

AGENDA

No.	Item	Presenting	Pages	Time
Meeting Business Items				
1.	Apologies for Absence	Chair	None	
2.	Declarations of Interest Members are reminded of the need to declare any disclosable pecuniary interests they have in an item being discussed during the course of the meeting. In addition, the receipt of any gift or hospitality should be declared where the value of it was thought to have exceeded £25 (gifts) or £40 (hospitality).		None	
3.	Chair's Remarks	Chair	None	10:00
4.	Minutes of the meeting held on 15 September 2017	Chair	1 - 10	10:05
5.	Matters Arising (a) Health and Safety Issues (b) Whistleblowing (c) Approval of WMCA Accounts 17/18 ARAC Membership (minute no. 4 refers)	Tim Martin Tim Martin Tim Martin	Verbal Report	10:10
6.	Forward Plans	Chair	11 - 18	10:15
7.	An early insight into the CA and its priorities from the new management team and how ARAC may best contribute	Julia Goldsworthy	Verbal Report	10:20
Business Items for Discussion/Understanding				
8.	Delegation of Statement of Accounts Approval	Linda Horne	19 - 22	10:25
9.	Grant Thornton - The Annual Audit Letter for the West Midlands Combined Authority	Grant Patterson	23 - 38	10:35
10.	Grant Thornton - Progress Report and Update Year ended 31 March 2017	Grant Patterson	39 - 60	10:45
11.	Audit, Risk and Assurance Committee Self-Assessment Exercise	Peter Farrow	None	10:55
Business Items for Noting/Approval				
12.	WMCA Arm's Length Companies Checklist - Nov 2017	Tim Martin	None	11:10

13.	Internal Audit Update	Peter Farrow	61 - 68	11:20
14.	Internal Audit Charter Review	Peter Farrow	69 - 80	11:30
15.	Capability and Vacancy Risks and Organisational Development Dashboard	Rita Rias	Verbal Report	11:40
16.	Exclusion of the Public and Press To pass the following resolution: That in accordance with Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information relating to the financial or business affairs of any particular person (including the authority holding that information)		None	
17.	Devolution Deals Update	Tim Martin	Verbal Report	11:50
18.	Commonwealth Games Update	Tim Martin	Verbal Report	12:00
19.	Transport for the West Midlands Network Emergency Planning	Mark Babington	81 - 86	12:10
Date of Next Meeting				
20.	Friday 19 January 2018		None	

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Audit, Risk & Assurance Committee

Friday 15 September 2017 at 10.00 am

Minutes

Present

David Lane (Chair)	
Councillor Craig Collingswood (Vice-Chair)	City of Wolverhampton Council
Councillor Sucha Bains	Coventry City Council
Councillor Margaret Bassett	Solihull Metropolitan Borough Council
Councillor Keith Chambers	Walsall Metropolitan Borough Council
Sean Farnell	Coventry & Warwickshire LEP
Councillor John Fisher	Redditch Borough Council
Councillor Mariam Khan	Birmingham City Council
Councillor Alexander Phillips	Shropshire Council
Councillor June Tandy	Nuneaton & Bedworth Borough Council
Councillor Jackie Taylor	Sandwell Metropolitan Borough Council

In Attendance

Nicola Coombe	Grant Thornton
Louise Cowen	West Midlands Combined Authority
Linda Downes	Nuneaton & Bedworth Borough Council
Linda Horne	West Midlands Combined Authority
Peter Farrow	City of Wolverhampton Council
Tim Martin	West Midlands Combined Authority
Grant Patterson	Grant Thornton
Lorraine Quibell	West Midlands Combined Authority
Joti Sharma	West Midlands Combined Authority

Item Title

No.

1. Appointment of Vice-Chair

The committee appointed Councillor Craig Collingswood as Vice-Chair of Audit, Risk & Assurance Committee for 2017/18.

2. Apologies for Absence

Apologies for absence were received from Councillor Kerrie Carmichael (Sandwell Metropolitan Borough Council) (Councillor Jackie Taylor attended as substitute for Councillor Kerrie Carmichael), Councillor Steve Clark (Dudley Metropolitan Borough Council) and Councillor Maureen Freeman (Cannock Chase District Council).

3. Declarations of Interest

No declarations of interest were made in relation to matters under

consideration at the meeting.

4. Calendar of Meetings 2017-18

The committee considered the schedule of meetings for the Audit, Risk and Assurance Committee for 2017-18.

It was noted that a report would be presented to the West Midlands Combined Authority Board delegating responsibility to its Audit, Risk and Assurance Committee to approve the WMCA Annual Accounts and Pension Fund Accounts. The Head of Finance added that a report on the delegation of approving the accounts would be submitted to Audit, Risk & Assurance Committee on 17 November. The appropriate training would be incorporated in to the 2017/18 work programme. The Chair asked if members would mind if this training was added to the length of the meeting so that the time allocated for the main agenda was not reduced. The committee agreed this approach.

Recognising that there was a timing issue with the signing off on the WMCA Annual Accounts and the change of membership to the authority's committees during the summer period, the committee requested that a report be submitted to its meeting on 17 November as to how the accounts could be approved with the current membership of the committee. The Head of Governance undertook to look into this further.

The Head of Finance proposed a change to the calendar of dates to meet the financial approval timings and in terms of the draft accounts, these would be circulated to members of the committee via email during May 2018 for consideration and comments.

Resolved

- (1) The dates for meetings of this committee for 2017-2018 be agreed as set out below:

17 November 2017
19 January 2018
16 March 2018
21 June 2018

- (2) An additional meeting of the committee be held during July 2018 to formally approve the WMCA Annual Accounts.
- (3) Recognising that there was a timing issue with the signing off on the WMCA Annual Accounts and the change of membership to the authority's committees during the summer period, a report be submitted to the next meeting as to how the accounts could be approved with the current membership of the committee.

5. Chair's Remarks

(a) Audit, Risk & Assurance Committee - Attendance

The Chair highlighted the importance of member attendance at meetings of the Audit, Risk and Assurance Committee and reminded the committee of the quorum.

(b) Mayoral Address - 15 September 2017

The Chair reported on the forthcoming Mayoral Address that would be held on Friday 15 September at 16 Summer Lane, and encouraged members of the committee to engage and raise any questions that they may have.

(c) The Chair's Meetings

The Chair provided an update on his meetings with Andrew Browning, the Mayor's Chief of Staff and Sean Pearce, Director of Finance for the WMCA.

Resolved

- (1) The Chair to write to Leaders after each meeting, updating them on individual attendance.
- (2) The Director of Finance to be asked to attend November's meeting of the committee to talk through his vision and what he was hoping from the Audit, Risk & Assurance Committee. The committee noted that it would like the opportunity for an annual meeting with the Mayor and Chief Executive.

6. Minutes of the meeting held on 16 June 2017

The minutes of the meeting held on 16 June 2017 were agreed and signed by the Chair as a correct record.

7. Matters Arising

(a) Health and Safety Issues and Whistleblowing

The Head of Governance assured the committee that it would be notified of any health and safety or whistleblowing issues.

(b) Briefing Note – Pension Fund Liability Future Funding

The committee received a briefing note of the Head of Finance on the Pension Fund Liability Future Funding.

8. Forward Plan

The committee considered a report on agenda items to be submitted to future meetings.

The committee enquired as to whether it could have sight of the WMCA Board and the WMCA Overview and Scrutiny Committee's Forward Plans. The Governance Services Officer agreed to include these with all future papers for the committee.

It was agreed that the following items were to be included on the forward

plan.

17 November 2017 Meeting

- Commonwealth Games 2022 - WMCA's Approach to Risk and Assurance including accountability, operational, reputational and financial risks.
- WMCA Annual Accounts – how the accounts could be approved with the current membership of the committee.
- A report on the delegation of approving the accounts.
- Strategic Risk Register - Exception Report

16 March 2018

- WMCA Business Continuity & Resilience Arrangements.

May 2018

- Draft WMCA Annual Accounts to be circulated to all members of the committee via email.

Resolved

- (1) The report be noted.
- (2) The draft accounts to be circulated to all members of the committee via email during May 2018 for review and comments prior to them being formally approved by the committee in July 2018.
- (3) Appropriate training for members of the committee to be incorporated within the forward plan.

9. **The Role of the Combined Authority in Air Quality**

The committee considered a report of the Head of Governance that outlined what responsibility the Combined Authority had in relation to air quality in the West Midlands area.

Resolved

- (1) The information within the report regarding the role of the Combined Authority in Air Quality issues be noted.
- (2) It be recommended that the WMCA Overview & Scrutiny Committee review this area of work to ascertain whether there was a policy to support the requirements to improve air quality. The Chair to liaise with Councillor Peter Hughes, Chair of the WMCA Overview & Scrutiny Committee.

10. **Internal Audit Update**

The committee considered a report of the Chief Audit Executive on the recent work that had been completed by internal audit.

The Internal Auditor advised the committee on the new reporting arrangements to be introduced and provided an overview of the audits and ratings provided to each of the reviews as follows:

- Programme Management Office Project Appraisal and Support functions - 2017/18 - Satisfactory Assurance
- Transport for West Midlands Capital Programme Prioritisation 2017/18 – Satisfactory Assurance
- Expenses, Gifts and Hospitality 2017/18 – Satisfactory Assurance

Councillor Craig Collingswood referred to an audit on the Programme Management Office project appraisal and support functions and questioned whether the agreed actions were on track to be completed by 31 October 2017. The Corporate Assurance Manager explained that progress had been made in respect of the recommendations within the report and once in post, a review of the progress made to date would be undertaken by the Director of Finance.

In respect of the Commonwealth Games, Councillor Craig Collingswood enquired as to how the West Midlands Combined Authority would ensure that its members and officers were declaring any gifts. It was the responsibility of the West Midlands Combined Authority to remind its members and officers to ensure that all gifts were declared and registered. If the Authority became aware of a whistleblowing concern or by a 3rd party that a member had not declared a gift, then the matter would become a code of conduct issue. Sean Farnell added that it was important for the West Midlands Combined Authority to have a visible register of interest.

The Head of Finance agreed to confirm whether all members of the West Midlands Combined Authority had received a copy of the Gifts and Expenses policy and would also clarify whether the policy extended to immediate family members.

Resolved

(1) The Internal Audit reports were noted.

11. Strategic Risk Register

The committee considered a report of the Director of Finance that supported the committee with its responsibility of providing oversight of Risk Management within the West Midlands Combined Authority.

The Corporate Risk & Business Assurance Specialist explained that the Strategic Risk Register would be reviewed again once the WMCA leadership team was appointed. It was agreed that an exception report on the Strategic Risk Register was to be presented to November's meeting of the committee followed by a further report in January 2018.

(1) The contents of the Risk Register be noted.

(2) An exception report on the Strategic Risk Register to be presented to the committee on 17 November 2017.

(3) It be noted that the Strategic Risk Register would be reviewed again once the new WMCA leadership team had been in post for a few months.

12. WMCA Assurance Overview September 2017

The committee considered a report of the Director of Finance on the WMCA's Corporate Assurance Manager's opinion on the Authority's systems of Project & Programme Assurance and Business Assurance for this reporting period April 2017 – August 2017.

The Chair noted that as the West Midlands Combined Authority was still evolving and recognising that there were plans in place to recruit to senior posts, it was proposed that an exception report on recruitment be presented to the November meeting of the committee.

Resolved

(1) The assurance reviews and activities that had been undertaken in the last quarter be noted.

(2) The committee was satisfied with the assurance activity April – August 2017.

(3) The risk and assurance processes and reporting would be reviewed again once the WMCA leadership team was appointed be noted.

13. Date of Next Meeting

Friday 17 November 2017 at 10:00am.

14. Exclusion of the Public and Press

Resolved that in accordance with Section 100A(4) of the local Government Act 1972 the press and public be excluded from the meeting for the following items of business as it involved the likely disclosure of exempt information relating to the financial or business affairs of any particular person (including the authority holding that information)

15. WMCA Growth Company Assurance Arrangements

The committee considered a report of the Corporate Assurance Manager on the assurance arrangements for the West Midlands Combined Authority Growth Company.

