



Audit, Risk & Assurance Committee

Date: Monday 19 April 2021

Time: 10.00 am **Public meeting** Yes

Venue: This meeting will take place virtually using Microsoft Teams.
[Click here to view the meeting.](#)

If you have any queries about this meeting, please contact:

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SUPPLEMENTARY AGENDA

No.	Item	Presenting	Pages	Time
Meeting Business Items				
Business Items for Noting/Approval				
9.	External Audit Plan	Grant Thornton	1 - 24	11:10

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Audit, Risk & Assurance Committee

Date	19 April 2021
Report title	West Midlands Combined Authority External Audit Plan 2020/21
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
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Report to be considered by	Audit, Risk & Assurance Committee

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note the External Audit Plan for the year ending 31 March 2021 presented by Grant Thornton.
- (2) Note the proposed fee increase for the year ending 31 March 2021.

1. Purpose

The External Audit Plan provides an overview of the planned scope and timing of the statutory audit of the West Midlands Combined Authority for those charged with governance.

The National Audit Office has issued a document entitled Code of Audit Practice ('the Code') which summarises where the responsibilities of auditors begin and end and what is expected of the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of responsibilities issued by Public Sector Audit Appointments, the body responsible for appointing Grant Thornton as auditor of West Midlands Combined Authority.

The scope of the audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). Grant Thornton are responsible for forming and expressing an opinion on the:

- Group's financial statements that have been prepared by management with oversight of those charged with governance (Audit, Risk and Assurance Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in its use of resources.

The audit of the financial statements does not relieve management or Audit, Risk and Assurance Committee of their responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. Grant Thornton have considered how the Authority is fulfilling these responsibilities.

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

2. Financial Implications

There are no financial implications arising from this report.

3. Legal Implications

There are no legal implications arising from this report.

4. Equalities Implications

There are no equalities implications arising from this report.

5. Inclusive Growth Implications

There are no inclusive growth implications arising from this report.

6. Geographical Area of Report's Implications

There are no geographical area implications arising from this report.

7. Other Implications

There are no other implications arising from this report.

8. Schedule of Background Papers

8.1 External Audit Plan year ending 31 March 2021

West Midlands Combined Authority audit plan

Year ending 31 March 2021

West Midlands Combined
Authority
19 April 2021
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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 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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Key matters

Factors

Authority developments

The Authority continues to operate in an uncertain and challenging environment due to changes to Government funding and the global pandemic. The Authority continues to balance service delivery with the need to drive efficiencies. Financially the Authority is forecasting an underspend of £3m for 2020/21 and has set a balanced budget for 2021/22.

The balanced budget position for 2021/22 has been achieved by using the predicted £3m underspend in 2020/21 to support the 2021/22 budget. The Director of Finance has also highlighted that this budget protects existing policy and services, but it doesn't deliver on the wider aspirations of the Authority. The Medium Term Financial Plan sets out a significant challenge, with gaps of £19.2m identified for 2022/23, rising to £32.2m for 2025/26.

At a national level, the UK left the European Union (EU) on 1 January 2021 although uncertainty remains over the country's trading relationship with the EU which could have implications for the supply chain and on EU nationals employed directly or indirectly by the Authority. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on the supply of any imported goods and equipment and overseas staff.

The Authority are nearing the completion of their five year gateway review on the devolution deal and are currently awaiting the outcome from Central Government.

The Authority's CEO has recently announced that she will be leaving in the summer to join Birmingham City Council. We do not envisage this having a significant impact on our audit requests as the Authority's senior team is now established and our key contacts within the Authority's Finance team will remain consistent.

Impact of Covid 19 pandemic

The current lockdown restrictions mean that we will have to continue to work completely remotely for a longer period and potentially through much of the audit for 2020-21. Working in cooperation with the Authority, we managed this effectively for the 2019-20 audit and we will be in regular contact with your finance team in respect of the logistics of these arrangements for our 2020-21 programme of audit work. We aim to build on our experience from last year. As restrictions ease we will consider the implications for how this impacts on how we complete the audit.

Financial Reporting and Audit – raising the bars

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing. Our work in 2019/20 has highlighted areas where Local Government financial reporting, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of financial transactions in the Local Government sector which require greater audit scrutiny.

Adoption of new auditing standards - Estimates

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As we explain in more detail on p.8 this will require greater disclosure by the Authority as well as additional

work by the auditor.
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Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance.
- As previously reported the Code has changed in relation to VFM. We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Midlands Combined Authority ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of West Midlands Combined Authority. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Risk and Assurance Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit, Risk and Assurance Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

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

Group Audit

The Authority is required to prepare group financial statements that consolidate the financial information of both Midland Metro Limited and WM5G.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Revenue and expenditure recognition (rebutted);
- Management override of controls; and
- Valuation of net pension fund liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £5.8m (PY £6.8m) for the group and £5.5m (PY £6.5m) for the Authority, which equates to 1.8% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £290k (PY £340k) for the group and £275k (PY £325k) for Authority.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risk of significant weakness:

