGY 2018/19</p> <p>Tim Richens (TR), Director of Investment and Corporate Services, introduced the report which sets out Treasury Management Strategy including authorised lending institutions in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.</p>							

TR confirmed that this is the document that we are required to look at each year and that it needs to be approved at the next WECA Committee meeting, which is happening on the 2nd of February. WECA works closely with its treasury advisors, Arlingclose, to produce this document which looks at WECA's approach to borrowing and how it invests its surface cash flow. TR confirmed that no borrowing was undertaken during 2017/18 and that it is proposed that no borrowing is undertaken by the Combined Authority during 2018/19 either. This is due to prioritisation and project work currently being completed.

With respect to page 27, TR confirmed that CLG require that this item is brought to the Committee's attention as it deals with WECA receiving independence advice from Arlingclose. He confirmed that aside from their Section 151 Officer, WECA does not have any staff dealing with treasury management and that Bath and North-East Somerset Council administer this on behalf of WECA.

The committee members raised the following questions which were addressed by officers as follows:

- Cllr Harriet Bradley asked for clarification regarding revenue and capital budget. TR responded by saying that there is a distinct separation between the two and that this is the same in all councils. Revenue budget deals with day to day costs and services whereas capital budget deals with investment, infrastructure and asset creation. Cllr Bradley asked where the money in the revenue budget comes from. TR confirmed that WECA receives a grant investment from the government which is split equally between the revenue and capital budgets. Furthermore, revenue budget income also comes from the business rates retention pilot, ESIP and various transport grants, including concessional travel, community travel grants and bus levies.
- Cllr Brian Simmons asked if WECA levies the councils with regards to bus subsidies. TR confirmed that councils run and administer this themselves but that going forward the bus strategy might change how bus subsidies are administered across the combined authority area. TR confirmed that if this process were to change, the councils would need to consult with WECA.
- Cllr Claire Hiscott referred to page 18 of the Audit Committee combined papers and asked for clarification regarding what an 'upside risk' is. TR responded by saying that he would need to check this with Arlingclose and come back to Cllr Hiscott with an answer.
- Cllr Harriet Bradley asked for clarification regarding the Upper and Lower limits in respect of borrowing as indicated at the top of page 16 of the Audit Committee combined papers. TR confirmed that the current interest rate environment has been steady for a while. In the early 2000's and in the 1990's, they tended to fluctuate more but in the current environment these tend to stay quite stable so it wouldn't make sense to put a limit on these.
- Cllr Geoffrey Gollop mentioned that he understands that WECA needs advisors but worries that Arlingclose might be lulling WECA into a false sense of security because over the last ten years there haven't been sudden changes in the interest rate. What if this rate suddenly shoots up and they haven't forecasted this sudden change? Cllr Gollop expressed his concern that this may have an

impact on WECA. TR assured Cllr Gollop that Arlingclose are very attuned to the interest rate environment but acknowledged that economies can change and noted that the code has changed to factor this eventuality in. TR also confirmed that WECA have no borrowing exposure currently but that in future this could become an issue if interest rates do suddenly change. TR is actively monitoring current and previous account reports though and it has remained flat for several years.

- Cllr Will Sandry raised a query with regards to how borrowing limits differ between Local Authorities and the Combined Authority. TR confirmed that the legacy around borrowing here differs; with respect to Local Authority borrowing, the government doesn't get involved, however the government sets the borrowing limit for the Combined Authority. TR also confirmed that a Treasury Cap applies to Combined Authorities.
- Cllr Harriet Bradley queried why WECA uses Natwest for banking when the bank's credit rating is not that good. TR confirmed that we use Natwest for our retail (day-to-day) banking but that we do not hold any investment money with them.
- Cllr Geoffrey Gollop referred to page 25 and queried why WECA would contemplate investing money with foreign countries such as Iceland. TR responded by saying that WECA doesn't plan to make deposits in foreign countries but that some banks are denominated in foreign countries.

The members confirmed that this item was all noted for the record.

Action. TR to get clarification from Arlingclose regarding the meaning of the term, 'upside risk' on page 18 of the Audit Committee combined papers and report back to the Committee on this.

7 EXTERNAL AUDIT PLAN 2016/17 AND 2017/18

Barrie Morris (BM), Director and Engagement Lead in Public Sector at Grant Thornton, introduced the External Audit Plan for 2016/17 and 2017/18 for the Committee to consider.

BM confirmed that as this is the first year WECA has had accounts produced, a lower materiality of 1% has been set which reflects the level of risk associated with WECA during its first year. BM also confirmed that 'clearly trivial' has been set at £19k.