On 16 June 2017 Audit Risk & Assurance Committee received a report confirming the legal status of all arm's length companies. As the West Midlands Growth Company was the only live company at the time, the committee requested a report on its assurance arrangements.

The Corporate Assurance Manager explained that the West Midlands Combined Authority had been in dialogue with the West Midlands Growth Company who had now outlined the assurance arrangements that were in place. The company had agreed to share any risks that were pertinent to the West Midlands Combined Authority and at the end of the financial year would provide an assurance report (Annual Governance Statement) to the WMCA's Audit, Risk & Assurance Committee.

The Growth Company Board membership consisted of each Metropolitan Authority and West Midlands Combined Authority representation. The Corporate Assurance Manager agreed to share the membership details of the Board with the Audit, Risk & Assurance Committee for information.

There were a number of other organisations that were currently dormant and the West Midlands Combined Authority would work in conjunction with the Chair of the Audit, Risk & Assurance Committee to develop a template for how audit should be handled by the subsidiary bodies in order to give confidence and consistency to the committee.

The committee requested that a diagram be prepared that set out the organisational relationship between the WMCA and the arm's length organisations. The Head of Finance undertook to provide this information to the committee.

Resolved:

- (1) The Growth Company internal assurance arrangements be accepted.
- (2) The financial year for live and emerging companies be aligned to the current 31st March deadline.
- (3) It be noted that any risks on the Growth Company's Corporate Risk Register that could impact the West Midlands Combined Authority would be escalated onto the West Midlands Combined Authority's Strategic Risk Register.
- (4) The Growth Company Annual Governance Statement be copied in to note alongside the West Midlands Combined Authority's Annual Governance Statement, so that this committee would be the single source of audit and risk assurance to the West Midland's Combined Authority Board.
- (5) A template for how audit should be handled by these subsidiary bodies be produced in order to give confidence and consistency to the committee when the Annual Governance Statement and external audit report was submitted.

16. Commonwealth Games Bid and the Implications for ARAC Responsibilities

The committee considered a report of the Head of Governance on the relationship between the Combined Authority and the consortium bidding to host the Commonwealth Games in 2022 in the West Midlands, with particular emphasis on the responsibilities of the Audit, Risk & Assurance Committee.

Birmingham had been selected as the preferred UK City for a bid to host the 2022 Commonwealth Games. Birmingham City Council had put together a bid on behalf of the West Midlands and dialogue continued with regard to forming a funding package.

The committee noted that the funding contribution provided by the West Midlands Combined Authority for the Commonwealth Games bid would be subject to the Authority being confident that the appropriate governance and assurance arrangements were in place. The committee considered that the WMCA's contribution would also create a perception that the Authority was leading the development and delivery of the programme resulting in a strong reputational risk.

Councillor Craig Collingswood considered that there was a need to closely monitor the development and delivery of the programme, as the Authority was committed to various programmes and it was possible that the Authority might be asked for additional funds to fund the delivery of the Commonwealth Games.

The committee requested that a report be presented on the WMCA's approach to risk and assurance, including accountability, operational (to include transport), reputational and financial risks, if Birmingham's bid was successful to host the Commonwealth Games in 2022.

Resolved

- (1) The information within the report be noted.
- (2) That the risk profile be kept under review.
- (3) A report to be presented to the next meeting on the WMCA's approach to risk and assurance including accountability, operational, reputational and financial risks, if Birmingham's bid was successful to host the Commonwealth Games in 2022.
- (4) Because of the size of the perception risk to the West Midlands Combined Authority, the Audit, Risk & Assurance Committee might wish to see a written update regularly.

17. WMCA Business Continuity Assurance Arrangements

The committee considered a report of the Corporate Assurance Manager on the coordination for the Business Continuity for the West Midlands Combined Authority.

The Corporate Assurance Manager outlined the business continuity and resilience arrangements that were in place for the West Midlands Combined Authority and noted the steps that would be undertaken in the event of a major disaster that would inhibit the operation of the West Midlands Combined Authority.

Councillor Alexander Phillips proposed that the West Midlands Combined Authority undertake a test of its internal and external systems and that the Commonwealth Games be used as a scenario in which the Authority would be able to test its processes in the event of international or central government involvement. The West Midlands Combined Authority in conjunction with a specialist consultant was currently developing an exercise to be undertaken on 30 October 2017 to test the continuity and resilience arrangements in the event of a potential incident that would impact the ability to continue to operate at 16 Summer Lane, Birmingham.

The Chair proposed that the WMCA Business Continuity and Resilience arrangements should be reviewed again once the WMCA leadership team was appointed and that an exception report be presented to Audit, Risk & Assurance Committee on 16 March 2018.

With regard to the Health Commission, the Chair requested that the West Midlands Combined Authority ensured that its Equalities and Diversity Manager had a role in respect of business continuity and resilience arrangements so that the right level of support was available in the event of an incident. Future reports should also consider authorities closely aligned to the Authority.

Resolved

- (1) The business continuity arrangements in place for the West Midlands Combined Authority and the Transport for West Midlands Operational centres be noted.
- (2) That a further report be submitted on the WMCA Business Continuity & Resilience Arrangements on 16 March 2018.
- (3) The WMCA Business Continuity & Resilience Arrangements be reviewed again once the WMCA leadership team was appointed.

The meeting ended at 12.00 pm.

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Agenda Item 6

WMCA Audit, Risk & Assurance Committee Forward Plan

The forward plan will be reviewed and amended on a regular basis to take into account the Combined Authority's priorities and changing activities.

Date	Item	Officer(s)
19 January 2018	Meeting Business Items	
	Business Items for Discussion/Understanding	
	Annual Accounts/Pension Fund Accounts Training	Linda Horne/Grant Patterson
	External Audit – Audit Plan	Grant Patterson
	Devolution 2	Tim Martin
	Health & Safety Responsibilities - Governance Structure	Tim Martin
	Business Items of Noting/Approval	
	External Audit Update	Grant Patterson/Nicola Coombe
	Internal Audit Update	Peter Farrow
	Strategic Risk Register	Lorraine Quibell
	Private Items of Business	
	Cyber Security Report	Paul Beckley
16 March 2018	Meeting Business Items	
	Business Items for Discussion/Understanding	
	Business Items for Noting/Approval	
	WMCA Business Continuity & Resilience	Joti Sharma
	External Audit Update	Grant Patterson/Nicola Coombe

Date	Item	Officer(s)
	Annual Internal Audit Report	Peter Farrow/Sandra Kaylan
	Outturn Report for 2017/18	Tim Martin
	WMCA Annual Governance Statement	Tim Martin
	Internal Audit Update	Peter Farrow
	Internal Audit Plan 2018/19	Peter Farrow
	Private Items of Business	
May 2018	Draft WMCA Annual Accounts will be circulated to all members of the committee via email	
21 June 2018	Meeting Business Items	
	Business Items for Discussion/Understanding	
	Business Items for Noting/Approval	
	Annual Internal Audit Report	Peter Farrow
	Audit Findings	Grant Patterson/Nicola Coombe
	WMCA Annual Accounts Approval	Linda Horne
	Private Items of Business	
19 July 2018 (Additional Meeting)		
May 2019	General Data Protection Regulation - Update	Tim Martin

WEST MIDLANDS COMBINED AUTHORITY FORWARD PLAN: DECEMBER 2017 - JUNE 2018

Title of Report	Description of Purpose	Date of Meeting	Key Decision (Y/N)	Lead Portfolio Holder	Lead Officer	Confidential	Category
Portfolio Performance Reporting	To provide oversight of the latest performance reporting and management.	8 December 2017	No	Mayor	Julia Goldsworthy	No	Delivery
West Midlands Growth Company - Approval of Business Plan	To agree the three year business plan of the West Midlands Growth Company.	8 December 2017	No	Economic Growth	Neil Rami	No	Delivery
Delegation of Annual Accounts Approval	To agree that the approval of the annual accounts be delegated to Audit, Risk & Assurance Committee.	8 December 2017	No	Cllr Izzi Seccombe	Sean Pearce	No	Finance
Extension to Combined Authority Borrowing Powers	To approve of the introduction of regulations by the Government to extend borrowing powers to the WMCA subject to an agreed cap	8 December 2017	Yes	Cllr Izzi Seccombe	Sean Pearce	No	Finance

Title of Report	Description of Purpose	Date of Meeting	Key Decision (Y/N)	Lead Portfolio Holder	Lead Officer	Confidential	Category
Commonwealth Games 2022 Village	To report on land remediation/acquisition funding arrangements.	8 December 2017	Yes	Cllr Izzi Seccombe	Sean Pearce	No	Finance
West Midlands Fire Service Governance Review	To provide an update on progress with the governance review.	8 December 2017	No		Phil Loach	No	Governance
WMCA One Public Estate Programme Update	To report on developments with the WMCA's One Public Estate programme.	8 December 2017	No	Cllr Sean Coughlan	Henry Kippin	No	Public Service Reform
Culture, Creative & Tourism	To provide an update on the work undertaken by the Culture, Creative & Tourism Group.	8 December 2017	Yes	Economic Development	Dave Webb	No	Strategy
Midland Metro Ltd - Approval of Final Business Plan and Commercial Settlement with National Express	To agree the business plan for Midland Metro Ltd and the commercial settlement with National Express.	8 December 2017	Yes	Cllr Roger Lawrence	Laura Shoaf	Yes	Transport

Title of Report	Description of Purpose	Date of Meeting	Key Decision (Y/N)	Lead Portfolio Holder	Lead Officer	Confidential	Category
Amendment to Midland Metro (Penalty Fares) Act 1991	To make changes to the penalty fare in operation on the Midland Metro.	8 December 2017	Yes	Cllr Roger Lawrence	Laura Shoaf	No	Transport
Midland Metro Wednesbury to Brierley Hill extension - Submission of Transport & Works Act Order	To approve the submission of an application for The Midland Metro Midland Metro (Wednesbury to Brierley Hill Land Acquisition) Order to the Secretary of State for Transport	8 December 2017	Yes	Cllr Roger Lawrence	Laura Shoaf	No	Transport
West Midlands Cycle Design Guidance	To report on proposals.	8 December 2017	Yes	Cllr Roger Lawrence	Laura Shoaf/Hannah Martin	No	Transport
Wolverhampton Interchange Project	To provide an update on the project.	8 December 2017	No	Cllr Roger Lawrence	Laura Shoaf/Phil Hewitt	No	Transport

Title of Report	Description of Purpose	Date of Meeting	Key Decision (Y/N)	Lead Portfolio Holder	Lead Officer	Confidential	Category
Governance for Establishing Advanced Quality Bus Partnerships	To change the terms of reference of Transport Delivery Committee to give it authority to approve and make schemes.	8 December 2017	Yes	Cllr Roger Lawrence	Laura Shoaf/Guy Craddock	No	Transport
Portfolio Performance Reporting	To provide oversight of the latest performance reporting and management.	12 January 2018	No	Mayor	Julia Goldsworthy	No	Delivery
Investment Programme Funding	To report on the risks inherent within the financial assumptions for WMCA income streams.	12 January 2018	No	Cllr Izzi Seccombe	Sean Pearce	No	Finance
Portfolio Performance Reporting	To provide oversight of the latest performance reporting and management.	9 February 2018	No	Mayor	Julia Goldsworthy	No	Delivery
Draft Integrated Business Plan & Budget	Consideration of draft integrated plan and budget.	9 February 2018	Yes	Cllr Izzi Seccombe	Sean Pearce	No	Finance

Title of Report	Description of Purpose	Date of Meeting	Key Decision (Y/N)	Lead Portfolio Holder	Lead Officer	Confidential	Category
Consideration of 2018/19 Levy Proposals	Approval of 2018/19 levy.	9 February 2018	Yes	Cllr Izzi Seccombe	Sean Pearce	No	Finance
Consideration of Mayor's Budget & Statutory Capital Spending Plan	Approval of the Mayor's budget and capital spending plans.	9 February 2018	Yes	Cllr Izzi Seccombe	Sean Pearce	No	Finance
Portfolio Performance Reporting	To provide oversight of the latest performance reporting and management.	9 March 2018	No	Mayor	Julia Goldsworthy	No	Delivery
Integrated Business Plan & Budget Approval	Final approval of integrated plan and budget.	9 March 2018	Yes	Cllr Izzi Seccombe	Sean Pearce	No	Finance

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WMCA Board

Date	8 December 2017
Report title	Delegation of Statement of Accounts Approval
Portfolio Lead	Councillor Izzie Seccombe - Finance & Investments
Accountable Chief Executive	Deborah Cadman, Chief Executive of the WMCA Email Deborah.Cadman@wmca.org.uk Tel: 0121 214 7552
Accountable Employee	Sean Pearce, Director of Finance Email Sean.Pearce@wmca.org.uk Tel: 0121 214 7936
Report to be/has been considered by	Audit, Risk & Assurance Committee - 17 Nov 2017 Programme Board - 24 Nov 2017

Recommendation(s) for action or decision:

The WMCA Board is recommended to:

1. Endorse an amendment to the WMCA Constitution, to enable consideration and approval of the WMCA's statutory Statement of Accounts to be delegated to the Audit, Risk & Assurance Committee.

