



Audit, Risk & Assurance Committee

Date: Friday 19 January 2018

Time: 10.00 am **Public meeting** Yes

Venue: Room 116, West Midlands Combined Authority, 16 Summer Lane, Birmingham, B19 3SD

Membership

David Lane (Chair)

Councillor Craig Collingswood (Vice-Chair)

Councillor Sucha Bains

Councillor Margaret Bassett

Councillor Kerrie Carmichael

Councillor Keith Chambers

Councillor Steve Clark

Sean Farnell

Councillor John Fisher

Councillor Mariam Khan

Councillor Simon People

Councillor Alexander Phillips

Councillor June Tandy

City of Wolverhampton Council

Coventry City Council

Solihull Metropolitan Borough Council

Sandwell Metropolitan Borough Council

Walsall Metropolitan Borough Council

Dudley Metropolitan Borough Council

Coventry & Warwickshire LEP

Redditch Borough Council

Birmingham City Council

Staffordshire Non-Constituent Authorities

Shropshire Council

Nuneaton & Bedworth Borough Council

Quorum for this meeting shall be nine members.

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

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AGENDA

No.	Item	Presenting	Pages	Time
Meeting Business Items				
1.	Apologies for Absence	Chair	None	
2.	Declarations of Interest	Chair	None	
3.	Chair's Remarks	Chair	None	10:00
4.	Sean Pearce, Director of Finance To receive a briefing from the new Director of Finance and his priorities for the WMCA/ARAC.	Sean Pearce	None	10:05
5.	Minutes of the meeting held on 17 November 2017	Chair	1 - 10	10:15
6.	Matters Arising (a) Health & Safety Reporting (b) Whistleblowing (c) Wolverhampton Interchange Overspend – Lessons Learned	Tim Martin Tim Martin Tim Martin	Verbal Report	10:25
7.	Forward Plans	Chair	11 - 20	10:35
Business Items for Noting/Approval				
8.	External Audit Plan	Grant Patterson	21 - 38	10:45
9.	External Audit Plan - West Midlands Integrated Transport Authority Pension Fund	Grant Patterson	39 - 54	10:55
10.	Internal Audit Update	Peter Farrow	55 - 64	11:05
11.	Strategic Risk Register	Loraine Quibell	65 - 72	11:15
12.	WMCA Arm's Length Companies Checklist - Jan 2018	Joti Sharma	73 - 80	11:25
13.	Delivery of Devolution 1 & Devolution 2 Update	Tim Martin	Verbal Report	11:35
14.	Exclusion of the Public and Press 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 item of business as it involves information relating to an action taken or to be taken in connection with the prevention, investigation or prosecution of crime.		None	

15.	Cyber Security Presentation	Paul Beckley	81 - 90	11:45
Date of Next Meeting				
16.	Friday 16 March at 10:00am		None	12:00

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WEST MIDLANDS COMBINED AUTHORITY

Audit, Risk & Assurance Committee

Friday 17 November 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 Kerrie Carmichael

Sandwell Metropolitan Borough Council

Sean Farnell

Coventry & Warwickshire LEP

Councillor John Fisher

Redditch Borough Council

Councillor Simon Peale

Tamworth Borough Council/Cannock

Chase District Council

Councillor Alexander Phillips

Shropshire Council

Councillor June Tandy

Nuneaton & Bedworth Borough Council

In Attendance

Mark Babington

West Midlands Combined Authority

Nicola Coombes

Grant Thornton

Linda Downes

Nuneaton & Bedworth Borough Council

Peter Farrow

City of Wolverhampton Council

Julia Goldsworthy

West Midlands Combined Authority

Linda Horne

West Midlands Combined Authority

Councillor Peter Hughes

Overview & Scrutiny Committee

Sandra Kalyan

City of Wolverhampton Council

Tim Martin

West Midlands Combined Authority

Lorraine Quibell

West Midlands Combined Authority

Rita Rais

West Midlands Combined Authority

Joti Sharma

West Midlands Combined Authority

Jane Tattam

Solihull Metropolitan Borough Council

Councillor Jackie Taylor

Sandwell Metropolitan Borough Council

Item Title

No.

18. Apologies for Absence

Apologies for absence were received from Councillor Keith Chambers (Walsall Metropolitan Borough Council) and Councillor Steve Clark (Dudley Metropolitan Borough Council)

19. Declarations of Interest

No declarations of interest were made in relation to matters under consideration at the meeting.

20. Chair's Remarks

(a) Letter received from Jess Phillips MP, Birmingham Yardley Constituency

The Chair had received a letter from Jess Phillips MP concerning a complaint she had received from a constituent on the governance and procurement processes relating to the award of a contract. As part of his review, the Chair had been briefed by the Monitoring Officer and had asked to see the Authority's internal report and legal advice regarding this challenge. Following consideration of the evidence, he considered that although there were some lessons for the Authority to learn, the procurement process had been handled fairly.

(b) Monitoring Officer

The Chair had met with the recently appointed Monitoring Officer, Tim Martin and had discussed the Chair's expectations of officers for the next year in order to make the committee more effective.

21. Minutes of the meeting held on 15 September 2017

The minutes of the meeting held on 15 September 2017 were agreed and signed by the Chair as a correct record.

22. Matters Arising

(a) Health and Safety Issues and Whistleblowing

The Head of Governance reported that there were no health and safety or whistleblowing issues during this period.

The Chair identified that he did not believe that health & safety reporting should come through Audit, Risk & Assurance Committee in the long term (although the committee would have a role in being satisfied that the process was right and being handled appropriately) but the committee should await proposals from the Monitoring Officer on how this was being handled for the future relaxing the obligation to report to the committee at each meeting.

(b) Approval of the WMCA Accounts 2017/18 ARAC Membership

It was noted that the membership of the committee was as determined by the constituent/non-constituent authorities and the Head of Governance assured the committee that appropriate training would be provided to the current and new members joining the committee at the start of the municipal year to enable them to carry out their responsibilities effectively. It was also suggested that new members should be able to take confidence from their predecessors' work and opinions prior to any change in membership.

23. Forward Plans

The committee considered the plan of items to be reported to future meetings of the Audit, Risk & Assurance Committee and the forward plan for the WMCA Board.

At its meeting on 21 November, Overview & Scrutiny Committee would consider a report on the Authority's approach and plans to cope with the new General Data Protection Regulations before they became enforceable in May 2018. The Chair asked the Head of Governance to provide an update on this item of business at the next meeting.

Resolved

- (1) That an update be provided on General Data Protection Regulations (GDPR) preparations by the WMCA at January's meeting.

24. Combined Authority Leadership Team Priorities

The committee received an update from the Director of Strategy on the internal challenges in terms of resources and capacity to meet demand and achieve its forward momentum ambitions, emerging priorities including SEP ambitions, the first devolution deal and the delivery of the outcomes as expected, and the devolution agreement, in which negotiations were continuing with the Government. It was expected that the finalised devolution deal would be announced on 22 November.

The West Midlands Combined Authority needed to undertake further work to understand the cumulative impact and risks associated to Brexit. It also recognised the importance of continuing to improve the relationships and engagement with its non-constituent members.

