



The Annual Audit Letter for West of England Combined Authority

Year ended 31 March 2019

6 November 2019



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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 2019.

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 16 October 2019.

Our work

Materiality	We determined materiality for the audit of the Authority's financial statements to be £994,000, which was 2% of the Authority's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 25 October 2019.
Whole of Government Accounts (WGA)	We completed work on the Authority's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	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 16 October 2019.
Certificate	We certified that we have completed the audit of the financial statements of West of England Combined Authority in accordance with the requirements of the Code of Audit Practice on 25 October 2019.

Working with the Authority

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

- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements.

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

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.

Audit of the Financial Statements

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 financial statements to be £994,000, which is 2% of the Authority's gross revenue expenditure. We used this benchmark as, in our view, users of 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 of £20,000.

We set a lower threshold of £49,000 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 financial statements to check it is consistent with our understanding of the Authority.

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 was 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 Financial Statements

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>Valuation of net pension liability</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>We:</p> <ul style="list-style-type: none"> • 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. 	<p>Our audit work has not identified any issues in respect of valuation of pension fund net liability. .</p> <p>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 was also made to reflect the actual investment performance in the financial year of the fund (the original IAS 19 calculation was based on an estimate).</p> <p>The Authority agreed to incorporate the revised actuarial valuation into its 2018-19 financial statements. We assessed the reasonableness of the adjustment and were satisfied that the approach and assumptions used by the actuary in the calculation of the estimate were reasonable.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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>Management override of internal controls</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.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the main course of business as a significant risk.</p>	<p>We:</p> <ul style="list-style-type: none"> 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. 	<p>Our audit work at the Authority did not identify any issues in respect of management override of control.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 25 October 2019.

Preparation of the financial statements

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 2019, 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.

During July and August 2019 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. 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.

We issued our opinion on your 2018/19 Statement of Accounts on 25 October 2019. There were a number of minor changes to the accounts, which were contextual in nature, after the accounts were approved by the Audit Committee, as those charged with governance. This resulted in additional delays to the issue of our audit opinion. Whilst we were satisfied that these changes did not require full reapproval by the Audit Committee, in future we would expect that the accounts are fully reviewed prior to their submission to the Audit Committee for approval.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Authority's Audit Committee on 16 October 2019.

In addition to the key audit risks reported above, we identified adjustments to the financial statements that 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 result of the adjustments. We also raised recommendations for management as a result of our audit work that we have asked the Authority's management to address for the next financial year (see appendix B).

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.

Whole of Government Accounts (WGA)

We carried out work on the Authority's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Authority was below the audit threshold.

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 certified that we have completed the audit of the financial statements of West of England Combined Authority in accordance with the requirements of the Code of Audit Practice on 25 October 2019.

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 risks where we concentrated our work.

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

As part of our Audit Findings report agreed with the Authority in October 2019, we agreed recommendations to address our findings.

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 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Medium Term Financial Plan (MTFP)</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>As part of our work we have:</p> <p>Reviewed 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. 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. 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. 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.</p> <p>Conclusion</p> <ul style="list-style-type: none"> • 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. • 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.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Measuring and Monitoring Performance</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>As part of our work we: Will review progress made in developing and monitoring performance metrics to measure and monitor the performance of the Combined Authority.</p>	<p>The Authority has published an Operating Framework and business plan centred around WECA's objectives. 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. Progress in delivering the business plan is reported quarterly to WECA and Joint Committee.</p> <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. WECA have recently produced a four year, prioritised investment programme, each approved scheme business case has it's own monitoring and evaluation plans.</p> <p>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.</p> <p>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.</p> <p>Conclusion</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. 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.</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	February 2019
Audit Findings Report	October 2019
Annual Audit Letter	November 2019

Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	18,634	18,634	24,200
Additional fee*		18,500	
Total fees	18,634	37,134	24,200

*Additional audit fees are subject to confirmation by PSAA.

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £18,634 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Pensions – IAS 19	The Financial Reporting Authority has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,500
Additional fees due to delayed information	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.	17,000
Total		18,500

Fee variations are subject to PSAA approval.

A. Reports issued and fees continued

We confirm there were no fees for the provision of non audit services.

Fees for non-audit services

Service	Fees £
Audit related services - None	Nil
Non-Audit related services - None	Nil

B 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	 Red	<ul style="list-style-type: none"> Draft accounts that the Authority or accounts preparation team (PWC) had confidence in was not available from the start of the audit and, consequently, the delivery of the audit was deferred by mutual agreement, to September 2019. This resulted in delays in the progress of the audit. 	<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>Management response</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	 Amber	<ul style="list-style-type: none"> 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. Plans have been developed to prioritise resources to 2022/23 and detailed projects are developing. 	<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>Management response</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

B Action plan (continued)

Assessment	Issue and risk	Recommendations
<p>3</p> <p>●</p> <p>Amber</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>Management response</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>
<p>4</p> <p>●</p> <p>Amber</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>Management response</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



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