1.0 Purpose

1.1 This report sets out the rationale for recommending an amendment to the WMCA Constitution that will allow delegation of statutory accounts approval to the Audit, Risk & Assurance Committee.

2.0 Background

2.1 In accordance with the Accounts and Audit Regulations 2015, the WMCA is required to prepare and approve the following:

1. its annual statement of accounts; and
2. an annual governance statement.

2.2 Following its preparation, the responsible financial officer (Director of Finance) must sign and date the Statement of Accounts and confirm that they are satisfied that it presents a true and fair view of –

- i) the financial position of the authority at the end of the financial year;
- ii) the authority's income and expenditure for the year.

2.3 Once the statutory accounts preparation is completed, the authority is required to commence the period for the exercise of public rights and notify the local auditor of the date that the period commenced.

2.4 The local auditor, Grant Thornton, is also required to carry out an audit on the annual financial statements.

2.5 The Accounts and Audit Regulations require that the final version of these audited documents are considered and approved either by members of the authority meeting as a whole or alternatively by a committee of the authority.

2.6 The audited Statement of Accounts and the Annual Governance Statement together with the auditor's opinion must then be published on the authority's website by no later than 31st July of the financial year immediately following the end of the relevant financial year.

2.7 Owing to the condensed timetable that the authority is now required to follow, as well as a relatively short amount of time available following their completion for members to consider and approve the Statement of Accounts, it is suggested that the WMCA's Constitution is amended to assign responsibility for considering and approving the Statement of Accounts for the WMCA and the WMITA Pension Fund to the Audit, Risk & Assurance Committee.

2.8 Approval of the Statement of Accounts fits closely with the Audit, Risk and Assurance Committee's existing terms of reference and members already have an understanding of the regulatory background to the approval of the statutory Statement of Accounts having been actively involved in considering the external audit approach to the financial statements that has been adopted by the local audit team at Grant Thornton. Any issues of concern will be raised with the WMCA Board when necessary.

2.9 It is suggested that the WMCA Constitution is now updated to include the following additional NEW functions for Audit, Risk & Assurance Committee, to allow delegation of the Statement of Accounts approval process to the committee so that they can be approved in a timely manner in accordance with the requirements of the Accounts and Audit Regulations 2015:

- i. **To approve the WMCA's annual Statement of Accounts;**
- ii. **To approve the WMITA Pension Fund's annual Statement of Accounts.**

The timetable below sets out the indicative key dates for the 2017/18 Statement of Accounts approval:

Description	Responsible	Date
Finance training for members of ARAC	Finance team	March 2018
Draft Statement of Accounts 2017/18 completed & certificate signed by Finance Director (WMCA & ITA Pension Fund)	Finance team/Director of Finance	May 2018
Financial Statements Audit	Local audit team (Grant Thornton)	May 2018
Consideration and approval of Statement of Accounts	Members of ARAC	June 2018
Publication of Statement of Accounts	Finance team	31 July 2018

3.0 Legal implications

3.1 The WMCA has a statutory obligation to approve and publish its statutory accounts by the statutory deadline. The current route for approval of the accounts under the Constitution is through the Combined Authority Board. To enable the Audit Risk and Assurance Committee to undertake this task, the function needs to be delegated to that committee by the Board as recommended by this report.

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The Annual Audit Letter for West Midlands Combined Authority

Year ended 31 March 2017

October 2017

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Grant Patterson
Director

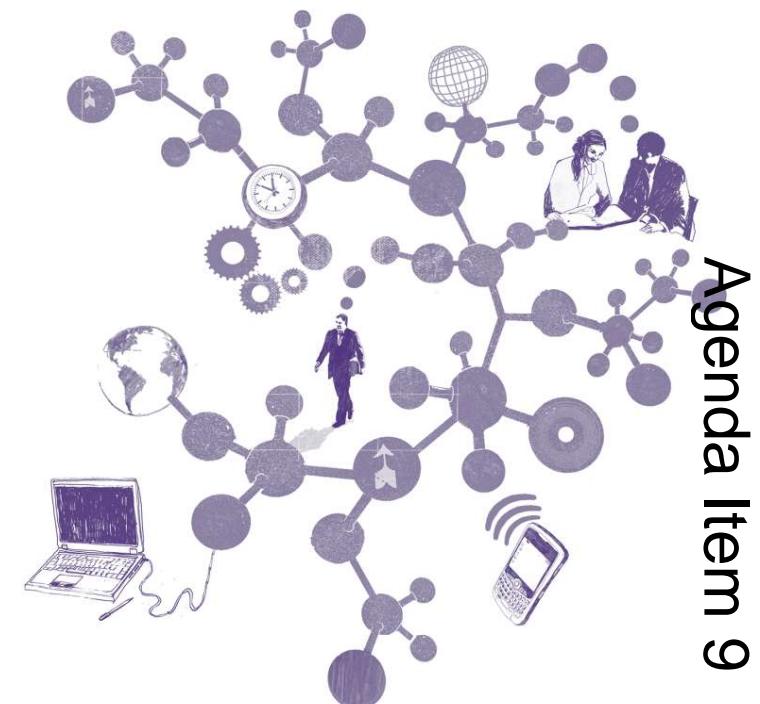
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Agenda Item 9

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Appendices

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- B. Action Plan

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at West Midlands Combined Authority (the 'Authority'), including the West Midlands Integrated Transport Authority Pension Fund (the Pension Fund), for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Authority and its external stakeholders, and highlights issues 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Authority's Audit, Risk and Assurance Committee (as those charged with governance) in our Audit Findings Report on 2 July 2017 and to the WMCA Board on 21 July 2017. In addition, our Audit Findings Report in respect of our work on the Pension Fund was also reported to the West Midlands Pension Fund Pension Committee on 21 June 2017.

Our 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 and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave unqualified opinions on the Authority's and the Pension Fund's financial statements on 26 July 2017.

Value for money conclusion

We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 26 July 2017.

Certificate

We completed our work on confirming that the financial statements contained within the Pension Fund's Annual Report were consistent with the audited financial statements on 11 October 2017. This enabled us to certify that we had completed the audit of the accounts of the West Midlands Combined Authority in accordance with the requirements of the Code on the same date.

Working with the Authority and the Pension Fund

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

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Authority's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 our audit of the Authority's accounts to be £3,976k, which is 1.8% of the Authority's gross revenue expenditure. We used this benchmark, as in our view, users of the Authority's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a threshold of £198k above which we reported errors to the Audit Risk and Assurance Committee.

We also set a lower level of specific materiality for senior officer remuneration, related parties and external audit fees due to increased public interest in these disclosures. For related parties any errors identified in testing were to be assessed and reporting individually as the concept of materiality as applied to related party transactions takes into account what is material to both the Authority and the related party.

Pension Fund

For the audit of the West Midlands ITA Pension Fund accounts, we determined materiality to be £5,029k, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a threshold of £251k above which we reported errors to the West Midlands Pension Fund Pensions Committee .

We set a lower level of specific materiality for certain areas such as benefits payable and contribution of income, management expenses and related party transactions due to increased public interest in these disclosures.

The scope of our audit

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

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Authority and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe 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 accounts - Authority

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>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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 style="writing-mode: vertical-rl; transform: rotate(180deg);">Paper</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition could 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; and • the culture and ethical frameworks of local authorities, including the West Midlands Combined Authority, mean that all forms of fraud are seen as unacceptable. 	<p>Capital grants made to other local authorities, totalling £45,759k in 2016/17, had been included in expenditure on transport services within the Cost of Services. We did not agree with this treatment and the Authority has therefore amended the financial statements accordingly.</p> <p>Revenue and expenditure relating to administration of ticketing schemes have been disclosed on a gross basis, in the financial statements for the first time.</p> <p>Our audit work has not identified any other issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We:</p> <ul style="list-style-type: none"> • reviewed accounting estimates, judgements and decisions made by management • reviewed the journal entry process and selection of unusual journal entries for testing back to supporting documentation • reviewed any unusual significant transactions identified 	<p>Our review and testing of journal controls identified four instances of users posting self-authorised journals during the 2016/17 financial year. The remainder of this testing, and testing of individual journal entries did not identify any other significant issues or instances of management override of controls. We raised a recommendation to ensure that journals are not posted and authorised by the same individual.</p>
<p>The expenditure cycle includes fraudulent transactions</p> <p>Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets.</p> <p>For your Authority, we have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.</p>	<p>We:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of accounting estimates and judgments and other decisions made by management • tested unusual journal entries back to supporting documentation • reviewed any unusual or significant transactions in year 	<p>Revenue and expenditure relating to administration of ticketing schemes have been included in the financial statements on a gross, rather than net basis, for the first time this year. Testing performed on these balances has not highlighted any issues. Our audit work did not identify any other issues in respect of expenditure recognition.</p>

Audit of the accounts – Authority (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
Valuation of pension fund liability The Authority's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	We: <ul style="list-style-type: none">• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.• reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.• undertook procedures to confirm the reasonableness of the actuarial assumptions made.• reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	PwC were engaged by the NAO as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS). PwC's report provides support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2017. We use this report to inform our assessment of the valuation of the pension fund liability in the authority's accounts. We have compared the assumptions used by the Authority's actuary against industry benchmarks. We noted that the assumptions used in relation to the rate of inflation (CPI), the rate of increase in pensions and the discount rate are outside the range of those expected of a typical employer. The assumptions applied are: <ul style="list-style-type: none">• CPI inflation: 2.50% (average of rate used by other actuaries: 2.26%)• Rate of increase in pensions: 2.50% (average rate used by other actuaries: 2.26%)• Discount rate: 2.40% (average rate used by other actuaries: 2.54%) We have discussed the differences with our technical experts and liaised with the Authority's actuary, as to whether the individual variations, when taken together, enable us to conclude that management's assumptions overall are reasonable. We have received satisfactory responses from the actuary to our challenges and on this basis we concluded that management's estimation basis is reasonable and therefore that the valuation of the pension fund liability is not materially misstated.