Resolved

- (1) A governance map to enable members to identify the relationship and liaison with other Authority committees was to be submitted at the next meeting.
- (2) The Head of Governance to circulate an organisational chart and brief summary for each Leadership Team post holder to members of the committee for information.

25. Delegation of Statement of Accounts Approval

The committee considered a report of the Director of Finance which set out the rationale for recommending an amendment to the Authority's Constitution that would allow for the delegation of statutory accounts approval to the Audit, Risk & Assurance Committee.

The Head of Finance & Business Planning agreed to share a background briefing note on the Pension Fund with the Chair to review and assess whether it was appropriate for it to be circulated to all members of the committee in advance of any training on the accounts.

The committee emphasised the importance of training to enable them to carry out their responsibilities effectively. The Chair proposed that the January and March meetings be extended by 30 minutes to incorporate the appropriate training. All members of the committee agreed with this proposal.

Resolved

- (1) The report be approved on condition that appropriate training be provided to members to enable them to carry out their responsibilities effectively, and that satisfactory hand-over planning was made for new Audit, Risk & Assurance Committee members joining at the end of the approval process.

26. Grant Thornton - The Annual Audit Letter for the West Midlands Combined Authority

The committee considered a report from Grant Thornton that summarised the key findings arising from the work carried out at the West Midlands Combined Authority, including the West Midlands Integrated Transport Authority Pension Fund for the year ending 31 March 2017.

Councillor Craig Collingswood referred to the action plan within the report and enquired about the implementation date for those issues that were highlighted as a medium priority. Nicola Coombes, Grant Thornton, noted that the issues in respect of ICT would be reviewed as part of this year's audit. The Chair added that as the committee was to receive a presentation on Cyber Security in January 2018, this should also include an update on the issues identified as part of the audit.

Resolved

- (1) That the report be noted.

27. Grant Thornton - Progress Report and Update Year ended 31 March 2017

The committee considered a report from Grant Thornton on the progress in delivering its responsibilities as the Authority's external auditors.

Resolved

- (1) That the report be noted.

28. Audit, Risk and Assurance Committee Self-Assessment Exercise

The Chartered Institute of Public Finance and Accountancy (CIPFA) in their 'Audit Committees - Practical Guidance for Local Authorities' recommend that an Audit Committee should carry out a regular review of its performance and effectiveness.

The Internal Auditor reported that members of Audit, Risk & Assurance Committee had been asked to complete a self-assessment of good practice along with a knowledge and skills framework checklist based on a model provided by CIPFA.

The Chair asked that all members of the committee review, complete and return the self-assessment documentation, and requested that a paper copy of the documentation was to be sent to Councillor Sucha Bains. The Chair asked all members to recognise that the lessons to learn from this self-assessment were all part of being a high performing Audit, Risk & Assurance Committee.

Resolved

(1) That the report be noted.

29. WMCA Arm's Length Companies Checklist - Nov 2017

The committee considered a report of the Director of Finance that provided a checklist, which would be used by the Corporate Assurance Manager to assess if assurance arrangements for arm's length companies related to WMCA were satisfactory.

The Corporate Assurance Manager added that there had been an amendment to the checklist in respect of governance, to seek confidence and clarification as to whether independent members were included on the board, with the Chair being an independent member.

Councillor Margaret Bassett agreed to circulate a proposed list of questions for consideration to be incorporated within the checklist. Sean Farnell added that he would wish to see the definition of 'adequate', and considered that the accounts should be subject to external audit regardless of the size of the company. With regard to procurement, there should be a commitment for local procurement and Key Performance Indicators also to be attached. Councillor John Fisher considered that an understanding of the legal requirements and responsibilities in advance would be useful.

Following the completion of the checklists by a company, Councillor Craig Collingswood requested that the Corporate Assurance Manager produce a summary of the results, which was to be presented to Audit, Risk & Assurance Committee for its information.

The Chair requested that the checklist should be submitted to the next meeting of the committee for approval.

Resolved

(1) The checklist that was to be used to seek confidence in assurance arrangements for arm's length companies related to the West Midlands Combined Authority be noted, and the other points that members of the committee had asked to be incorporated were to be considered.

(2) The signed checklist was to accompany the Annual Governance Letter when it was presented to Audit, Risk & Assurance Committee on an annual basis.

30. Internal Audit Update

The committee considered a report of the Chief Audit Executive that provided an update on the work completed by internal audit so far this year.

Four pieces of audit work had been completed, where an audit opinion had been provided as follows:

- Programme Management Office Project Appraisal and Support Functions - Satisfactory
- Transport for West Midlands Capital Programme - Satisfactory
- Expenses, Gifts and Hospitality - Satisfactory
- Draft Report: Investment Programme - Governance Arrangements for Project Approval and Appraisal - Satisfactory. Internal Audit was currently awaiting a response from management in respect of its recommendations.

The Internal Auditor was currently in discussions with officers with regard to the Investment Programme and was confident that he would be able to provide an update on the number of recommendations accepted by management at the next meeting of the committee.

The Internal Auditor explained the process in which Internal Audit would determine whether a Red, Amber or Green rating would be provided. The Chair requested that more detailed reports should be shared with the committee when the ratio of Amber findings outweighed Green, as well as when there was a Red finding to enable the committee to question the findings and implications in more depth.

Resolved:

- (1) The contents of the latest Internal Audit Report was noted, and in future more detailed reports to be shared when the ratio of Amber findings outweighed Green, as well as when there was a Red finding.

31. Internal Audit Charter Review

The committee considered a report of the Chief Audit Executive on the Internal Audit Charter.

The Internal Audit Charter was a formal document that identified the internal audit activity's purpose, authority and responsibility. The Charter would be reviewed annually by the Head of Governance in conjunction with the Corporate Assurance Manager and the Head of Audit.

It was noted that the Audit, Risk & Assurance Committee would be asked to endorse any changes made to the Internal Audit Charter. Sean Farnell considered that it would be useful if these changes were highlighted within the report.

It was recognised that this Charter may be returned to Audit, Risk & Assurance Committee in the early part of 2018 having taken account of changes and recommendations from the new Senior Management Team, especially around the reporting line between the Chief Audit Executive and the Combined Authority.

Resolved

- (1) The Internal Audit Charter be approved, and it be noted that they may be subject to change following the consideration of the new management's proposals due to be heard by Audit, Risk & Assurance Committee at the end of January.

32. Capability and Vacancy Risks and Organisational Development Dashboard

The committee received a verbal report from the Interim Head of Organisational Development on Capability and Vacancy Risks and the Organisational Development Dashboard.

Councillor Alexander Phillips questioned whether the WMCA had the resource and skills to effectively carry out its forward agenda. This was an area that was currently being reviewed by the WMCA's Leadership Team together with the budget to ensure that it had the right resource, skills and support from its partners to carry out its developing agenda effectively.

Councillor Simon People added that whilst the WMCA would be calling on the resource of its partners, it also needed to be mindful that respective authorities were currently undergoing a review of its own resource and budgets. The Interim Head of Organisational Development agreed to work in conjunction with the Overview and Scrutiny Committee to undertake a benchmarking exercise in respect of resource.