The committee members raised the following questions which were addressed by officers as follows:

- Cllr Will Sandry queried what the next steps are in respect of future years as the threshold rate seems to be low. BM responded by saying that the maximum this rate can go to is 2% of gross expenditure and that regulators of professional firms report 2% as being quite high.
- Cllr Geoffrey Gollop raised a concern regarding how the 'clearly trivial' amount and the materiality rate could be perceived. He queried how WECA would go

about getting the balance right between the volume of transactions and the level of materiality being set. He also mentioned, as an example, that were £19k to go missing from petty cash, this would be a matter of great concern. BM stressed that this is only the first year and he would expect this level to rise in future. Cllr Gollop mentioned that he felt more audit work would be needed on the Mayor's Budget and the admin side of the business as opposed to the investment and project areas which are controlled by more processes. BM confirmed that there are significant risks around operational expenditure and other grant funding activities and that Grant Thornton would be completing a programme of work around this.

- Cllr Jerome Thomas asked for more clarity around the medium term financial plan and strategy so that this can be looked at by the Committee. TR confirmed that this was being published today (25th January) and that the strategy has been consulted on and is being reflected on currently.
- Cllr Jerome Thomas asked how the financial reporting dashboard will be developed to enable the Committee to do their jobs more effectively. He added that if the Committee does not have usable financial reporting templates they wouldn't be able to report adequately. Cllr Gollop noted his agreement with these comments. TR confirmed that this feeds into governance and that some of Jeff Wring's paper will pick this up. TR confirmed that there is currently a useable financial reporting framework; the outturn reporting is done quarterly, this is also set out in the Standing Orders section of the WECA Constitution and is reported on quarterly at the WECA Committee. TR also confirmed that he'd need to think about how to give the Audit Committee more assurance on this but thought that signposting to the different committees (WECA and Joint Committees) and taking note of Jeff Wring's report could help. Cllr Thomas requested that this be added as an agenda item to the next Audit Committee meeting and TR agreed that this could be useful.
- Cllr Will Sandry queried what WECA gets in terms of the Audit fees of £24k it pays to Grant Thornton. BM confirmed that initial interim work is usually about ten days, onsite financial accounts work is usually about three weeks and then value for money work is completed which takes ten days. BM confirmed that these fees are benchmarked against the fees other Combined Authorities pay and that TR managed to negotiate the rate down.

Action. Financial reporting templates to be added as an agenda item to the Audit Committee meeting happening on the 26th of April.

8 INTERNAL AUDIT PLAN 2017/18

Jeff Wring (JW), Head of Audit West, introduced the report to update the Committee on Internal Audit work in 2017/18.

JW explained that the Reasonable Assurance Model supports WECA's audit process and ensures good governance. He explained that good models and methodologies are being used but as we are still in year one this is an evolving process. He confirmed that the assessment areas are scored according to level of risk and level of assurance and that if either falls into the red category, more audit activity would need to be completed

or assurance would need to be gained from elsewhere. JW also explained that in year one it would be expected that there would be some red or orange categories but as the years go on these should move across to the green areas.

JW explained the eight themes of the Reasonable Assurance model and their initial scorings.

Theme 1: Corporate Governance

The initial assessment results from WECA governance being complex due to the three local authorities. The level of assurance is high but risk is also relatively high in year one.

Theme 2: Financial Management

JW explained that this area is assessed because financial management is a key risk element. Processes seem to be in place but there are some things that still need assurance. For example, internal and external audit processes will feed into this.

Theme 3: Performance Management

This seems to be an evolving and developing piece for WECA until the strategy and business plan is in place. There is evidence of good systems being in place and good project work being done in the LEP. From a corporate perspective, there is still some work to be done in this area.

Theme 4: Risk Management

JW confirmed there is not a system in place yet so this category has scored to the right of the chart. He confirmed that this can be rectified quite quickly. It becomes more important as the years go on and as it is still year one, JW is quite comfortable with this position at present. He confirmed that he would discuss with SMT how to improve this.

Theme 5: Programme and Project Management

JW confirmed that this is a critical and fundamental area for WECA. The systems that are in place currently are good and that assurance is positive. He confirmed that the risk scoring was above average but would probably increase as WECA delivers more.

Theme 6: Procurement

JW explained that this area has scored low with regards to assurance as some things are in place but more is expected in future. Risk will also increase with time as more systems are implemented.

Theme 7: Information Management

JW confirmed that as WECA is holding small amounts of personal information, risk is quite low. It can be noted that systems are in place and that there is an IT network. There is still some development to be done in terms of staff training.

Theme 8: Asset Management

JW confirmed that, aside from the individuals it employs, it doesn't own many assets yet therefore this scores low in the risk category. There is no assurance yet but he hopes to see this move across the chart as the next year progresses.

JW confirmed that this work is based on evidence and these themes will remain under review until the end of March - the final version of this report will be set out in the March Audit plan. He mentioned that he hoped this would help to provide organisational improvement and that Audit West would update this model as additional information comes to light.