Audit of the accounts – Authority (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
Transfer of assets and services to a newly formed local government entity On 16 June the West Midlands PTE and ITA (together, Centro) ceased to exist, and the West Midlands Combined Authority was formed. The Authority accounted for as a transfer by merger, which requires disclosure to be made of the positions of Centro and the WMCA before and after the transition.	We: <ul style="list-style-type: none"> • documented and evaluated the process in place at transition to ensure that the recorded position of Centro at 16 June 2016 was accurate. • performed detailed testing on any significant or unusual transactions occurring before the cessation of the Centro bodies. • incorporated checks into our revenue and expenditure testing to determine which body transactions have been recorded against. • performed detailed tests of cut-off for both revenue and expenditure at 16 June 2016. • performed analytical procedures on the revenue and expenditure recorded in year to check for any indication of inconsistency. • ensured that the disclosure meets the requirements of the CIPFA Code of Practice. 	Our audit work identified the following issues in respect of the disclosure of the transfer by merger: <ul style="list-style-type: none"> • The carrying value of the net liabilities at 16 June 2016 was misstated at £43,770k when it should have been £41,982k. This was corrected. • The pre-merger gross income and gross expenditure were both stated net of ticketing costs. In order to be consistent with the CIES, an additional £6,290k of both income and expenditure was included in pre-merger and excluded from the post-merger figures. • This disclosure also required adjustment to correct the classification of capital grants, as noted on page 5.. • In addition, the financial statements were amended to include the decision to prepare accounts on the basis of a transfer by merger as a critical judgement, as it was fundamental to their preparation.
Changes to the presentation of local authority financial statements CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures was required.	We undertook the following work in relation to this risk: <ul style="list-style-type: none"> • documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure • reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice 	We noted that as part of the changes to the presentation of the Authority's financial statements, a number of amendments were made to the prior year comparatives. Our review of the restatement of the CIES for the purposes of 'Telling the Story' has not raised any issues. The three segments disclosed, being Transport Services, Combined Authority Services, and Economic Development, are in line with our understanding of the management of the Authority. We have reconciled the CIES to the general ledger with no issues, and have confirmed the consistency of the MIRS and the EFA with testing performed on other areas of the financial statements. We have also confirmed the consistency of the CIES and the EFA with management's internal reporting and decision making. Our testing has not identified any issues in respect of the new presentation.

Audit of the accounts – Pension Fund

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a 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.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Pension Fund, we determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including City of Wolverhampton Council as the administering body, mean that all forms of fraud are seen as unacceptable. 	Our audit work did not identify any issues in respect of revenue recognition.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We: <ul style="list-style-type: none"> • Reviewed entity controls • Reviewed the journal entry process and selection of unusual journal entries for testing back to supporting documentation • reviewed accounting estimates, judgements and decisions made by management • Reviewed any unusual significant transactions identified 	Our audit work did not identify any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.
Level 3 investments Valuation is incorrect Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. The measurement inputs for Level 3 investments are unobservable inputs and therefore by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	The Prudential buy-in is the only material, directly held, 'hard to value' investment held by WM ITA Pension Fund and this was valued by the Fund's actuary (Barnett Waddingham). We gained assurance over this by: <ul style="list-style-type: none"> • reviewing the basis of the valuation and assumptions made • using our own experts, Grant Thornton's in-house valuation team, to review the assumptions and calculations and to provide assurance that the valuation is reasonable – this work covered the nature and the basis of the estimated values 	We have independently estimated the value of the insurance buy-in to be £255,586,000 compared to your actuarial valuation of £255,022,000. The valuation of this estimate is complex and was within 0.2% of the actuary's result and within our expected range. From this we concluded that the valuation is reasonable and not materially misstated.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Authority's and the Pension Fund's accounts on 26 July 2017, in advance of the 30 September 2017 national deadline.

The Authority made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Authority to the Authority's Audit, Risk & Assurance Committee on 16 June 2017, as well as to the Combined Authority Board on 21 July 2017.

In addition to the key audit risks reported above, we identified issues during our audit that we have asked the Council's management to address for the next financial year. These are shown as an appendix to this letter for information.

Pension fund accounts

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Authority to the Combined Board on 21 July 2017. In addition, our Audit Findings Report in respect of our work on the Pension Fund was also reported to the West Midlands Pension Fund Pension Committee on 21 June 2017.

In addition to the key audit risks reported on page 8, our review of the accounts highlighted some minor improvements that were required to be made. None of these were individually significant and they were made to improve the final presentation and aid clarity for the reader.

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 with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Authority and with our knowledge of the Authority.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 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 in the table overleaf.

Overall VfM 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 2017.

Value for Money (continued)

Risk identified	Work carried out	Findings and conclusions
<p>Governance</p> <p>The governance arrangements at the Authority are continuing to develop as the Authority itself evolves.</p> <p>There is a risk that arrangements may not appropriately reflect the changing responsibilities of the Authority and heighten the risk of actual or perceived instances of inadequate governance.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 33</p>	<p>On-going review of relevant Board and Combined Authority papers and holding regular discussions with management and key officers about any changes to the governance structure, including the plans in place for governance following the mayoral election in May 2017.</p>	<p>During the 2016/17 financial year the Authority made a number of changes to its governance structure to as it has developed from the Centro group. Key elements include:</p> <ul style="list-style-type: none"> • revising the Constitution including the Scheme of Delegation • setting up a Committee to oversee audit, risk and assurance • Establishing a new Assurance Framework • Developing a Risk Management Strategy and risk register <p>We were satisfied that new governance arrangements were evolving, and the process was appropriately shared with responsible committees and individuals.</p> <p>Since the appointment of the Mayor, the Authority has been through the process of appointing senior staff. This will pave the way for further evolution of governance arrangements. The Authority, including ARAC, as those charged with governance, are aware of the need to ensure that governance is fit for purpose as well as being future-proofed for the expansion of activities that will occur.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements in place for the year ended 31 March 2017.</p>
<p>Project management, programme delivery and monitoring</p> <p>Capital expenditure was behind budget by £6m as at October 2016 (total budget for 2016/17 was £40m). This indicates a risk of ineffective project management and potentially inefficient use of resources.</p> <p>There is a risk that effective controls and arrangements are not established.</p>	<p>Continue monitoring the capital performance through to year end outturn position.</p> <p>Discussions with management and key officers on the monitoring processes in place around the devolution grants being made, to confirm that these are separate processes to the contract monitoring process.</p>	<p>The capital outturn for the year was £3,453k behind budget, however we are satisfied that this was the result of unforeseeable circumstances that have been managed appropriately by staff at the Authority.</p> <p>We reviewed the approvals process for applications for devolution funding, and were satisfied that it is appropriate, and was appropriately shared with responsible committees and individuals, as well as other local authorities.</p> <p>We were satisfied that project monitoring during the 2016/17 was sufficiently detailed and sufficiently regular for the Authority to have a good understanding of the projects that it is funding. We also reviewed the progress made on designing and implementing a new project monitoring system, which have come into use in the 2017/18 financial year.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements in place for the year ended 31 March 2017.</p>

Appendices

A. Reports issued and fees

B. Action Plan

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Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Authority	46,500	46,500	N/A
Statutory audit of Pension Fund	21,000	21,000	21,000
Total fees (excluding VAT)	67,500	67,500	21,000

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

Fees for other services

Service	Fees £
• Tax advice to the West Midlands ITA in respect of the winding up of the authority and the transfer of services and assets on the establishment of the West Midlands Combined Authority	18,000
• Tax advice to the West Midland Combined Authority	1,000

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. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Authority's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.

The above non-audit services are consistent with the Authority's (and its predecessor's) policy on the allotment of non-audit work to your auditor and have been approved by the Audit, Risk and Assurance Committee.

Reports issued

Report	Date issued
Audit Plan	January 2017
Audit Findings Report	June 2017
Annual Audit Letter	October 2017

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Authority's auditor and have ensured that appropriate safeguards are put in place

Service provided	Fees	Threat?	Safeguard
Tax Advice to West Midlands ITA as predecessor to West Midlands Combined Authority	£18,000	No	<ul style="list-style-type: none"> • We do not hold a financial nor other interest in the outcome of the work/service undertaken.
Tax advice to the West Midlands Combined Authority	£1,000	No	<ul style="list-style-type: none"> • The audit appointment has been made independently from the Authority under the PSAA contractual arrangements • The work was completed by an independent team which is arms-length from the audit team
TOTAL	£19,000		

The above non-audit services are consistent with the Authority's policy on the allotment of non-audit work to your auditor.

B. Action plan

Priority

- Red - High – Significant effect on control system
- Amber - Medium – Effect on control system
- Green - Low – Best practice

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	There is a need for management to perform periodic, formal reviews of the user accounts and permissions on all application systems. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).	Medium	Management have agreed to establish a process of reviewing access across the system at least once per annum.	Paul Bleckley Head of ICT September 2017
Page 37	We recommend management to establish a process of logging unsuccessful attempts to logon and unsuccessful attempts to access files, by users and/or programs. The log should be subjected to regular reviews by management and any unusual activity identified have to be investigated.	Medium	Logging is enabled, however the review was not being performed. Management have agreed that a process of reviewing access across the systems at least once per annum will be established	Paul Bleckley Head of ICT September 2017
3	Management should establish a formal process for existing employees to formally acknowledge updates or changes to the IT security documentation. This process could be done in the form of mandatory reading/acknowledgement of updates prior to logon to the network and access to resources. Alternatively, this can be delivered in the form of refresher user IT security training courses.	Medium	This is currently in pipeline. A process will be established for existing employees to formally acknowledge any security related policy updates.	Paul Bleckley Head of ICT June 2017
4	Journals should not be posted and authorised by the same individual.	Low	This was raised by the audit team earlier in the year and an action plan was put in place immediately as of December 2016 to ensure that the system does not allow journals to be posted and authorised by the same individual.	Linda Horne. Done.



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Audit, Risk & Assurance Committee West Midlands Combined Authority Progress Report and Update Year ended 31 March 2017

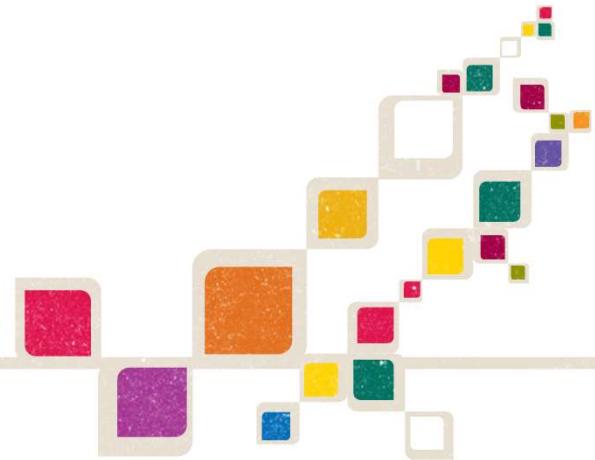
17 November 2017
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any 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.



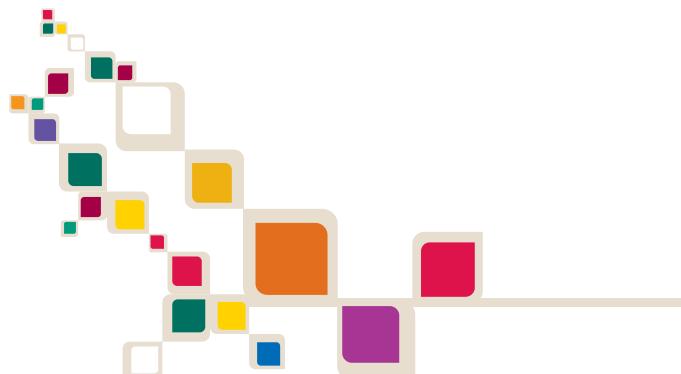
Introduction

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

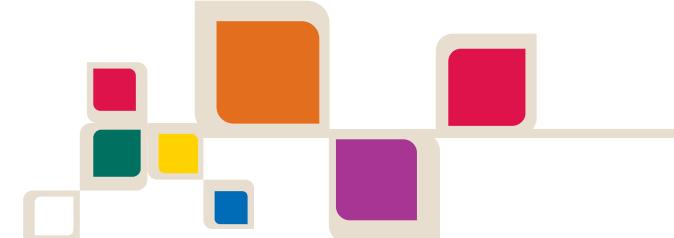
Members of the Audit and Governance Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grantthornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications and articles, including the reports mentioned in this update along with other items:

- Income generation is an increasingly essential part of providing sustainable local services ; <http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>
- Social enterprises are becoming increasingly common vehicles for delivering services that are not an ‘essential’ service for an authority but still important to the local community; <http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>
- Fraud risk, 'adequate procedures', and local authorities; <http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- Brexit and local government; <http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/> and <http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