Committee members continued to be concerned over the level of aspiration and planned activities and the resource levels and capability of the CA staffing. The Interim Head of Organisational Development agreed to engage with the Leadership Team and would submit a written report to the next meeting of the committee.

Resolved

- (1) The report be noted, and that there remained a concern over capability versus aspiration going forward and whether this would mean reduced aspiration or a risk to quality and performance be noted also.
- (2) The committee to receive a written report from the Interim Head of Organisational Development on capability and vacancy risks in respect of aspiration versus capability at its meeting on 19 January 2018.

33. Exclusion of the Public and Press

Resolved

- (1) That, in accordance with s100(A) of the Local Government Act 1972, the public and press be excluded from the meeting for the following items of business as they were likely to involve the disclosure of exempt information relating to the financial or business affairs of any particular person (including the authority holding that information).

34. Devolution Deals Update

The committee received a verbal update of the Head of Governance on the current devolution discussions with Government.

Resolved

- (1) That the report be noted.

35. Commonwealth Games Update

The committee considered a verbal update from the Head of Governance on the Commonwealth Games.

Resolved

- (1) That the report be noted; and
- (2) It be agreed that the continued presence of the Commonwealth Games updates on the Audit, Risk & Assurance Committee agenda could be discontinued once the Strategic Risk Register carried a clear reference and mitigation for high perception risk activities that might not be under the direct control of the Authority.

36. Transport for the West Midlands Network Emergency Planning

The committee considered a report of the Safety & Security Manager on the progress made in relation to Network Emergency Planning.

Councillor June Tandy enquired about the engagement with non-constituent partners and their involvement in network emergency planning. The Safety & Security Manager explained that in terms of Transport for West Midlands, it would be in respect of those areas that it had direct responsibility for. The Chair asked the Monitoring Officer to define the areas of responsibilities for the Combined Authority and therefore for members of the committee, to overcome the risk of confusion between the Combined Authority and local authority responsibilities.

Resolved

- (1) That the report be noted.
- (2) The Monitoring Officer to define the boundaries of the Combined Authority's responsibilities for members of the committee to overcome the risk of confusion between the Combined Authority and local authority responsibilities.

37. Friday 19 January 2018

The next meeting would be held on Friday 19 January at 10:00am.

The meeting ended at 12:15pm

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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)
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
	Annual Internal Audit Report	Peter Farrow/Sandra Kaylan
	Outturn Report for 2017/18	Tim Martin
	WMCA Annual Governance Statement	Tim Martin
	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	

Date	Item	Officer(s)
	Business Items for Noting/Approval	
	Audit Findings	Grant Patterson/Nicola Coombe
	WMCA Annual Accounts Approval	Linda Horne
	Private Items of Business	
19 July 2018 (Additional Meeting)		

WMCA Overview & Scrutiny Committee - Forward Plan

Title of Report	Description of Purpose	Date of Meeting	Lead Officer/Member
Question Time – Mayoral Budget Report 24 January 2018	To discuss and consider the proposed recommendations to be presented to the WMCA Board on 9 February	30 January 2018	Sarah Sprung/Earl Piggot-Smith
Mental Health Commission Task & Finish Group	To provide a progress update on the work of the Task and Finish Group	30 January 2018	Councillor Peter Hughes
Land Commission Task & Finish Group	To provide a progress update on the work of the Task and Finish Group	30 January 2018	Councillor Ian Shires
Skills and Productivity Commission Task & Finish Group	To provide a progress update on the work of the Task and Finish Group	30 January 2018	Councillor Claire Spencer
Budget Task & Finish Group	To provide a progress update on the work of the Task and Finish Group	30 January 2018	Councillor Stephen Simkins
Governance Task & Finish Group	To provide a progress update on the work of the Task and Finish Group	30 January 2018	Councillor John McNicholas
Inclusive Growth and Social Value Task & Finish Group	To provide a progress update on the work of the Task and Finish Group	30 January 2018	Councillor Claire Spencer

Title of Report	Description of Purpose	Date of Meeting	Lead Officer/Member
Integrated Plan	Consideration of the Integrated Plan & Budget	30 January 2018	Louise Cowen
Devolution II Update	To receive a progress update on the Devolution II	30 January 2018	Tim Martin
HR Report – WMCA Staff and Capability Resource	To receive an update on capability resource	30 January 2018	Rita Rais
General Data Protection Regulation (GDPR)	To receive an update on GDPR and the CA's approach and plans to cope with the new GDPR Regs before they become enforceable in May 2018	30 January 2018	Tim Martin
Mental Health Commission Task & Finish Group	To provide a progress update on the work of the Task and Finish Group	20 March 2018	Councillor Peter Hughes
Land Commission Task & Finish Group	To provide a progress update on the work of the Task and Finish Group	20 March 2018	Councillor Ian Shires
Skills and Productivity Commission Task & Finish Group	To provide a progress update on the work of the Task and Finish Group	20 March 2018	Councillor Claire Spencer
Budget Task & Finish Group	To provide a progress update on the work of the Task and Finish Group	20 March 2018	Councillor Stephen Simkins

Title of Report	Description of Purpose	Date of Meeting	Lead Officer/Member
Governance Task & Finish Group	To provide a progress update on the work of the Task and Finish Group	20 March 2018	Councillor John McNicholas
Inclusive Growth and Social Value Task & Finish Group	To provide a progress update on the work of the Task and Finish Group	20 March 2018	Councillor Claire Spencer
WMCA Wellbeing Board – Cross-focused review in respect of air quality issues to incorporate housing and manufacturing emissions	To receive an update on the cross-focused review	20 March 2018	

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WEST MIDLANDS COMBINED AUTHORITY FORWARD PLAN: JANUARY 2018 - 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.	9 February 2018	No	Mayor	Julia Goldsworthy	No	Delivery
Devolution Agreement	To seek agreement to the recent devolution agreement reached with the Government.	9 February 2018	Yes	Mayor	Tony Smith	No	Devolution
Draft Integrated Business Plan & Budget	Consideration of draft integrated plan and budget.	9 February 2018	Yes	Cllr Izzi Seccombe	Sean Pearce	No	Finance
Consideration of 2018/19 Levy Proposals	Approval of 2018/19 levy.	9 February 2018	Yes	Cllr Izzi Seccombe	Sean Pearce	No	Finance
Culture, Creative & Tourism	To provide an update on the work undertaken by the Culture, Creative & Tourism Group.	9 February 2018	Yes	Cllr Ian Ward	Dave Webb	No	Strategy

Title of Report	Description of Purpose	Date of Meeting	Key Decision (Y/N)	Lead Portfolio Holder	Lead Officer	Confidential	Category
Industrial Strategy	To provide an update on the Industrial Strategy.	9 February 2018	No	Cllr Ian Ward	Deborah Cadman	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.	9 February 2018	Yes	Cllr Roger Lawrence	Laura Shoaf	Yes	Transport
Mobility as a Service	To provide an update on latest developments.	9 February 2018	No	Cllr Roger Lawrence	Laura Shoaf/Chris Lane	No	Transport
Local Cycling and Walking Infrastructure Plans	To consider the approach to the delivery of development of Local Cycling and Walking Infrastructure Plans	9 February 2018	Yes	Cllr Roger Lawrence	Laura Shoaf/Hannah Martin	No	Transport
Swift Update	To provide an update on the latest Swift-related developments.	9 February 2018	No	Cllr Roger Lawrence	Laura Shoaf/Matt Lewis	No	Transport