- Financial Sustainability

Audit logistics

Our planning visit will take place in March and our final visit will take place in June and aim to conclude in July, with the exception of the receipt of assurances from the pension fund auditor. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £66,805 (PY: £55,975) for the Authority, subject to the Authority delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
West Midlands Combined Authority	Yes	Audit of the financial information of the component using component materiality	As set out on page 4	Full scope audit performed by Grant Thornton UK LLP
Midland Metro Limited (MML)	No	Specified audit procedures relating to significant risks of material misstatement of the group financial statements	Management override of controls	<p>Specific scope procedures to be performed by the component auditor. (BDO)</p> <p>The nature, time and extent of our involvement in the work of BDO will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the audit documentation and meeting with appropriate members of management.</p>
WM5G Ltd	No	Specified audit procedures relating to significant risks of material misstatement of the group financial statements	Management override of controls	<p>Specific scope procedures to be performed by the component auditor. (Cooper Parry)</p> <p>The nature, time and extent of our involvement in the work of Cooper Parry will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the audit documentation and meeting with appropriate members of management.</p>

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Key changes within the group:

The group structure remains unchanged from the prior year. In addition to the companies identified above for consolidation, the Authority also has West Midlands Development Capital Limited which is not included within the group on the basis of materiality, West Midlands Growth Company which is accounted for as an investment and West Midlands Rail Limited which is accounted for as an associate. The following two companies are dormant Network West Midlands Limited and Midlands Development Capital Limited. Midland Metro (TWO) Limited was dissolved in March 2020.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>The revenue cycle includes fraudulent transactions (rebutted)</p> <p>Risk relates to both the Group and the Authority</p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including West Midlands Combined Authority mean that all forms of fraud are seen as unacceptable. 	<p>No specific work is planned as the presumed risk has been rebutted.</p>
<p>The expenditure cycle includes fraudulent transactions (rebutted)</p> <p>Risk relates to both the Group and the Authority</p>	<p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <p>"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p> <p>We have rebutted this presumed risk for West Midlands Combined Authority because:</p> <ul style="list-style-type: none"> • expenditure is well controlled and the Authority has a strong control environment; and • the Authority has clear and transparent reporting of its financial plans and financial position to the Board. <p>We therefore do not consider this to be a significant risk for West Midlands Combined Authority.</p>	<p>No specific work is planned as the presumed risk has been rebutted.</p>

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Management override of controls</p> <p>Risk relates to both the Group and the Authority</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 course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test high risk unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
<p>Valuation of the pension fund net liability</p> <p>Risk relates to the Authority only</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 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 will:</p> <ul style="list-style-type: none"> • update 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; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test 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; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of the West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required 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 ARAC 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?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Authority we have identified the following material accounting estimates for which this is likely to apply:

- Depreciation
- Valuation of defined benefit net pension fund liabilities

The Authority's Information systems

In respect of the Authority's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Authority uses management experts in deriving some of its more complex estimates, e.g. pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Authority (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.





Estimation uncertainty

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Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have worked with management to produce the Informing the Audit Risk Assessment report which included the details of the estimates that management are planning to make in the production of the financial statements. This will be reported as a separate item on the agenda for ARAC.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Authority under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

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Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate.

Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Authority's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report. We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Authority's subsidiary's. If such a situation arises, we will consider our audit response for the group.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £5.8mm (PY £6.8m) for the group and £5.5m (PY £6.5m) for the Authority, which equates to 1.8% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25k for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

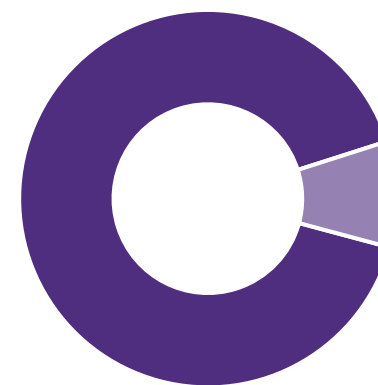
Matters we will report to the Audit, Risk and Assurance Committee (ARAC)

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to ARAC any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £290k for the group (PY £340k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to ARAC to assist it in fulfilling its governance responsibilities.

Forecast gross operating costs

£306m Authority



■ Forecast gross operating costs

Materiality

£5.8m

Group financial statements materiality (PY: £6.8m)

£5.5m

Authority financial statements materiality (PY: £6.5m)

£290k

Misstatements reported to the ARAC Committee (PY: £340k)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness

More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach

- The replacement of the binary approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.



Financial Sustainability

The Authority has set a balanced budget for 2021/22. To reach a balanced budget position a gap of £18.9m needed to be closed. This was achieved through a combination of additional government grants, identifying efficiencies and a use of earmarked reserves. The medium financial outlook is more uncertain, with budget gaps of £19.2m identified for the 2022/23 financial year rising to £32.2m in 2025/26.