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

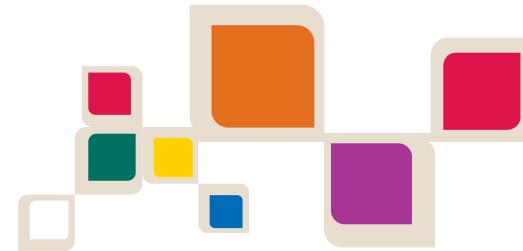


Progress at November 2017



2016/17 work	Planned Date	Complete?	Comments
Audit Findings report The Audit Findings report was presented to the 16 June ARAC and to the WMCA Board on 21 July.	June 2017	Yes	N/A
Annual Audit Letter The annual audit letter is contained within the committee papers. It summarises the work that has been done by external audit in respect of the 2016/17 financial year.	October 2017	Yes	The deadline for the issue of our Annual Audit Letter was 30 October 2017. This was issued to the Authority ahead of this date and is on the agenda of the November ARAC meeting for information.
2017/18 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2017/18 by the end of April 2017. This is the final audit year under the current contract. PSAA has awarded contracts to audit suppliers and is currently consulting on local appointments. Your audit supplier from 2018/19 will be formally confirmed by the end of December 2017.	April 2017	Yes	N/A
Accounts Audit Plan We will issue a detailed accounts audit plan to the Authority setting out our proposed approach the audit of the Authority's 2017/18 financial statements. This will be issued upon completion of our audit planning.	January 2018	Time not yet elapsed	The statutory deadline for the issued of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing with your officers our plan and timetable to ensure that we complete our work by this earlier deadline.
Interim accounts audit Our interim fieldwork visit plan will reflect the need to complete as much as possible earlier in the audit cycle. Our work will include: <ul style="list-style-type: none">• review of the Authority's control environment• Updating our understanding of financial systems• review of Internal Audit reports on core financial systems• early work on emerging accounting issues• early substantive testing• Value for Money conclusion risk assessment.	December 2017 to March 2018	Time not yet elapsed	We have agreed split interim visits with the finance team in December, January and February to ensure we can complete as much work as possible as early as possible.

Progress at April 2017



2017/18 work	Planned Date	Complete?	Comments
<p>Final accounts audit</p> <ul style="list-style-type: none"> proposed opinion on the Council's accounts proposed Value for Money conclusion review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 	July 2018	Time not yet elapsed	N/A
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work is currently unchanged to last year and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> Informed decision making Sustainable resource deployment Working with partners and other third parties 	July 2018	Time not yet elapsed	The NAO has not yet released its general local government planning guidance and may provide specific updated VFM guidance. We have shared our initial thoughts on potential Value for Money risks on pages 6 to 8 but will need to keep these under review.

Value for money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work, which states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

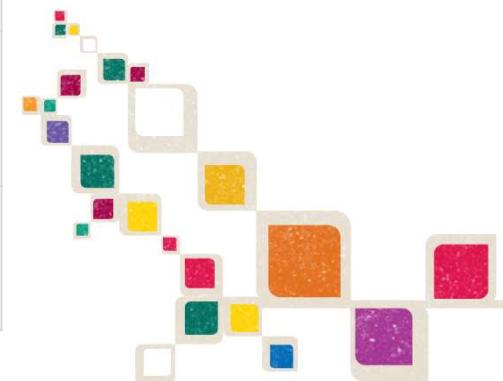
The guidance identifies one single criterion for auditors to evaluate:

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.

This is supported by three sub-criteria as set out below:

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Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing and utilising assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.



Value for money (continued)

Risk assessment

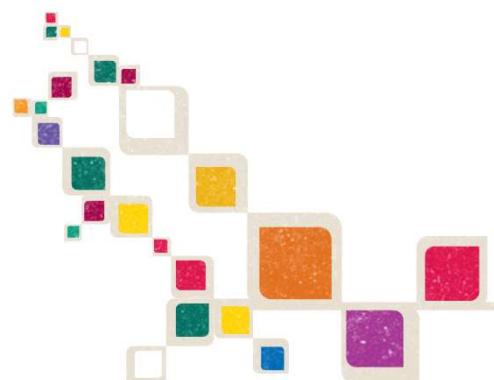
We have carried out a pre-assessment of risk based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Authority, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies where applicable.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

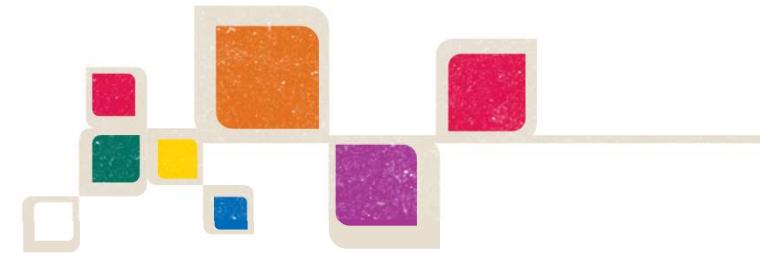
Reporting

We will confirm the significant risks we have identified in our Audit Plan which will be brought before the Committee in January 2018, but in the meantime some initial thoughts are overleaf. The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements.



Value for money risk assessment



Potential significant risk	Link to sub-criteria	Work proposed to address the risk
<p>Governance</p> <p>During the 2016/17 financial year the Authority made a number of changes to its governance structure as it has developed from the Centro group. Key elements include:</p> <ul style="list-style-type: none"> • revising the Constitution, including the Scheme of Delegation • setting up a Committee to oversee audit, risk and assurance • establishing a new Assurance Framework • developing a Risk Management Strategy and risk register <p>We noted in our Audit Findings Report that new governance arrangements were evolving, but that the process was appropriately shared with responsible committees and individuals.</p> <p>Since the appointment of the Mayor in May 2017, the Authority has been through the process of appointing senior staff. This will pave the way for further evolution of governance arrangements, which will need to be future-proofed as far as possible for the expansion of activities that will occur.</p> <p>Given the constant evolution there is a risk that this will lead to instances of inadequate governance.</p>	<p>This links to the Authority's arrangements for Informed decision making: acting in the public interest, through demonstrating and applying the principles and values of sound governance</p>	<p>Continue reviewing relevant Board papers and holding regular discussions with management and key officers about any changes to the governance structure.</p> <p>This would include a review of the governance structure to ensure that decisions made can be appropriately traced through the structure and are escalated accordingly where necessary.</p>

Action – are there other risks which ARAC believes we should consider as part of our initial risk assessment?

Technical Matters



Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and forthcoming provisions for IFRS 9 and IFRS 15

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Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18. The main changes to the Code include:

- amendments to section 2.2 (Business Improvement District Schemes (England, Wales and Scotland), Business Rate Supplements (England), and Community Infrastructure Levy (England and Wales)) for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report
- updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 (Housing Revenue Account) to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor), 7.4 (Financial Instruments – Disclosure and Presentation Requirements)

Technical Matters

Questions:

- Is your Head of Finance aware of the changes to the Code of Practice in 2017/18 and the forthcoming changes to lease accounting and revenue recognition?

Forthcoming provisions for IFRS 9 and IFRS 15

CIPFA/LASAAC has issued 'Forthcoming provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Practice on Local Authority Accounting in the United Kingdom 2018'. It sets out the changes to the 2018/19 Code in respect of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. It has been issued in advance of the 2018/19 Code to provide local authorities with time to prepare for the changes required under these new standards.

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a single classification approach for financial assets, a forward looking 'expected loss' model for impairment (rather than the 'incurred loss' model under IAS 39) and some fundamental changes to requirements around hedge accounting.

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 changes the basis for deciding whether revenue is recognised at a point in time or over a period of time and introduces five steps for revenue recognition.

It should be noted that the publication does not have the authority of the Code and early adoption of the two standards is not permitted by the 2017/18 Code.

Sector issues

Independent Review of Building Regulations and Fire Safety

Sector Issues

The Government has published the terms of reference for the independent Review of Building Regulations and Fire Safety, commissioned following the Grenfell Tower fire tragedy.

The DCLG press release states:

“This Review will urgently assess the effectiveness of current building and fire safety regulations and related compliance and enforcement issues, with a focus on multi occupancy high rise residential buildings. This will include addressing whether the government’s large-scale cladding system testing programme identified any potential systemic failures.

The Review’s 2 key priorities are to develop a more robust regulatory system for the future and provide further assurance to residents that the buildings they live in are safe and remain safe. While the Review will cover the regulatory system for all buildings, it will have a specific focus on multi occupancy high rise residential buildings.

Dame Judith Hackitt, a qualified engineer with strong regulatory background, is leading the Review and will draw on the experience of local government, industry, the fire sector, international experts and MPs. She will also engage with residents of multi occupancy residential buildings.

The Review will report jointly to Communities Secretary Sajid Javid and Home Secretary Amber Rudd. An interim report will be submitted in autumn 2017 and a final report submitted in spring 2018. The Review will co-operate fully with the Public Inquiry, and Dame Judith Hackitt will review her recommendations in the light of the findings of the Inquiry.”

The terms of reference state that the review will:

- map the current regulatory system (i.e. the regulations, guidance and processes) as it applies to new and existing buildings through planning, design, construction, maintenance, refurbishment and change management;
- consider the competencies, duties and balance of responsibilities of key individuals within the system in ensuring that fire safety standards are adhered to;
- assess the theoretical coherence of the current regulatory system and how it operates in practice
- compare this with other international regulatory systems for buildings and regulatory systems in other sectors with similar safety risks;
- make recommendations that ensure the regulatory system is fit for purpose with a particular focus on multi-occupancy high-rise residential buildings.

The full terms of reference are available at:

<https://www.gov.uk/government/publications/independent-review-of-building-regulations-and-fire-safety-terms-of-reference>

Procurement of external audit services

Sector Issues

Procurement outcome

As a result of the highly successful procurement of auditor services, opted-in Local government and police bodies throughout England will collectively benefit from reduced fees for audit services in 2018/19 compared to 2016/17. Aggregate savings are expected to exceed £6 million per annum, equivalent to a reduction of approximately 18% in the scale fees payable by local bodies.

The results of the process announced on 20 June 2017 involve the award of the following contracts:

- Lot 1 of approx. £14.6 million per audit year was awarded to Grant Thornton LLP;
- Lot 2 of approx. £10.9 million per audit year was awarded to EY LLP;
- Lot 3 of approx. £6.6 million per audit year awarded to Mazars LLP;
- Lot 4 of approx. £2.2 million per audit year to awarded to BDO LLP;
- Lot 5 of approx. £2.2 million per audit year to awarded to Deloitte LLP; and
- Lot 6 with no guaranteed value of work to awarded to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.

Contracts were awarded on the basis of most economically advantageous tender with 50% of the available score awarded to price and 50% awarded to quality.

The procurement strategy, agreed by the PSAA Board in December 2016, sets out the basis on which the procurement of audit services was carried out.

Having concluded the procurement, PSAA will commence the process of appointing auditors to opted-in bodies. For more information on the auditor appointment process [click here](#).

Finalising and confirming appointments

The PSAA Board will approve all proposed appointments from 2018/19, following consultation with audited bodies, at its meeting in mid-December. The Board's decision on the appointment of auditors is final. Following Board consideration, we will write to each audited body to confirm their appointment. We plan to send all confirmations on 18 December..



Local Authority 2016/17 Revenue Expenditure and Financing

Sector Issues

DCLG has produced a summary of Local Authorities' 2016/17 provisional revenue spending and financing. It notes that Local government expenditure accounts for almost a quarter of all government spending and the majority of this is through local authority revenue expenditure. The summary is compiled from the Revenue Outturn (RO) returns submitted by all local authorities in England. Coverage is not limited to local councils in England and includes other authority types such as Police and Crime Commissioners and Fire authorities.