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.	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
West Midlands Leadership Commission	To consider recommendations arising out of the work of the Commission.	13 April 2018	Yes	Cllr Steve Eling	Meera Sonecha	No	Commissions
Portfolio Performance Reporting	To provide oversight of the latest performance reporting and management.	13 April 2018	No	Mayor	Julia Goldsworthy	No	Delivery

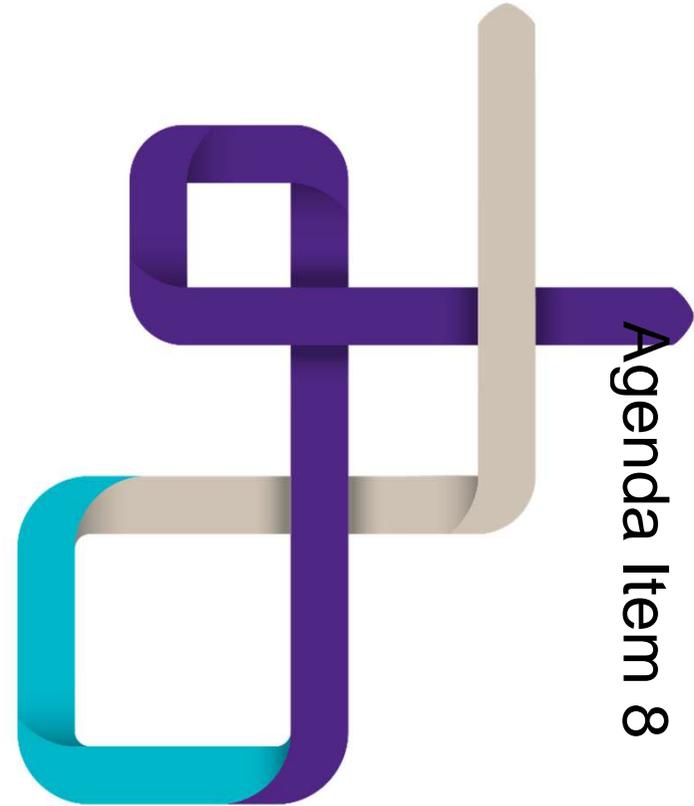
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External Audit Plan

Year ending 31 March 2018

West Midlands Combined Authority
19 January 2018

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Agenda Item 8

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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of the West Midlands Combined Authority ('the Authority') for those charged with governance. We will report any updates or changes to our risk assessments arising from our interim audit visits as part of our 'Interim Progress Report'.

Respective responsibilities

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

Scope of our audit

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

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

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

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

Significant risks

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

- Management override of controls
- Net Pension Liability

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

Materiality

We have determined planning materiality to be £4.5m (PY £4.0m), which equates to 1.8% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.226m (PY £0.198m). In addition, we will be applying a lower materiality to senior management remuneration due to the sensitive nature of these disclosures. This materiality will be £100k.

Value for Money arrangements

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

- Evolution of the governance arrangements

Audit logistics

Our interim visit will take place in January and February and our final visit will take place in May. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £46,500 (PY: £46,500) for the Authority.

Independence

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

Deep business understanding

Changes to service delivery

Commissions

The Authority has developed three commissions to assist it in delivering its strategy:

- Land Commission
- Mental Health Commission
- Productivity & Skills Commission

The scale of change at the Authority is significant and the permanent leadership team are now all in place, with the recent appointment of the lead on Housing and Strategy and Director of Public Service Reform.

A further development being considered (and currently out for public consultation) is the integration of the West Midlands Fire Service as part of the Combined Authority.

Devo 2

A second devolution deal to promote growth was published 23 November 2017. It notes that “the election of the Mayor, the changing economic context [...] and the establishment of a Strategic Economic Plan for the three-LEP area has expanded both the ambition of the outcomes and the pace of delivery that local partners seek to achieve.” To help with this, the WMCA will have access, along with the other combined authorities, to a one-off Mayoral Capacity Fund totalling £12m over two years. WMCA and the government are in the process of agreeing a debt cap which will enable the government to extend the WMCA’s borrowing powers.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Minimum Revenue Provisions (MRP)

During the year the Authority opted to change the way it calculates its MRP. The Authority reached its conclusions on amending the methodology based upon the statutory guidance currently in force. We have considered and challenged this and are not minded to challenge. DCLG has since issued consultations on potential changes to future guidance in respect of MRP. From our review of the consultation, we have not identified any factors that would make us reconsider our view but we will maintain a watching brief.

Key challenges

Financial performance

The Transport Revenue budget is showing an overall favourable variance of £490K year to date (as at October 2017). The operational budget shows a favourable variance of £941K for year to date.

In terms of the Mayoral budget, following the second forecasting exercise of the year, the forecast is now in line with the budget due to external advice costs being removed with the expectation of managing the work in house. The costs have been reviewed to ensure that actual expenditure is in line with the Mayor’s budget.

In respect of the directly delivered Investment Programme schemes show expenditure being ahead of budget were approximately £6.7m ahead of budget primarily due to a £2.3m variance in Metro Edgbaston Extension works, which has had accelerated utility works.

The investment programme spend for the year ending 31 March 2018 is broadly in line with expectations, and spend is anticipated to total approximately £118m.

In addition, the Authority is in the process of linking with existing companies through which the Strategic ambitions can be realised. To facilitate the governance arrangements an arms length checklist is being established to ensure that the Authority can seek confidence in assurance arrangements for those arm’s length companies it is associated with.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, and the impact of impairment assessments and the adequacy of provisions in relation to essential work on high rise buildings.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including West Midlands Combined Authority, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for West Midlands Combined Authority.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. . The Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of pension fund net liability	<p>The Authority's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none">• ensure that the pensions prepayment paid by the Authority to the Pension Fund in April 2017 was subject to due process and has been accounted for in the financial statements correctly• identify 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• evaluate 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• undertake procedures to confirm the reasonableness of the actuarial assumptions made.• check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration	<p>Payroll expenditure represents a significant percentage of the Authority's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the Authority's accounting policy for recognition of payroll expenditure for appropriateness; • gain an understanding of the Authority's system for accounting for payroll expenditure and evaluate the design of the associated controls; • obtain year-end payroll reconciliation and ensure amount in accounts can be reconciled to ledger and through to payroll reports. Investigate significant adjusting items. • agree payroll related accruals to supporting documents and review any estimates for reasonableness.
Operating expenses	<p>Non-pay expenses on other goods and services also represents a significant percentage of the Authority's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the Authority's accounting policy for recognition of non-pay expenditure for appropriateness; • gain an understanding of the Authority's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • test a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period.