The committee members raised the following questions which were addressed by officers as follows:

- Cllr Donald Alexander queried whether Audit West adjusts their work according to the level of risk in the environment? JW confirmed that Audit West would reflect this in their work and in the scope of their reviews.
- Cllr Will Sandry noted that WECA provides money to the Local Authorities for them to deliver projects and asked how much project management WECA is going to do. TR responded by saying that currently project delivery rests with the scheme promoter. In the future, as WECA moves forward with funding schemes and the work involved, it may look at getting more involved with project delivery.
- Cllr Jerome Thomas confirmed that he thinks this is an excellent framework and thanked Jeff Wring for his presentation. He asked if the Chief Executive could come up with an A4 page detailing what she considers to be the risks for the organisation. The Committee agreed with this.
- Cllr Harriet Bradley asked JW what the timeframe on this process is. JW confirmed that it happens once a year formally and that as it is year one for WECA, Audit West goes into quite a lot of detail on this. He confirmed that years one, two and three would involve the same amount of work due to ongoing change.
- Cllr Will Sandry suggested the idea of the Mayor and Chief Executive attending part of a future Audit Committee meeting so that the group could hear their version of the importance of an audit plan. TR confirmed that he would be happy to put this to them.
- Cllr Geoffrey Gollop mentioned that he'd like to see an action plan put in place by TR for key areas needing improvement as identified by Audit West's report. Areas of high priority need to be identified early on so that this sets the foundation for future years. Cllr Gollop agreed that the Mayor and Chief Executive should feed into this process to which TR agreed and said that this is a high priority for them. TR confirmed that at the end of October in 2017 a new resourcing structure was approved and that senior management positions are being recruited to currently. There is still a lot of work to be done to get the key tasks completed and this has been a priority for them at present.
- Cllr Geoffrey Gollop asked what the expected time frame was for the risk register and what the process for this would be. TR confirmed that this would be by the end of the year and confirmed that the process for this sits with the officers and Chief Executive and is usually communicated through the annual governance statement which will report to this committee about key risks. JW also confirmed that WECA's strategy document sets out risks. Cllr Gollop suggested that the risk register, when compiled, should go through the scrutiny process or a public meeting as this could be helpful with regards to informing this committee about priorities, risks and ensuring all members are involved with controlling governance. It was agreed by the Committee that the Mayor and Chief Executive should have sight of the risk register before it goes to a public meeting and that

	<p>this topic would be considered at the Audit Committee meeting on the 26th of April.</p> <ul style="list-style-type: none"> • Cllr Jerome Thomas confirmed that for something to be agreed, all Combined Authorities need to vote unanimously. He queried what would happen in the event of one Local Authority not voting in favour for something. TR responded by saying that for legislation to be changed, the order would need to be changed and this too would need unanimous consent from all councils involved. He confirmed that the Chief Executives and leaders meet every second week and try to resolve issues before we get to the latter stage. • Cllr Brian Simmons asked if WECA was planning to be part of the new South West and Wales powerhouse. TR confirmed that he'd not heard anything about this. <p>Action. TR to ask the Chief Executive to compile an A4 page detailing what she considers to be the risks for WECA.</p> <p>Action. TR to suggest to the Mayor and Chief Executive that they attend part of a future Audit Committee meeting so that the Audit members can hear their version of the importance of an audit plan.</p> <p>Action. Items for the risk register to be discussed at the Audit Committee meeting on the 26th of April.</p>
9	<p>ANNUAL GOVERNANCE REVIEW</p> <p>Jeff Wring (JW), Head of Audit West, introduced the report to present the outline of the process for the Annual Governance Statement.</p> <p>JW confirmed that the document is embedded within the overall set of annual accounts and is given an overview by the external auditors as well. The Annual Governance Statement will be given to members as part of the accounts sign off process later in the year. JW also confirmed that the WECA Code of Corporate Governance was initially adopted from South Gloucestershire Council and will be reviewed at the next audit meeting to make it fitter for purpose.</p> <p>BM added that the Annual Governance Statement applies to the entire year rather from a particular point in time and as of the 1st of April, WECA didn't have many governance structures in place. Therefore, the first report should reflect all changes made this year.</p>
10	<p>INDEPENDENT MEMBER APPOINTMENT</p> <p>TR let the Committee know that WECA advertised, used LinkedIn and Twitter to promote the vacancy prior to Christmas. One application was received that just met the minimum requirements but wasn't ideal in terms of what the organisation was looking for. TR explained that at a similar time, the LEP were advertising for new members and received 53 applications. An idea has been suggested where we could look at approaching the unsuccessful applicants and their organisations to ascertain whether they'd be interested in putting someone forward for the independent member vacancy. If that approach is not successful WECA would then need to advertise the vacancy</p>

	<p>again. TR said he'd be able to update the Committee more at the next Audit Committee meeting in April.</p>
11	<p>ANY OTHER ITEM THE CHAIR DECIDES IS IMPORTANT</p> <p>Document packs. It was agreed by the Committee that paper copies of the papers for each committee member would no longer be needed. If needed, members should request a paper copy from Democratic Services in advance for a given meeting. A couple of copies of the papers will be provided for members of the public.</p> <p>Audit Committee start time. It was also agreed that future Audit Committee pre-meetings would start at 10:00am with Committee meetings starting at 10:30am.</p> <p>The Chair declared the meeting closed at 12.18pm.</p>