The headline messages include:

- Page 52
- Local authority revenue expenditure totalled £93.5 billion for all local authorities in England in 2016-17. This was 1.1% lower than £94.5 billion spent over 2015-16.
 - Expenditure on Adult Social Care increased to £14.9 billion in 2016-17. This was £0.5 billion (3.6%) higher than in 2015-16. 2016-17 was first year local authorities were able to raise additional funding for Adult Social Care through the council tax precept.
 - The largest decrease in local authority expenditure was on Education services. This was £0.8 billion (2.4%) lower in 2016-17 than in 2015-16. The majority of this decrease is due to local authority funded schools converting to academies.
 - Local authorities are financing more of their expenditure from locally retained income. 40.4% of revenue expenditure was funded through council tax and retained business rates and 57.5% from central Government grants. The remaining 2.1% was funded by reserves and collection fund surpluses. These percentages were 38.7%, 60.4% and 0.9% respectively in 2015-16.
 - Local authorities used £1.5 billion (6.2%) of the £24.6 billion reserves balance held at the start of the 2016-17.
 - Local authorities' use of reserves was £1.1 billion higher in 2016-17 than in 2015-16. Due to changes in their capital programme, £0.5 billion of this increase is due to the Greater London Authority.

The full report is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/639755/Revenue_Expenditure_and_Financing_2016-17_Provisional_Outturn.pdf

Did you know....

This data set and many others are included in CFO Insights.

CFO Insights is the Grant Thornton and CIPFA online analysis tool. It gives those aspiring to improve the financial position of their organisation instant access to insight on the financial performance, socio-economic context and service outcomes of theirs and every other council in England, Scotland and Wales.

More information is available at:

<http://www.cfoinsights.co.uk/>

Grant Thornton publications



Combined authorities: signs of success

It is still early days for most combined authorities (CAs) so the political and administrative difficulties of adopting this model are not to be underestimated. However, early signs are emerging of their potential to innovate and drive success.

There is currently no single template for measuring the future success of CAs and mayors – each will need to be assessed against their own priorities and commitments. However, using a rounded set of metrics will give a sense of balance and sustainable growth of places over time.

To achieve this Grant Thornton UK and Bond Dickinson have published the first report designed to benchmark the success of CAs. The report uses Grant Thornton's Vibrant Economy Index that goes beyond financial returns and takes into account the wellbeing of society and everybody's ability to thrive as a base set of indicators to achieve balanced performance assessment of sustainable growth of places over time.

We urge the Government to reopen conversations about meaningful fiscal devolution, as it offers real hope to people and businesses buying into their places and making sustainable local investments. In addition, unless devolution is accelerated, the ability for localities to put in place strategies for sustainable and inclusive growth will be severely tested. We believe that CAs have the potential to play a transformative role in creating vibrant economies within city regions.

Grant Thornton publications

Questions:

- Have you read our report?



<http://www.grantthornton.co.uk/insights/combined-authorities-signs-of-success/>

Setting up a successful social enterprise

Local government continues to innovate as it reacts to ongoing austerity. An important strand of this response has been the development of alternative delivery models, including local authority trading companies, joint ventures and social enterprises.

This report focuses on social enterprises in local government; those organisations that trade with a social purpose or carry out activities for community benefit rather than private advantage. Social enterprises come in a variety of shapes and sizes as they do not have a single legal structure or ownership rule and can adopt any corporate form as long as it has a social purpose.

In this report we explore what social enterprises look like, the requirements for setting one up, how they should be managed to achieve success and how they can be ended.

We have complemented this with a range of case studies providing inspiring ideas from those that have been successful and some lessons learned to take into consideration.

Key findings from the report:

- Austerity continues to be a key driver for change: social enterprises are a clear choice where there is an opportunity to enhance the culture of community involvement by transferring these services into a standalone entity at its centre
- The social enterprise model tends to lend itself more to community services such as libraries, heritage management and leisure, but not exclusively so
- Social enterprises can open up new routes of funding including the ability to be flexible on pricing and access to pro bono or subsidised advice
- Some local authorities have converted existing models into social enterprises; for example where a greater focus on social outcomes has been identified

Striking a balance between financial and social returns

If you are a local authority looking to transition a public service to a social enterprise model certain factors will be key to your success including: leadership, continuing the culture, branding, staff reward and secure income stream.

Download our guide to explore how to handle these factors to ensure success, the requirements for setting up a social enterprise; and how social enterprise can be ended. The guide also showcases a number of compelling case studies from local authorities around England, featuring inspiring ideas from those social enterprises that have been a success; and lessons learned from those that have encountered challenges.

Grant Thornton publications

Questions:

- Is your Authority exploring options for delivery of services?
- Have you read our report?
- Have you downloaded our guide?

DOWNLOAD

A guide to setting up a social enterprise

[Download PDF \[1,380kb\]](#) →



<http://www.grantthornton.co.uk/en/insights/a-guide-to-setting-up-a-social-enterprise/>

A Manifesto for a Vibrant Economy

Developing infrastructure to enable local growth

Cities and shire areas need the powers and frameworks to collaborate on strategic issues and be able to raise finance to invest in infrastructure priorities. Devolution needs to continue in England across all places, with governance models not being a “one-size-fits all”. Priorities include broadband, airport capacity in the North and east-west transport links.

Addressing the housing shortage, particularly in London and the Southeast, is a vital part of this. There simply is not enough available land on which to build, and green belt legislation, though designed to allow people living in cities space to breath, has become restrictive and is in need of modernisation. Without further provision to free up more land to build on, the young people that we need to protect the future of our economy will not be able to afford housing, and council spending on housing the homeless will continue to rise.

Business rates are also ripe for review – a property-based tax is no longer an accurate basis for taxing the activity and value of local business, in particular as this source of funding becomes increasingly important to the provision of local authority services with the phasing out of the Government’s block grant.

Demographic and funding pressures mean that the NHS no longer remains sustainable, and the integration of health and social care – recognised as critical by all key decision makers – remains more aspiration than reality. .

There is an opportunity for communities to take a more holistic approach to health, for example creating healthier spaces and workplaces and tackling air quality, and to use technology to provide more accessible, cheaper diagnosis and treatment for many routine issues

Finding a better way to measure the vibrancy of places

When applied to a place we can see that traditional indicators of prosperity such as GVA, do not tell the full story. To address this we have developed a Vibrant Economy Index to measure the current and future vibrancy of places. The Index uses the geography of local authority areas and identifies six broad objectives for society: prosperity, dynamism and opportunity, inclusion and equality, health wellbeing and happiness, resilience and sustainability, and community trust and belonging.

The city of Manchester, for example, is associated with dynamic economic success. While our Index confirms this, it also identifies that the Greater Manchester area overall has exceptionally poor health outcomes, generations of low education attainment and deep-rooted joblessness. These factors threaten future prosperity, as success depends on people's productive participation in the wider local economy, rather than in concentrated pockets.

Every place has its own challenges and opportunities. Understanding what these are, and the dynamic between them, will help unlock everybody's ability to thrive. Over the coming months we will continue to develop the Vibrant Economy Index through discussions with businesses, citizens and government at a national and local level.

Guy Clifton – Head of Local Government Advisory

Grant Thornton publications

Question:

- Have you read our manifesto?



CREATING A MANIFESTO FOR A VIBRANT ECONOMY

Draft recommendations
April 2017



<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/documents/creating-manifesto-vibrant-economy-draft-recommendations.pdf>

The Board: creating and protecting value

Grant Thornton publications

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In all sectors, boards are increasingly coming under pressure from both the market and regulators to improve their effectiveness and accountability. This makes business sense given a strong governance culture in the boardroom produces better results, promotes good behaviour within the organisation and drives an organisation's purpose.

Grant Thornton's new report 'The Board: creating and protecting value' is a cross-sector review of board effectiveness, based on a survey of executives and non-executives from a range of organisations including charities, housing associations, universities, local government, private companies and publically listed companies.

It considers the challenges faced by boards, ways in which they can operate more effectively; and how to strike the right balance between value protection and value creation.

This report uses the DLMA analysis which categorises skills into four areas: Directorship, Leadership, Management and Assurance. This powerful tool provides a framework (see graph 1) with which to evaluate how well an organisation is performing in balance of skills and understanding of roles; and responsibilities between the executive and Board. It helps align risk (value protection) and opportunity (value creation) with overarching strategy and purpose.

Value creation	
Non-executives	Executives
Directorship How well do the non-executives: <ul style="list-style-type: none"> • design, debate and decide the organisation's future? • inspire and guide the executive to realise the organisation's purpose? • provide support to the executives? 	Leadership How well do the executives: <ul style="list-style-type: none"> • Make decisions aligned with realising the organisation's purpose? • Inspire and motivate employees to realise the organisation's purpose? • model the values of the organisation?
Assurance How well do the non-executives: <ul style="list-style-type: none"> • monitor financial, compliance and business indicators? • ensure appropriate processes are in place to manage risk? • have oversight of the executive team? 	Management How well do the executives: <ul style="list-style-type: none"> • set goals, creating plans and allocating resources to achieve them? • effectively assign roles and responsibilities? • Focus on day-to-day tasks and resources needed to deliver strategic aims?
Value protection	

Source: The Board: Creating and protecting value, 2017, Grant Thornton

Question:

- Have you read our report?



<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/board-effectiveness-report-2017.pdf>

International Consortium on Governmental Financial Management

Introduction

Grant Thornton and the International Consortium on Governmental Financial Management (ICGFM) partner every other year to perform an international survey of Public Financial Leaders.

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In 2015 the theme was innovation in public financial management. This year's survey has been designed to identify and describe emerging issues around transparency and citizen engagement – building on the themes highlighted in the 2015 report.

The insights will be published in a report later in 2017 and we would be delighted if you were able to spend some time completing the brief on-line questionnaire which can be found [here](#). Your Audit Manager will be able to provide you with a link to the survey if required.

Please note that the ICGFM and Grant Thornton will not identify, or attribute thoughts and quotations to, individual survey respondents in the final 2017 report. This preserves your anonymity, so please respond freely, honestly and openly.

We have again partnered with the ICGFM to survey Financial Leaders

Question:

- Have you completed the ICGFM survey on transparency and citizen engagement?



**Innovation in public financial management
in an increasingly complex and uncertain global environment**

Global financial management leaders survey 2015





An instinct for growthTM

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WEST MIDLANDS
COMBINED AUTHORITY

Audit, Risk & Assurance Committee

Date	17 November 2017
Report title	WMCA Arm's Length Companies Checklist - Nov 2017
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive of the WMCA Deborah.Cadman@wmca.org.uk Tel: 0121 214 7552
Accountable Employee	Sean Pearce, WMCA Director of Finance Tel (0121) 214 7936 Email Sean.Pearce@wmca.org.uk
Report to be/has been considered by	None

Recommendation(s) for action or decision:

The Audit, Risk & Assurance Committee is recommended to:

- a. Review and approve the attached checklist to be used to seek confidence in assurance arrangements for arm's length companies related to the West Midlands Combined Authority.

1.0 Purpose of Report

1. The report provides a checklist for Members to consider. The checklist shall be used by the Corporate Assurance Manager to assess if assurance arrangements for arm's length companies related to WMCA are satisfactory. The checklist has been developed with WMCA officers from Finance, Legal, Corporate Assurance, Procurement and Internal Audit.
2. The WMCA finance and legal teams maintain a Schedule of Companies that confirms the status of all organisations related to the West Midlands Combined Authority. At present, the majority of the companies are dormant.
3. An assurance report was provided to the Audit, Risk & Assurance Committee in September 2017 on the governance and assurance arrangements for the West Midlands Growth Company. This is a live company, where the WMCA is a 1/8th partner with the other 7 metropolitan authorities. The West Midlands Growth Company is charged with promoting the

west midlands region in national and global markets to attract investment. Subsequently, Neil Rami, the Chief Executive of the West Midlands Growth Company has been invited to attend WMCA Leadership meetings with Deborah Cadman (WMCA Chief Executive) and her leadership team of directors. This will build closer working relationship between both organisations.

4. At present, there is no other arm's length company which is 'live'. Midland Metro Limited is expected to become live in Spring 2018 when it assumes accountability for the operations of the midland metro. West Midlands Rail is expected to become operational in December 2017 and Malcolm Holmes, Acting Programme Director, West Midlands Rail has been invited to the WMCA Audit Committee in January 2018. West Midlands Development Capital Ltd (previously Finance Birmingham) will becoming live soon. Governance arrangements are being developed in conjunction with the West Midlands Combined Authority. The company West Midlands Development Capital is responsible for the administration of the Collective Investment Fund (CIF) and the Land Remediation Fund for and on behalf of the West Midlands Combined Authority. The company will have its own audit committee. The checklist shall be used to assess these companies' governance and assurance arrangements.
5. Going forward, the intention would be to use this checklist as a best practice assurance tool when discussions are initiated regarding establishment of a new arm's length arrangement.
6. If Audit, Risk & Assurance Committee are satisfied that the questions within the checklist would provide sufficient assurance on the governance arrangements for arm's length companies then it will be implemented to assess any new companies going forward.