Other matters

Other work

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

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Authority.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Authority, copied to the Secretary of State.
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

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

Materiality for planning purposes

We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £4.5m (PY £4.0m), which equates to 1.8% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

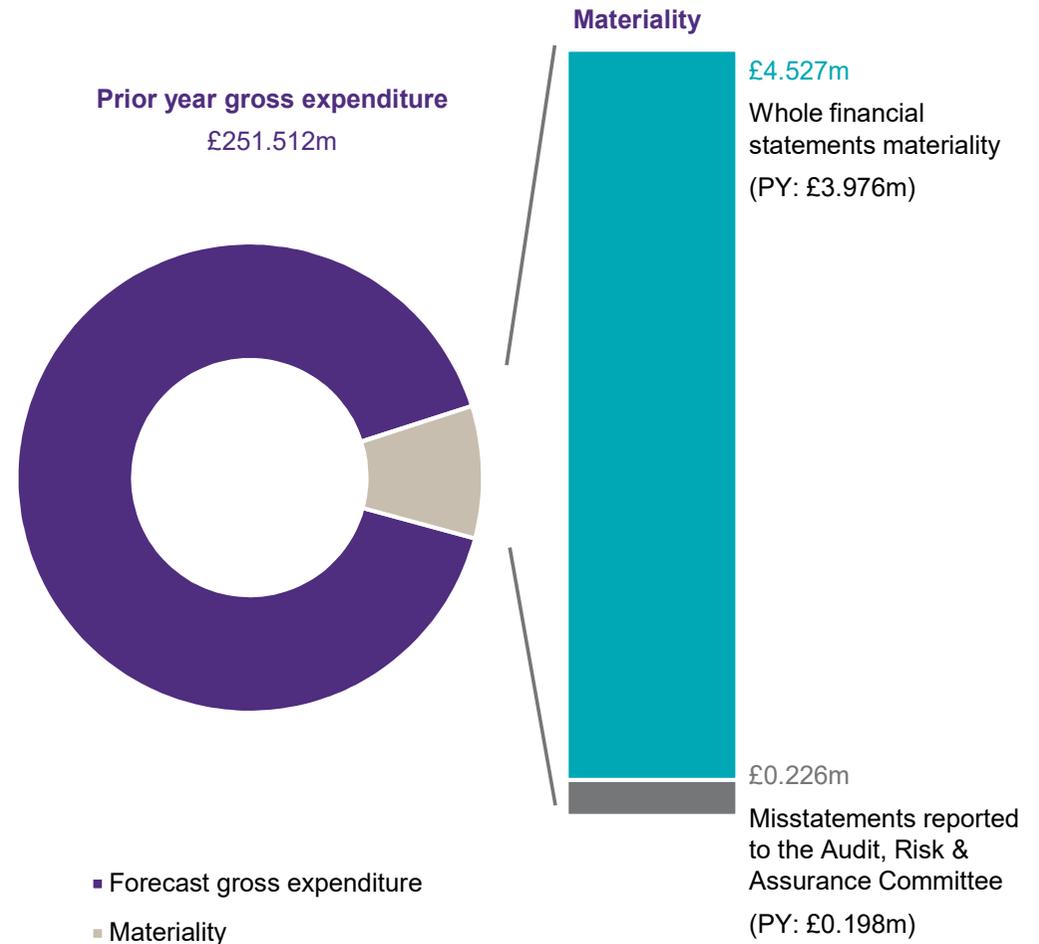
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

A (UK and Ireland) 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have decided to have a lower level of materiality for £100k for the senior officer remuneration disclosures due to the public interest in these disclosures and the statutory requirement for these to be made.

Matters we will report to the Audit, Risk & Assurance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk & Assurance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.226m (PY £0.198m).

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



Group audit scope and risk assessment

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

Component	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
West Midlands Development Capital Limited	No	Analytical	No risks identified. This is a 100% subsidiary and is not expected by management to be material to the group. Therefore no consolidation proposed.	We will review management's proposals and obtain evidence to support the conclusion that no consolidation is required.
Midland Metro Limited	No	Analytical	No risks identified. This is a 100% subsidiary and is not expected by management to be material to the group. Therefore no consolidation proposed.	We will review management's proposals and obtain evidence to support the conclusion that no consolidation is required.
West Midlands Growth Company Limited	No	Analytical	No risks identified. This is an investment by the Authority, which is not considered to be material and the Authority do not believe that they control or significantly influence the company. Therefore no consolidation proposed.	We will review management's proposals and obtain evidence to support the conclusion that no consolidation is required.
West Midlands Rail Limited	No	Analytical	No risks identified. The Authority has determined that this entity is an Associate, which is not considered to be material. On this basis no consolidation is proposed.	We will review management's proposals and obtain evidence to support the conclusion that no consolidation is required.

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the components financial statements is required

Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Value for Money arrangements

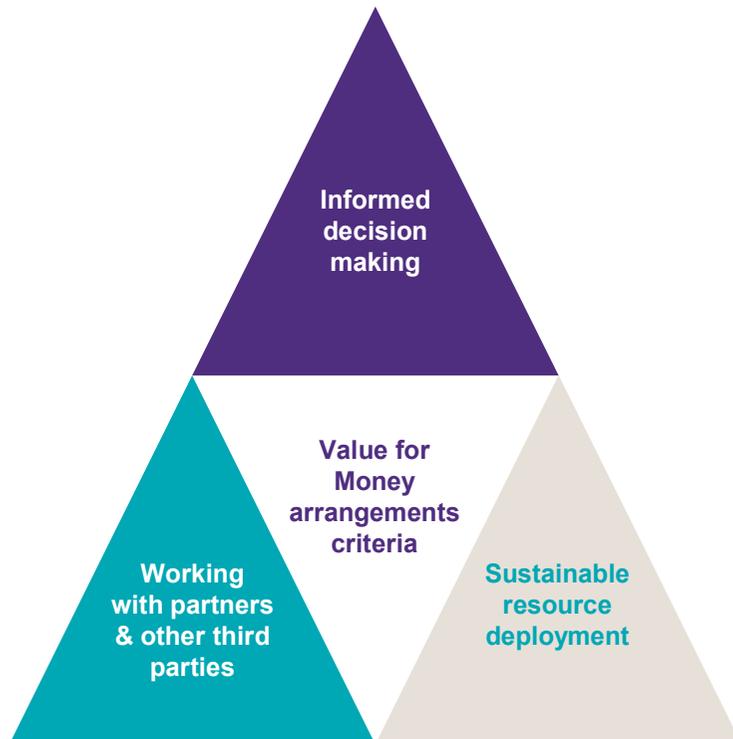
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority 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:



Significant VFM risks

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



Evolution of the governance arrangements

As noted in our prior year Audit Findings Report, the governance arrangements at the Authority are continuing to develop as the Authority itself evolves. Since last year the Authority has appointed its substantive senior management team which will pave the way for further evolution of governance arrangements.

A second devolution deal to promote growth was announced in November 2017 and there are on-going discussions in respect of responsibilities for fire and rescue services in the region.

There is a risk that arrangements may not appropriately reflect changing responsibilities of the Authority and heighten the risk of actual or perceived instances of inadequate governance.

We will review relevant Board and Combined Authority papers and hold regular discussions with management and key officers about any changes to the governance structure as well as to understand how decisions are made and reported to the Board.

