



# Annual Audit Letter

*Year ending 31 March 2018*

---

**West of England Combined Authority**

7 August 2018



# Contents



## Your key Grant Thornton team members are:

Barrie Morris

Engagement Lead

T: 0117 3057708

E: [barrie.morris@uk.gt.com](mailto:barrie.morris@uk.gt.com)

Michelle Burge

Manager

T: 0117 3057885

E: [michelle.burge@uk.gt.com](mailto:michelle.burge@uk.gt.com)

Rob Patterson

In Charge Auditor

T: 0117 3057767

E: [rob.j.Patterson@uk.gt.com](mailto:rob.j.Patterson@uk.gt.com)

## Section

1. Executive Summary
2. Audit of the Accounts
3. Value for Money conclusion

## Page

- 3  
5  
8

## Appendices

- A Reports issued and fees

# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at West of England Combined Authority (the Authority) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority's Audit Committee as those charged with governance in our Audit Findings Report on 12 July 2018.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Authority's financial statements to be £429,000 which is 1% of the Authority's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the Authority's financial statements on 13 July 2018. This means we reported that in our opinion: <ul style="list-style-type: none"><li>• The Combined Authority's financial statement gave a true and fair view of the Combined Authority's financial position and expenditure and income for the year.</li><li>• The financial statements had 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>
<b>Whole of Government Accounts (WGA)</b>	We completed work on the Authority's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 13 July 2018.
<b>Certificate</b>	We certify that we have completed the audit of the accounts of West of England Combined Authority in accordance with the requirements of the Code of Audit Practice.

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

---

# Executive Summary

## **Working with the Authority**

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the accounts 18 days before the deadline, releasing your finance team for other work.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

**Grant Thornton UK LLP**  
**August 2018**

---

# Audit of the Accounts

## Our audit approach

### Materiality

In our audit of the Authority's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Authority's accounts to be £429,000, which is 1% of the Authority's gross revenue expenditure. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration. Due to public sensitivity we chose a level of £10,000 which is the equivalent of two bands within the remuneration note.

We set a lower threshold of £21,450, above which we reported errors to the Audit Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check they are consistent with our understanding of the Authority and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Accounts

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of pension fund net liability</b> Following the transfer of staff to the Authority on the 1 May 2018 on a 'fully funded basis' the draft accounts included a larger than expected net pension liability of £1.7m.</p> <p>The Combined Authority's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risks of material misstatement.</li> <li>reviewed the competence, expertise and objectivity of the actuary who carried out the Combined Authority's pension fund valuation.</li> <li>gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> <li>Obtained assurance from the auditor of Avon Pension Fund on the controls in place over the accuracy of information provided to the actuary.</li> </ul>	<p>The accounting entry for the effect of the 'business combination' (transfer of staff) was not disclosed correctly within 'other comprehensive income and expenditure or within the movement in reserves statement. This was corrected in the final version of the financial statements.</p> <p>The financial statement were amended to include employer pension contributions in relation to LEP and Invest in Bath and Bristol employees within the comprehensive income and expenditure account matched by grant funding.</p>
<p><b>Management override of internal controls</b></p> <p>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. The Combined Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we;</p> <ul style="list-style-type: none"> <li>reviewed accounting estimates, judgements applied and decisions made by management and considered their reasonableness</li> <li>obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness</li> <li>reviewed unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any issues in respect of management override of controls. In particular the findings of our review of journal controls and testing of journals entries has not identified any significant issues.</p>

---

# Audit of the Accounts

## **Audit opinion**

We gave an unqualified opinion on the Authority's financial statements on 13 July 2018, in advance of the national deadline.

## **Preparation of the accounts**

The Authority presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit to the Authority's Audit Committee on 12 July 2018. We identified one adjustment to the financial statements that resulted in no net change in your Statement of Comprehensive Income and Expenditure and a number of disclosure and misclassification amendments.

## **Annual Governance Statement and Narrative Report**

We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

## **Other statutory powers**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts. We have not exercised any of our additional statutory powers or duties.

## **Certificate of closure of the audit**

We are also required to certify that we have completed the audit of the accounts of West of England Combined Authority in accordance with the requirements of the Code of Audit Practice.

---

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Authority in July 2018, we agreed recommendations to address our findings:

- A more detailed medium term financial plan should be developed based on current knowledge and existing funding streams – with potential future scheme and funding separately identified once funding streams and responsibilities are agreed.
- The risk management framework should become embedded across the Authority.
- 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.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.



# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Medium Term Financial Plan (MTFP)</b>            A MTFP for the period 2018/19 –2020/21 is currently being developed by officers. There is a risk that it may not be based on robust assumptions and will therefore not support the delivery of strategic priorities or may not be sufficiently clear to be able to inform decision makers or facilitate effective monitoring.</p>	<p>As part of our work we have:            Reviewed the MTFP to assess the clarity of information provided and the factors used to inform the assumptions that underpin the strategy.</p>	<p>We recognise that the WECA is a new and evolving organisation meaning there are a number of emerging factors which will have an impact on it's financial sustainability and medium term financial plan. Because of this a narrative MTFP was presented to the West of England Combined Authority Committee in February which details the key assumptions and any known increases in income and expenditure.</p> <p>The budget and MTFP narrative are based on robust assumptions including nationally agreed pay awards, inflation, prior period data and demographic considerations. The narrative recognises that a new funding system will be introduced from 2020/21 signalling the end of the current 100% Business Rate Retention Pilot.</p> <p>It will be important to ensure that any new funding responsibilities are aligned to sustainable funding streams and that a more detailed MTFP, supported by appropriate financial information, is developed once funding streams are confirmed. This will need to remain a flexible Plan as new opportunities for projects and funding are identified.</p> <p><b>Appropriate arrangements are in place to plan finances effectively to support the delivery of strategic objectives and inform decision makers.</b></p>

# Value for Money conclusion

## Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Measuring and Monitoring Performance</b> The Combined Authority are developing a strategy to ensure the future of the West of England is 'more productive and better connected'. This will include initiatives and measures to help 'grow the economy in a sustainable way, tackling barrier to growth'</p> <p>The strategy will incorporate key metrics and targets against which its progress will be monitored by the Government and wider stakeholders. There is a risk that the Combined Authority may set measures that are hard to substantiate through robust evidence or that inappropriate measures and targets are developed. There is a further risk that a robust process for monitoring actual delivery against targets is not developed.</p>	<p>As part of our work we have: Reviewed progress made in developing plans and performance metrics to measure and monitor the performance of the Combined Authority.</p>	<p>The Authority has developed an operating framework which sets out the key priorities for clean and inclusive economic growth for 2018/19. A Business Plan has also been developed setting out the key objectives and activities the Authority will deliver during 2018/19 including plans to bring further investment into transport, homes and skills to ensure the West of England is at the forefront of growth and innovation. The plan also includes some reference to activity committed to in future years.</p> <p>This plan includes some high level aspirations for each of the three priority areas. underpinned by a number of detailed actions. Individual service plans for each of the priority areas are currently being developed and work is ongoing to develop a performance management framework so that officers, constituent councils and committees of the authority will be able to assess the performance of the Combined Authority.</p> <p>Some of the objectives are supported by clear measurable metrics against which progress can be monitored. Other objectives are less specific and consequently it is not as easy to determine how success will be measured. Further detailed metrics are being developed as part of the project development.</p> <p>The Authority has been developing a medium term strategy that sits above the annual business plan and translates the 30 year vision which formed the basis for the establishment of WECA and reconciles to the five yearly gateway reviews. However, this has been superceded by recent discussions with the Department for Business, Energy and Industrial Strategy (BEIS) on the development of a Local Industrial Strategy for the West Of England. If agreed, this Local Industrial Strategy may require the business plan to be updated.</p> <p>Recognising 2017/18 was the first full year of operation, good progress has been made to develop priorities, objectives and tasks from which the performance of the Combined Authority can be measured in future years. The Authority will now need to ensure that it monitors its performance through the performance management framework currently being developed.</p> <p><b>Appropriate arrangements are developing to understand and use appropriate performance information to support informed decision making and performance management.</b></p>

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm **there were no fees for the provision of non audit services.**

## Reports issued

Report	Date issued
Audit Plan	30 January 2018
Audit Findings Report	6 July 2018
Annual Audit Letter	9 August 2018

## Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Authority audit	24,200	24,200	n/a
<b>Total fees</b>	<b>24,200</b>	<b>24,200</b>	<b>n/a</b>

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	Nil
- None	
<b>Non-Audit related services</b>	Nil
- None	

## 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.



© 2018 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.