2.0 Financial implications

There are no direct financial implications arising from this report.

3.0 Legal implications

There are no direct legal implications arising from this report.

4.0 Equalities implications

There are no equality implications arising from this report.

5.0 Appendices

None.

WMCA Risk & Assurance Checklist for Arm's Length Companies

Governance & Legal		Yes	No	Notes
1.	Confirm the legal interface with the arm's length company and the WMCA?			
2.	Is there clear agreements in place to describe the relationship and interface with the company and WMCA?			
3.	How does the Arm's length company interface with WMCA Governance?			
4.	Is the Board of sufficient size and composed of appropriate skills to ensure its responsibilities are met? Confirm the independent members of the Board.			
5.	Is there a terms of reference for the Board? Are Minutes taken for Board meetings? A statement of how the Board operates.			
6.	Is there a conflict of interest policy?			
7.	Has anybody on either board members declared a conflict, if so how is this going to be mitigated?			
Financial		Yes	No	Notes
8.	Are adequate company internal Financial Regulations (or the equivalent) in place?			
9.	Has the content and frequency of financial performance reporting to WMCA been agreed?			
10.	Is there agreement for the Company to supply an Audited Set of Accounts annually to WMCA?			
11.	Has the deadline and content of the supply of all relevant and necessary year-end financial information been agreed between WMCA and the Company?			

Procurement		Yes	No	Notes
12.	Does the company have its own procurement policies and processes? Has the WMCA Procurement team confirmed that these are aligned to WMCA standards?			
13.	How is procurement non-compliance captured and reported?			
14.	In what name would your contracts be awarded in?			
15.	In what name would your purchase orders be in?			
16.	Do you have your own financial procurement to pay system (i.e. Business World) and e-tendering portal?			
17.	What is the agreed mechanism for contacting the WMCA Procurement Team?			
Internal & External Audit		Yes	No	Notes
18.	Dependent upon the nature of any company - Strategic Report (which follows the FRC's "Guidance on the Strategic Report") – including where assurance is obtained on the contents and disclosures in the report.			
19.	Annual Governance Statement (AGS) / Statement of Internal Control			
20.	If the Accounts are subject to External Audit – a copy of the External Audit Annual Report (what were their findings/comments on the accounts or the AGS)			
21.	Do they have Internal Audit – if so, a copy of the Annual Internal Audit Report (and similarly any key issues they may have commented upon).			
22.	There may also be other 'assurance' providers such as government agencies/bodies who may come in and review certain grants or funding streams etc.			
23.	Is there an internal audit function for the organisation?			

24.	Is there an audit committee? If so, how often does it meet? Please confirm the membership of the committee including independent membership.			
25.	Who are the external auditors?			
	Risk Management/ Insurance & Business Continuity	Yes	No	Notes
26.	Is there are a risk management policy for the organisation? What is the greatest risk/ affecting the company?			
27.	Provide overview of risk governance structure for the organisation?			
28.	Are there any risks that could impact WMCA adversely?			
29.	What is the agreed mechanism of risk escalation to the WMCA?			
30.	Does the organisation have adequate insurance for its level of operations? Please provide evidence			
31.	Are there adequate business continuity arrangements and plans in place?			

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Audit, Risk & Assurance Committee

Date	17 November 2017
Report title	Internal Audit Update
Accountable Chief Executive	Deborah Cadman, Chief Executive of the WMCA Email: Deborah.Cadman@wmca.org.uk Tel: 0121 214 7552
Accountable Employee	Tim Martin, Chief Audit Executive Email: Tim.Martin@wmca.org.uk Tel: 0121 214 7435
Report to be/has been considered by	Not applicable

Recommendation(s) for action or decision:

The Audit, Risk and Assurance Committee is recommended to:

Note the contents of the latest Internal Audit Update Report.

1.0 Purpose

- 1.1 The purpose of this report is to present the Committee with an update on the work completed by internal audit so far this financial year.

2.0 Background

- 2.1 In accordance with the agreed work programme for internal audit, the reports provide an independent and objective opinion on the Combined Authority's effectiveness in managing their risk management, governance and control environment.
- 2.2 The reports will also feed into the Annual Internal Audit Report that will be prepared at the end of the financial year. The Annual Report will provide an overall audit opinion on the adequacy and effectiveness of the governance, risk management and internal control processes, based upon the outcome of the reviews completed during the year. This opinion can then be used to feed into the Combined Authority's Annual Governance Statement that accompanies the Annual Statement of Accounts.

3.0 Wider WMCA Implications

- 3.1 There are no implications

4.0 Financial implications

- 4.1 There are no implications

5.0 Legal implications

- 5.1 There are no implications

6.0 Equalities implications

- 6.1 There are no implications

7.0 Other implications

- 7.1 Not applicable

8.0 Schedule of background papers

- 8.1 None

9.0 Appendices



WEST MIDLANDS
COMBINED AUTHORITY

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Internal Audit Update Report Quarter 2 2017-2018

Delivered by City of Wolverhampton Council – Audit Services

1 *Introduction*

The purpose of this report is to bring the Audit and Risk Assurance Committee up to date with the progress made against the delivery of the 2017- 2018 internal audit plan.

The Audit, Risk and Assurance Committee has a responsibility to review the effectiveness of the system of internal controls and to monitor arrangements in place relating to corporate governance and risk management arrangements. Internal audit is an assurance function which provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance. This work update provides the committee with information on recent audit work that has been carried out to assist them in discharging their responsibility by giving the necessary assurances on the system of internal control.

The information included in this progress report will feed into, and inform our overall opinion in our internal audit annual report issued at the year end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Year on year comparison

Four pieces of audit work have been completed so far in the current year, where an audit opinion has been provided. A summary of the audit opinions given, with a comparison over the previous year is set out below:

Opinion	2017/18 (@ Q2)	2016/17
Substantial	0	4
Satisfactory	4	4
Limited	0	2

2 *Summary of audit reviews completed*

The following audit reviews were completed by the end of the second quarter:

Auditable area	Assessment of Assurance Need	Recommendations					Number accepted	Level of assurance
		Red	Amber	Green	Total			
Previously reported:								
Programme Management Office Project Appraisal and Support Functions	High	-	4	2	6	5*	Satisfactory	
Transport for West Midlands Capital Programme	High	-	2	1	3	3	Satisfactory	
Expenses, and Gifts and Hospitality	Medium	-	1	3	4	4	Satisfactory	
Reported this quarter for the first time:								
Draft Report: Investment Programme - Governance Arrangements for Project Appraisal and Approval	High	-	8	8	8	Currently in draft format awaiting response	Satisfactory	

* this issue related to certification of approvals and will be revisited later in the year.

3 Any key issues arising from our work completed in Quarter 2

We are pleased to report that no limited reports were issued during quarter two.

Investment Programme - Governance Arrangements for Project Appraisal and Approval

An audit of the governance arrangements for project appraisal and approval within the Investment Programme was undertaken as part of the approved internal audit plan for 2017/18. The Assurance Framework outlines the Project Lifecycle Process which stipulates the assessment and evaluation processes and associated roles and responsibilities at each stage of the Project Lifecycle.

The aim of the Project Lifecycle Process is to undertake assessment and evaluation that results in recommendations and approvals that ensure Investment Programme funding is allocated to projects that best fit the strategic objectives as stated in the Strategic Economic Plan. The Investment Programme is a 30-year programme, recently completing year one which involved a review of projects that are in the early stages of development.

The Project Lifecycle has been translated into the Integrated Assurance and Approvals Process Flow (Process Flow) which reflects the governance and decision-making arrangements supporting the Project Lifecycle. This Process details the specific panels and boards responsible for making recommendations, endorsements and approvals at Strategic Outline Business Case stage, Outline Business Case stage and Full Business Case stage.

We have recently issued a draft report with a satisfactory level of assurance. In the draft report we made eight recommendations which are currently under consideration and further details of these will be provided in our next progress report.

The new incoming Director of Finance welcomed this independent review of the current programme governance and approval processes for the Investment Programme. As Section 151 officer as well as accountable lead for the delivery of the Investment Programme, they have agreed to undertake a further review of the current arrangements and controls for the Investment Programme.

The Director of Finance along with the Investment Board want to be confident with the processes and sub-boards feeding into the Investment Board and recognise that there needs to be clear demonstration that robust processes for control and project appraisal exist to provide assurance to the Investment Board prior to the decision-making process.

They will lead on undertaking a review of the current processes and will take into consideration the recommendations from our internal audit review. They will also provide an update regarding completion of this review at the Audit, Risk and Assurance Committee meeting scheduled for January 2018.

Follow up of previous recommendations

We continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit, Risk and Assurance Committee.

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The Internal Audit Plan 2017-2018

The audit plan is re-profiled throughout the year as and when the risk profile of the Combined Authority changes, and to react to emerging issues, management and Audit, Risk and Assurance Committee requests.

Following on from its initial approval, two reviews have been deferred until 2018/19 in order to enable processes to bed in before review, as they are currently still in their development stage, these are:

- Commission Governance
- Investment Programme – Contract Compliance

However, an additional review on providing assurance that the Authority has robust systems and procedures in place to manage compliance with IR35 and has identified any contractors who fall within scope, will be undertaken and reported back to the Audit and Risk Assurance Committee.

The scheduled review on the establishment of the Mayoral Office will focus upon budget setting and subsequent monitoring in accordance with the constitution.

We continue to work with the Combined Authority on an on-going basis as part of our Transition Planning and Delivery review.

The remaining reviews from the Internal Audit Plan are either underway, or scheduled to be completed by the year end:

- Key Financial Systems
- Data Security
- Election Costs
- Treasury Management
- National Fraud Initiative
- Recommendation Tracking

5

The Internal Audit Plan 2018-2019

We are also currently meeting with the wider teams across the Combined Authority in preparation for the development of our internal audit plan for next year. Once finalised this will also be presented to the Committee.

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Audit, Risk & Assurance Committee

Date	17 November 2017
Report title	Internal Audit Charter Review
Accountable Chief Executive	Deborah Cadman, Chief Executive of the WMCA Email: Deborah.Cadman@wmca.org.uk Tel: 0121 214 7552
Accountable Employee	Tim Martin, Chief Audit Executive Email: Tim.Martin@wmca.org.uk Tel: 0121 214 7435
Report to be/has been considered by	Not applicable

Recommendation(s) for action or decision:

The Audit, Risk and Assurance Committee is recommended to:

Review and approve the internal audit charter.

1.0 Purpose

1.1 The purpose of this report is to allow the Committee to undertake an annual review of the internal audit charter.

2.0 Background

- 2.1 There is a requirement for internal audit to work in accordance with the ‘proper audit practices’. These ‘proper audit practices’ are in effect the ‘Public Sector Internal Audit Standards’.
- 2.2 These standards state that the purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Mission of Internal Audit* and the mandatory elements of the International Professional Practices Framework (the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics*, the *Standards* and the *Definition of Internal Auditing*). The chief audit executive must periodically review the internal audit charter and present it to the Audit, Risk and Assurance Committee for approval.
- 2.3 The internal audit charter is a formal document that defines the internal audit activity’s purpose, authority and responsibility. The internal audit charter establishes the internal audit activity’s position within the organisation, authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the Audit, Risk and Assurance Committee.
- 2.4 The West Midlands Combined Authority’s internal audit charter was approved by the Audit, Risk and Assurance Committee in 2016 and is now due for its annual review. The only changes since the charter was last reviewed is in the change in name of the committee from Audit and Standards to Audit, Risk and Assurance and to paragraph 6.5 as the Head of Governance (Chief Audit Executive) is now also the Monitoring Officer.