Audit logistics, team & audit fees



Grant Patterson, Engagement Lead

As your engagement lead, Grant will have the ultimate responsibility for the delivery of your audit service. He will lead our relationship with the Authority and take overall responsibility for delivering a high quality audit, which meets the highest professional standards while adding value.



Nicola Coombe, Audit Manager

As the engagement manager, Nic is responsible for overseeing the delivery of our service. She will be on hand to answer any queries, whilst ensuring an efficient audit process.



Ellena Grant-Pearce, Audit Incharge

Lena will lead the on-site audit team, effectively providing a hands on compliance and/or advisory role (as relevant), keeping the finance team abreast of any findings as and when they occur.

Audit fees

The planned audit fees are no less than £46,500 (PY: £46,500) for the financial statements audit.

In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 12). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

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

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Closing thoughts

We note that the Authority have historically been enthusiastic to, and successful in, meeting early closedowns. We are planning to have our audit work completed by 21 June 2018 and we look forward to working with you this year to look to be significantly ahead of the 31 July deadline.

Independence & non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Authority's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Non-audit services

The following non-audit services were identified:

Service	Fees £	Threats	Safeguards
Audit related			
None	N/A	N/A	N/A
Non-audit related			
Strategic Financial Management Development Programme: attendance of 1 delegate from the Authority	2,750	None identified	This was a workshop given to finance officers to provide them with skills to be able to work through their own issues and problems. No direct recommendations were made by Grant Thornton to the attendees to implement at their organisation and the work conducted is not relevant and will not be referred to as part of our audit of the financial statements or consideration of value for money arrangements. This piece of work was led by the Local Government Advisory Team who are separate from the audit team.

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

None of the services provided are subject to contingent fees.

Appendices

A. Revised ISAs

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Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Authority's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Authority's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.



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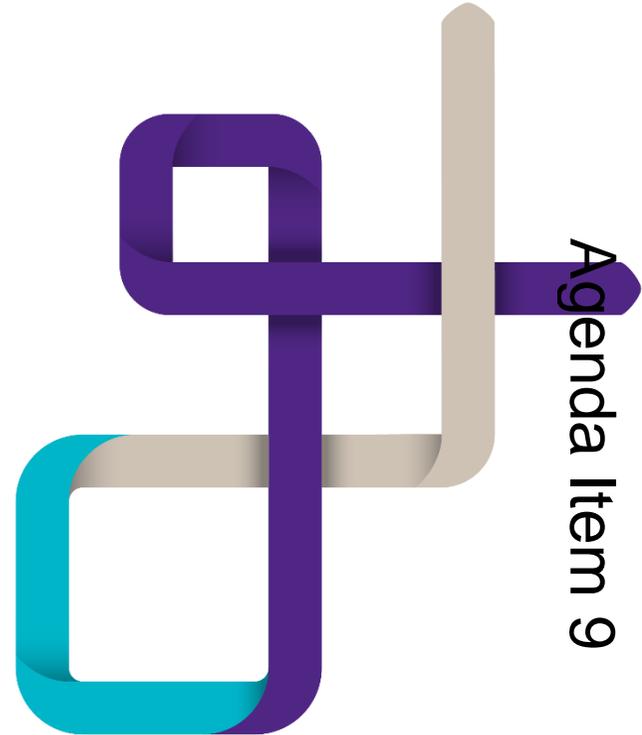
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External Audit Plan

Year ending 31 March 2018

West Midlands Integrated Transport Authority Pension Fund
19th January 2018

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Agenda Item 9

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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Midlands Integrated Transport Authority Pension Fund ('the Fund') for those charged with governance. We will report any updates or changes to our risk assessments arising from our interim audit visits as part of our 'Interim Progress Report'.

Respective responsibilities

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

Scope of our audit

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

- financial statements that have been prepared by management with the oversight of those charged with governance (West Midlands Combined Authority's Audit, Risk and Assurance committee).
- The audit of the financial statements does not relieve management or the Audit, Risk and Assurance Committee of your responsibilities. It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

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

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Significant risks

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

- The revenue cycle includes fraudulent transactions. This risk has been rebutted, please see page 5 for our consideration of this risk.
- Management override of controls.
- The valuation of Level 3 investments is incorrect.

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

Materiality

We have determined planning materiality to be £5,029k (PY £4,609k), which equates to 1% of your net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £251k (PY £230k).

Audit logistics

Our interim visit will take place in February 2018 and our final visit will take place in June 2018. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £21,000 (PY: £21,000) for the Fund.

Independence

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

Deep business understanding

Changes to service delivery

Pooling

The ITA Pension Fund has been working with seven partner Funds on a proposal which will meet the criteria for pooling by establishing a jointly owned investment management company, known as 'LGPS Central Ltd' (LGPS Central) in line with the Government's overall timescale of 1 April 2018. FCA authorisation of the operator is targeted for January 2018 and the Authorised Contractual Scheme (ACS) is planned to be launched in April 2018. Partner Funds have started to focus on the delivery requirements for Shareholder Forum (as the group of "owner" representatives) and the Joint Committee (focused on investment matters and client-side). This remains a challenging agenda and the new arrangements will have a significant impact on how investments are managed and monitored, with much of the operational responsibility moving to the pool operator. It remains key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

Markets in Financial Instrument Directive (MiFID II)

January 2018 sees the implementation of MiFID II. The impact for funds is that to be able to continue to access the same investments as previously, they need to apply to 'opt up' and gain election to professional status. Without this change in status some financial institutions could terminate their relationship with the fund, which may have an adverse impact on the achievement of the investment strategy.

On-going Matters

Along with other LGPS funds the ITA Pension Fund will need to address indexation and the equalisation of GMP. As a 'closed fund' the on-going discussion in respect of reforms to public sector exit packages and the application, or not, of the 2013 Fair Deal changes to the LGPS alongside the SAB review of Tier 3 employer risks are not anticipated to have a direct impact.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced minor changes to the 2017/18 Code, these include a new disclosure of investment manager transaction costs and clarification on the approach to investment concentration disclosure.

Key challenges

Financial and fund position

For the period ending 30 September 2017 there were 5,035 scheme members, of which only 7.5% are now active members. Administration budgets are in line with forecasts including the expected share of set up costs for the pool which, at 1/8th, are anticipated to be in the region of £476k for the full year. The value of West Midlands ITA Pension Fund was £507.5m, an increase of £4.6m from 31 March 2017. The main reason for the increase in the value of the Fund for the year so far is gains in the value of investment assets.

General Data Protection Regulations (GDPR)

GDPR comes into effect in May 2018 and replaces the DPA 1998. It introduces new obligations on data controllers. The Fund is both a data controller and a data processor and needs to ensure that it has appropriate processes in place to comply with the changes being introduced.

tPR 2016 Governance and Administration Survey

Published in May 2017 whilst showing improvements in governance tPR noted that its focus for 2017-18 would be scheme governance, record keeping, internal controls and member communication and that tolerance for scheme shortcomings in these areas was reducing and that they were more likely to use their enforcement powers where scheme managers have not taken sufficient action to address issues or meet their duties.