We will review the plans the Authority has in place to close the gaps, paying particular attention to the robustness of any savings plans.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

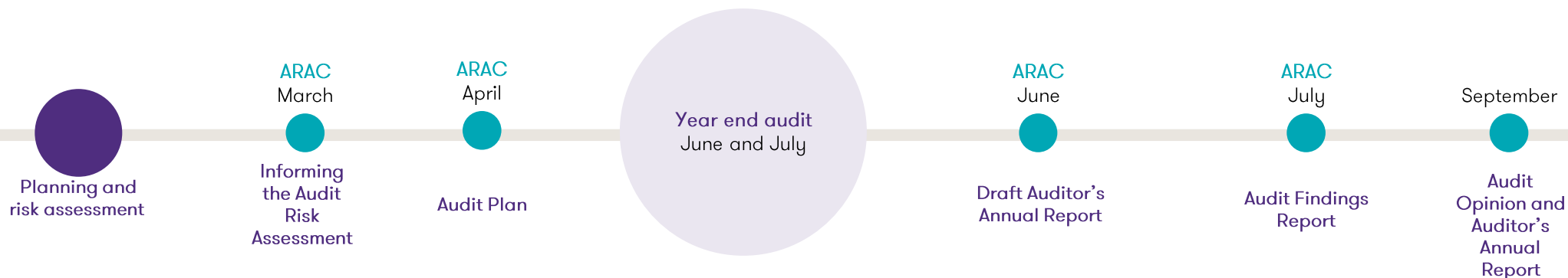
The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



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Grant Patterson, Key Audit Partner

Grant is the engagement leader, taking overall responsibility for ensuring we provide a high quality service. He will work with Helen and the audit team to ensure we have fulfilled our responsibilities as your auditor and sign the audit opinion and auditor's annual report.



Helen Lillington, Audit Manager

As manager, Helen will manage the audit process and work with officers and our on-site team to ensure the smooth planning and delivery of the audit. She will oversee the on-site team and discuss any issues with your during the audit process as well as any questions that you may have throughout the year



Ellena Grant-Pearce, Audit Incharge

Ellena will be the on site first point of contact and will work with the team to gather the necessary evidence and complete the audit testing in advance of both the manager and engagement lead review.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

PSAA awarded a contract of audit for West Midlands Combined Authority to begin with effect from 2016/17. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 13, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf. MHCLG have acknowledged, via their response to Redmond, that audit fees need to increase due to the additional work being undertaken by auditors and the pressure on the audit market. Funding of £15m is being provided to local government to cover these additional costs in 2020/21.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
West Midlands Combined Authority Audit	£46,500	£55,975	£66,805
Total audit fees (excluding VAT)	£46,500	£55,975	£66,805

Please note that these proposed fees are subject to approval by PSAA in line with the Terms of Appointment.

Assumptions

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£35,805
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors (including group accounts, additional VFM risks, increased testing and liaison with ARAC)	£8,000
Enhanced audit procedures for Net Pensions Liability	£1,750
Increased audit requirements of PP&E and accounting standards	£945
Total Proposed Fee at 2019/20 Audit Planning	£46,500
Covid-19 Related Fee Increase at Audit Conclusion	£6,975
Specific Additional Fee in respect of Land Fund Accounting	£2,500
Final Audit Fee 2019/20	£55,975
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£15,000
Increased audit requirements of revised ISAs and group procedures	£5,305
Proposed increase to agreed 2019/20 Planned Fee	£20,305
Total audit fees (excluding VAT)	£66,805

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and component audit firms providing services to the Authority.

Other services

The following other services provided by Grant Thornton were identified.

Grant Thornton UK LLP has been appointed by the Department for Transport (DfT) to carry out work in connection with the reconciliation exercise for Light Rail Revenue Grants (LRRGs) distributed to four Combined Authorities / Passenger Transport Executives and one local authority.

A Grant Thornton team separate to the audit team will prepare an analysis of the LRRG paid to West Midlands Combined Authority (WMCA) and its wholly-owned subsidiary Midland Metro Limited (MML) which operates the Midland Metro network. The analysis will determine whether further grant is payable to WMCA and onto MML or whether grant needs to be reclaimed.

We recognise that as WMCA's auditor there is the potential for perceptions of a conflict of interest in undertaking this work i.e. if it identifies areas that should have been picked up through audit work on the Authority's accounts. To mitigate this risk, and following discussions with the Authority's Finance Director, we have established a tripartite agreement which permits the report prepared for the DfT to be shared directly with the Authority. We are therefore satisfied that our independence is maintained.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Authority's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.








None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			None
Non-audit related			
Review of bus and light rail operator grant applications for the DfT. One of the submissions is for Midland Metro via the Combined Authority.	5,000	Self Review Self Interest	The work is part of a much wider remit covering all bus and light rail operators in the UK and so the proposed service fee of £5,000 reflects the WMCA part of a much larger fee. The amount of the grant paid by the DfT to WMCA (who then pay it to MML) is less than 5% of the income of WMCA and our role would only ever focus on a small amount of the grant. As such, overall the work for the DfT will be a very small proportion of WMCA's income.
Total	5,000		









Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance




The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	Effective for audits of financial statements for periods beginning on or after 15 December 2021
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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