3.0 Wider WMCA Implications

3.1 There are no implications

4.0 Financial implications

4.1 There are no implications

5.0 Legal implications

5.1 There are no implications

6.0 Equalities implications

6.1 There are no implications

7.0 Other implications

7.1 Not applicable

8.0 Schedule of background papers

8.1 None

9.0 Appendices

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INTERNAL AUDIT CHARTER

1. INTRODUCTION

- 1.1 The work of West Midland's Combined Authority's Internal Audit providers (City of Wolverhampton Council) is externally governed by the UK Public Sector Internal Audit Standards (PSIAS). The PSIAS incorporates a definition of internal auditing, a Mission, and Core Principles for internal auditors working in the public sector alongside a range of operating Standards. Adherence of the PSIAS is mandatory for all internal auditors working in the UK public sector.
- 1.2 Internal Audit is defined in the PSIAS as follows:
“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 1.3 The PSIAS requires an Internal Audit Charter to be approved by the ‘Board’ in order to define the purpose, authority and responsibility of the Internal Audit team. It establishes reporting lines within the organisation, authorises access to records, personnel and physical property relevant to the performance of audit work, and defines the scope of Internal Audit activities.
- 1.4 The Mission of Internal audit as defined by PSIAS is ‘to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.
- 1.5 The Core Principles for the Professional Practice of Internal Auditing:
Source: [The Public Sector Internal Audit Standards](#)
 - Demonstrates integrity.
 - Demonstrates competence and due professional care.
 - Is objective and free from undue influence (independent).
 - Aligns with the strategies, objectives, and risks of the organisation.
 - Is appropriately positioned and adequately resourced.
 - Demonstrates quality and continuous improvement.
 - Communicates effectively.
 - Provides risk-based assurance.
 - Is insightful, proactive, and future-focused.
 - Promotes organisational improvement

2. AUTHORITY & STANDARDS

- 2.1 Internal audit is a statutory service in the context of the Accounts and Audit Regulations (Amendment) (England) 2015, which states that “A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes,



taking into account public sector internal auditing standards or guidance". These Standards are mandatory and have been adopted by the West Midlands Combined Authority's internal auditors.

- 2.2 Throughout the Public Sector Internal Audit Standards, reference is made to the terms 'Chief Audit Executive', 'board' and 'senior management'. For the purposes of this Charter, the 'Chief Audit Executive' is defined as the Head of Governance the 'board' as the Audit, Risk and Assurance Committee and 'senior management' as the Combined Authority Management Board.

3. PURPOSE

- 3.1 The main purpose of Internal Audit is to provide an independent and objective assurance service to management on WMCA's internal control environment. The aim is to add value and improve opportunities to achieve organisational objectives by identifying operational improvements and reducing risk exposure through both assurance and consulting services.
- 3.2 The primary focus of internal audit is to produce and deliver a risk based annual audit plan to assist WMCA in accomplishing these objectives. Internal Audit will promote and support the improvement and efficiency in business practices by bringing a systematic and disciplined approach to evaluate internal control and governance processes.
- 3.3 Within WMCA Internal Audit forms part of the overarching assurance and governance framework provided by the WMCA Corporate Assurance Team which includes oversight of corporate risk management, project and programme management governance and assurance, business continuity and a program of continuous business process improvement.
- 3.4 To provide greater independence, West Midland's Combined Authority has commissioned City of Wolverhampton Council to deliver a programme of Internal Audits for WMCA.

4. SCOPE

- 4.1 Within these overall assurance arrangements, Internal Audit has responsibility for providing assurance through the review of the internal control, risk management and governance environment, significant processes, systems and operations. In fulfilling this responsibility, Internal Audit will:
 - a. Develop an annual audit plan reflecting WMCA's significant risk, governance and internal control environment, and incorporating the rationale, timescales and resource requirements to deliver each audit.
 - b. Deliver the audit plan in accordance with the methodologies set out in the Public Sector Internal Audit Standards.
 - c. Undertake an adequate and effective internal audit of the systems of internal control as set out in the Local Government Act for the probity of financial systems.



- d. Issue a formal report at the end of each audit following discussion with the identified Audit Lead. The report will be issued to all relevant parties and be presented to the subsequent Audit and Standards Committee.
 - e. Seek feedback at the end of each audit to enable continuous quality improvements.
 - f. Monitor and report on the implementation of audit recommendations to the Audit, Risk and Assurance Committee, ensuring weaknesses have been effectively addressed within the agreed timescales.
 - g. Maintain key performance indicators for reporting to the Audit, Risk and Assurance Committee and other management performance teams upon request.
 - h. Investigate claims of alleged theft, fraud and unexplained financial losses in line with the associated policies and procedures.
 - i. Maintain effective relations with the external auditor to co-ordinate planning and share results of audit work.
 - j. Play a lead role in facilitating the Cabinet Office's bi-annual National Fraud Initiative exercise
 - k. Prepare an annual report for consideration by the Audit, Risk and Assurance Committee on the effectiveness of WMCA's control, governance and risk management environment to inform the Authority's Annual Governance Statement.
 - l. Undertake any additional work at the request of Management and the Audit, Risk and Assurance Committee to improve effectiveness.
- 4.2 In addition to the activities of Internal Audit, it should be noted that further assurance is in place through the following activities undertaken by the wider WMCA Corporate Assurance Team:
- a. Monitoring of projects to ensure projects progress successfully through WMCA Assurance Framework and are delivered on time and within budget.
 - b. Undertake independent Project and Programme assurance reviews
 - c. Facilitate and disseminate lessons learned exercises for corporate projects to identify areas of best practice and to capture opportunities for improving project management controls.
 - d. Review working arrangements across the business to identify and implement new ways of working, enabling financial and operational efficiencies.
 - e. Responsibility for risk management controls within the business including business continuity and Insurance.



- f. Oversight of risk management activities throughout the organization including the management of the Strategic Risk register which is owned and reviewed by the WMCA Management Board monthly.
- g. Monitoring and reporting to management teams against delivery of the organizational Annual Business Plan.

5. AUTHORITY

- 5.1 Internal Audit derives its responsibility from the 'Board' to provide a free and unrestricted ability to plan and undertake audit assignments deemed necessary to fulfil its purpose, and to have direct access to the Chair of the Audit, Risk and Assurance Committee and the 'Board' as appropriate.
- 5.2 To enable the service to discharge its duties fully, Internal Audit are authorised to:
 - Have unrestricted access to all functions, records, property and personnel;
 - Have unlimited access to members of the Audit, Risk and Assurance Committee and WMCA Management Board;
 - Obtain the necessary assistance of personnel responsible for services under audit.
- 5.3 To maintain independence and objectivity, Internal Audit must;
 - Refrain from performing or holding responsibility for any operational duties;
 - Be restricted from initiating or approving financial transactions;
 - Demonstrate an impartial and unbiased attitude to all audits undertaken;
 - Refrain from assessing any business area they were previously responsible for.

6. ACCOUNTABILITY

- 6.1 Within WMCA, the Internal Audit function reports to the WMCA Corporate Assurance Manager, who assists with the prioritisation of the WMCA Audit Plan in the context of WMCA's risk environment and also the additional reviews which have been commissioned (programme reviews and continuous improvement reviews).
- 6.2 The City of Wolverhampton Council's audit team are contracted by the Combined Authority to provide a professional independent internal audit service.
- 6.3 The Corporate Assurance Manager reports to the Head of Governance. WMCA's Head of Governance is the Chief Audit Executive. WMCA's Chief Audit Executive has direct access to the Chief Executive and senior management team as necessary to represent and consider the organisational assurance environment.
- 6.4 The Chief Audit Executive will report to the Audit, Risk and Assurance Committee, which meets quarterly and reports to the WMCA Board as appropriate.



- 6.5 The Chief Audit Executive is also the Monitoring Officer and where appropriate works closely with the Section 151 Officer. An annual report will be produced and presented to the Audit, Risk and Assurance committee which will include an 'opinion' from the Chief Audit Executive (Head of Governance) on the adequacy and effectiveness of internal control, risk management and governance within the Combined Authority.
- 6.6 All activities undertaken by Internal Audit are done with a responsibility for the safekeeping and confidentiality of all information or other items retained or provided as part of the audit assignment and in particular in respect of any individual member of staff.

7. INTERNAL AUDIT'S RESPONSIBILITY

- 7.1 Internal Audit has responsibility to:
 - Provide a cost effective and value added full internal audit service;
 - Develop a flexible annual audit plan using a risk-based methodology;
 - Implement the annual audit plan;
 - Track status of outstanding management actions;
 - Provide regular updates on the work of internal audit to the Audit and Standards Committee and where appropriate, senior officers;
 - Assist, as needed, in the investigation of significant suspected fraudulent activities within the organisation; and
 - Work with the Corporate Assurance Manager, Chief Audit Executive and External Auditor and other review bodies to share assurance and minimise duplication.
- 7.2 The Combined Authority's internal audit service will be provided by the City of Wolverhampton Council. Internal audit must be appropriately staffed in terms of numbers, qualification levels and experience. Internal auditors need to be properly trained to fulfill their responsibilities and should maintain their professional competence. The Head of Audit is responsible for ensuring that the resources of internal audit are sufficient to meet its responsibilities and achieve its objectives.

8. MANAGEMENT'S RESPONSIBILITY

- 8.1 Internal Audit is a review and support activity, which does not relieve management of its responsibility for identifying, evaluating and managing risk and ensuring effective management controls are in place on an ongoing basis. Internal Audit will make suggestions for the improvement of internal control, but it is management's responsibility to finance and implement cost effective and appropriate actions to address the weaknesses identified.
- 8.2 Similarly it is management's decision and responsibility to determine whether disciplinary action or criminal or civil proceedings should be initiated following any fraud or theft investigations.

9. ORGANISATIONAL INDEPENDENCE

- 9.1 Internal audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.
- 9.2 Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. If individual auditors are extensively consulted during system, policy or procedure development, and independence could be seen as being compromised, or if they have had previous operational roles, they will be precluded from reviewing and making comments during routine or future audits, for the remainder of that financial year and for the following financial year after their involvement.
- 9.3 Complete independence is achieved as WMCA have commissioned City of Wolverhampton Council to deliver WMCA's internal audits.
- 9.4 Similarly through the wider assurance reviews delivered by the WMCA Corporate Assurance Team, they too are independent from their review areas such as project delivery teams and operational teams. The Corporate Assurance team is part of the Governance team in the Corporate Services Directorate.

10. BEST PRACTICE & QUALITY ASSURANCE

- 10.1 It is a requirement of the PSIAS that an external assessment of the Internal Audit function is carried out every five years. Internal Audit will also annually confirm its own compliance against the Public Sector Internal Audit Standards. Results of these reviews will be presented to the Audit and Standards Committee.
- 10.2 At the end of each audit, a "satisfaction questionnaire" is issued to, and completed by the main auditee(s) to ensure satisfactory audit practices have been followed. Responses to this questionnaire will be included in the final report of each audit assignment for consideration by the Audit, Risk and Assurance Committee.
- 10.3 The Audit, Risk and Assurance Committee will be regularly informed of the performance of Internal Audit by means of Key Performance Indicators. These will include:
 - Delivery of Audits within set timescales
 - Number of recommendations accepted by management
 - Number of recommendations implemented by management
 - Audits completed in year
 - Auditee satisfaction surveys

11. FRAUD



- 11.1 Managing the risk of fraud is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal audit may be requested by management to assist with fraud related work.
- 11.2 The Combined Authority's Anti-Fraud and Corruption Policy and Procedure requires that all suspected irregularities are reported to the Corporate Assurance Manager and Head of Governance, who will then inform the Section 151 Officer and advise on and instigate such action as considered necessary for investigating the alleged irregularity.

12. REVIEW OF INTERNAL AUDIT CHARTER

This charter will be reviewed annually by the Head of Governance in conjunction with the Corporate Assurance Manager and the Head of Audit at the City of Wolverhampton Council. The Audit, Risk and Assurance Committee will be requested to endorse any changes. The next review is scheduled for November 2018.

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Agenda Item 19

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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