Our response

- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including West Midlands Combined Authority as the Administering Authority of West Midlands ITA Pension Fund, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for West Midlands ITA Pension Fund.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

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Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 3 investments is incorrect	<p>Under ISA (UK) 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We have identified the valuation of Level 3 investments as a risk requiring special audit consideration. The Prudential buy-in is the only material, directly held, 'hard to value' investment held by WM ITA Pension Fund and this will be valued by the Fund's actuary (Barnett Waddingham).</p>	<ul style="list-style-type: none">• Gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls• Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided by these types of investments. We will use our in-house experts, the Grant Thornton valuation team, to assist us in doing this. We will review the assumptions and calculations to provide assurance that the valuation is reasonable.• Consideration of the competence, expertise and objectivity of any management experts used.• Review the qualifications of the expert Barnett Waddingham to value Level 3 investments at year end and gain an understanding of how the valuation of these investment has been reached.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Contributions</p>	<p>Contributions from employers and employees' represents a significant percentage (78%) of the Fund's revenue.</p> <p>We identified occurrence and accuracy as the risks requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the Fund's accounting policy for recognition of contributions for appropriateness; • gain an understanding of the Fund's system for accounting for contribution income and evaluate the design of the associated controls; • test a sample of contributions to source data to gain assurance over their accuracy and occurrence; and, • rationalise contributions received with reference to changes in member body payrolls and number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.
<p>Pension Benefits Payable</p>	<p>Pension benefits payable represents a significant percentage (98%) of the Fund's expenditure.</p> <p>As pensions in payment expenditure comes from a number of individual transactions there is a risk that pensions expenditure in the accounts could be understated. We therefore identified completeness of pension expense as a risk requiring particular audit attention.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; • test a sample of individual pensions in payment by reference to member files; • rationalise pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained

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Reasonably possible risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 2 investments is incorrect	<p>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p> <p>We have identified the valuation of Level 2 investments as the risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls. • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided by these types of investments. • consider the competence, expertise and objectivity of any management experts used. • review the qualifications of the expert [insert fund manager or custodian if used] to value the level 2 investments at year end and gain an understanding of how the valuation of these investment has been reached. • for a sample of investments, test the valuation by obtaining independent information from custodian/manager on unit and on unit prices.

Other matters

Other work

The Fund is administered by the West Midlands Combined Authority, and the Fund's accounts form part of the Combined Authority's financial statements. Therefore as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We consider our other duties under the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Authority, copied to the Secretary of State.
- Reading all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report.

Other material balances and transactions

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

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

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

Materiality for planning purposes

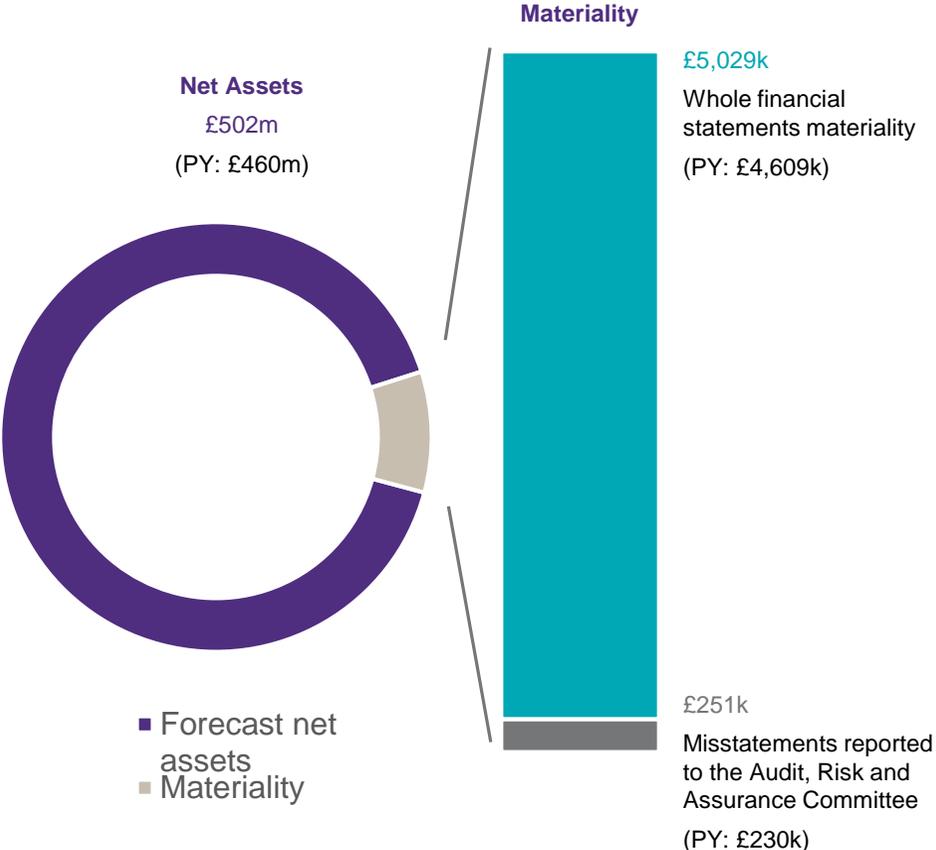
We propose to calculate financial statement materiality based on a proportion of the net assets of the Fund for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £5,029k (PY £4,609k), which equates to 1% of your net assets for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision.

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

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

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk and Assurance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £251k (PY £230k).

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



Audit logistics, team & audit fees



Grant Patterson, Engagement Lead

As your engagement lead, Grant will have the ultimate responsibility for the delivery of your audit service. He will lead our relationship with the Fund and the Authority and take overall responsibility for delivering a high quality audit, which meets the highest professional standards while adding value.

Terry Tobin, Senior Audit Manager

As the engagement manager, Terry is responsible for overseeing the delivery of our service. He will be on hand to answer any queries, whilst ensuring an efficient audit process.

Jo Drinkwater, Audit Incharge

Jo will lead the on-site audit team, effectively providing a hands on compliance and/or advisory role (as relevant), keeping the finance team abreast of any findings as and when they occur.

Audit fees

The planned audit fees are no less than £21,000 (PY: £21,000) for the financial statements audit. In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 12). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

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

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Closing thoughts

We note that the Fund and the Combined Authority have historically been enthusiastic to, and successful in, meeting early closedowns. We are planning to have our audit work completed by 21 June 2018 and we look forward to working with you this year to look to be significantly ahead of the 31 July deadline.

Independence & non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Non-audit services

No non-audit services were identified. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Appendices

A. Revised ISAs

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Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Fund's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Fund's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.



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WEST MIDLANDS
COMBINED AUTHORITY

Audit, Risk & Assurance Committee

Date	19 January 2018
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:

Audit, Risk and Assurance Committee is recommended to:

1. 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 direct wider WMCA implications arising from this report.

4.0 Financial implications

4.1 There are no direct financial implications arising from this report.

5.0 Legal implications

5.1 There are no direct legal implications arising from this report.

6.0 Equalities implications

6.1 There are no direct equalities implications arising from this report.

7.0 Other implications

7.1 Not applicable

8.0 Schedule of background papers

8.1 None

9.0 Appendices

9.1 None



WEST MIDLANDS
COMBINED AUTHORITY

BIRMINGHAM • COVENTRY • DUDLEY • SANDWELL • SOLIHULL • WALSALL • WOLVERHAMPTON

Internal Audit Update Report Quarter 3 2017-2018

Delivered by City of Wolverhampton Council – Audit Services

1 Introduction

The purpose of this report is to bring the Audit, Risk and 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 (@ Q3)	2016/17
Substantial	1	4
Satisfactory	4	4
Limited	-	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					Level of assurance
		Red	Amber	Green	Total	Number accepted	
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
Investment Programme - Governance Arrangements for Project Appraisal and Approval	High	-	8	0	8	8	Satisfactory
Reported this quarter for the first time:							
Treasury Management Key Financial System	High	-	-	2	2	2	Substantial

* This issue related to the certification of approvals and at the time of our review the previous Head of the Programme Office indicated that there was a compensating control. We have subsequently revisited this area as part of our recent Investment Programme audit and recommendations to address this issue have been accepted and will be implemented as part of the external WMCA Portfolio Management and Assurance review being undertaken of all WMCA programme management, governance and appraisal processes.

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

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

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.

It should be noted that whilst the various boards involved in this process have wider remits across the Combined Authority or relate to external bodies, the governance arrangements referred to in our review solely relate to, and have been reviewed in the context of the Project Lifecycle Process in operation for the Investment Programme.

We understand that the Project Lifecycle Process stipulated within the overall Assurance Framework was developed at the time of the constitution of the Combined Authority and applied in the context of an emerging organisation. The Programme Management Office and Corporate Assurance have advised that proportionate processes were established from September 2016 onwards with the view to ensure that project delivery time frames were not impeded and in turn prevented delay to the implementation of the devolution plan. We also understand that the processes established were based on projects that had already reached a level of maturity within programmes that had already been approved for funding within the Devolution Deal.

Consequently, we reviewed the appraisal and approval processes that current projects have progressed through, recognising that projects may not have progressed through the exact processes and channels that were introduced and expected to be used at the formation of the Combined Authority.

Also, that after a year of operation it is understandable that any new and emerging organisation such as the Combined Authority would naturally necessitate reiterated stages of review and change for some time to come and to ensure processes are fit for purpose as it matures and evolves. However, as newer projects falling within the approved programmes are now emerging for appraisal and approval, this is now an opportune time to revisit the current appraisal and approval processes, and ensure they are appropriate and

proportionate to the review of emerging projects and development / delivery of the Investment Programme.

We did note that the governance arrangements stipulated in the Assurance Framework for the Project Lifecycle Process regarding the Investment Programme had been clearly established and were found to be operating as evidenced within the minutes maintained for the various boards involved from the Investment Advisory Group through to the WMCA Board.

Therefore, the issues identified in our review, while complex need to be taken into context against the above. We did identify eight amber issues where improvements could be made, arising from the below, but again should repeat that we acknowledge that these processes are in many ways, still developing:

- Clear demonstration and documentary evidence of the appraisal process undertaken for each project was yet to be in place as part of providing overall assurance for the progression and delivery of the Investment Programme.
- Roles and responsibilities for the Technical Appraisal Panel needed to be clearly defined and a responsible officer (accountable for appraisal and its sign-off) assigned.
- Formalised mechanisms for initiation of projects into the Investment Programme and a selection and prioritisation process (proportionate to the overall approval of programmes within the Devolution Deal) for submitted individual projects had yet to be established.
- Suitable mechanisms for undertaking individual project appraisal, scoring and evaluation, due diligence activities and use of Dynamic Economic Impact Model data had not yet been fully established or utilised.
- Mechanisms for tracking and progressing projects and associated recommendations for approval from lower levels of governance through to higher levels of governance with clarity and consistency required development.
- Local assurance was not always documented or confirmed by the Technical Appraisal Panel as having been obtained by the project sponsor per their own organisation's governance arrangements, prior to submission of a project to the Investment Programme and endorsement to progress.
- Although the Strategic Economic Plan Board had been incorporated into the governance arrangements, it's role was yet to be clearly defined regarding its remit to review strategic alignment and reporting of outcomes to the Combined Authority, as well as involvement at different stages rather than only at Strategic Business Case stage.

- Whilst recognising projects had not yet reached delivery stage and the requirement to submit monitoring data had been mandated within funding agreements, monitoring and evaluation plans required to be submitted by the project sponsor at Full Business Case stage were not currently reviewed as part of the appraisal process to ensure fit for purpose going forward.

The newly appointed Director of Finance who started his appointment in October 2017, has welcomed this independent review of the current governance and approval processes 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.

The Director of Finance would like to acknowledge the work undertaken by the previous Interim Director of Finance, Corporate Services Director, Investment Programme Director and Head of Programme Management Office and Projects who have now left the WMCA to seize new opportunities. The Director of Finance further acknowledges that these officers were instrumental in embedding the Investment Programme governance and appraisal processes as outlined in the WMCA Assurance Framework in a period of great change during the transition and formation of the WMCA.

As Section 151 officer as well as accountable lead for the delivery of the Investment Programme, the Director of Finance following this internal audit and several personnel changes involved in the Investment Programme has commissioned an external independent programme management consultant to undertake a wider WMCA Portfolio Management and Assurance review of all WMCA programme management, governance and appraisal processes including those relating to the Investment Programme.

The Director of Finance has advised that the Portfolio Management and Assurance review will be concluded in July 2018 and that a full action plan to address issues highlighted by the external review and the issues identified within this internal audit review will be developed for implementation by December 2018.

The Director of Finance has also confirmed that immediate action is currently being undertaken to address urgent operational level issues relating to areas such as programme / project appraisal undertaken by the Technical Appraisal Panel, evidencing of their appraisal and decision making as well as tracking of business cases / recommendations through the current governance arrangements. The Performance Management Group will oversee the implementation of these recommendations.

In addition to the above actions, the Director of Finance has advised that the WMCA Board has approved that all existing programmes within the Investment Programme that have not reached contract award stage will be re-ranked and sequenced according to strategic alignment, due to funding constraints. We understand that the exercise will be concluded in July 2018 and will be undertaken in liaison with all Constituent Authority Leaders.

We further understand that the WMCA is currently in discussion with the Department of Communities and Local Government regarding review of the overall WMCA Assurance Framework as part of the forthcoming Annual Conversation.

Consequently, whilst we understand that immediate action will be taken to address operational issues identified within this report, and action will be taken as result of the outcome of the Portfolio Management and Assurance review by December 2018, we recognise that the potential outcomes of the re-ranking exercise and the review of the overall Assurance Framework may have implications for the Investment Programme and associated processes once outcomes are known.

The Director of Finance has advised that a review update covering the above areas will be provided to the Audit, Risk and Assurance Committee in July 2018. An internal audit follow-up review will be undertaken in due course.

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.

Cyber Security

We are currently undertaking a follow-up review of the Cyber Security audit report issued in May 2016. A limited overall assurance opinion had been given at the time with one red and six amber issues identified. We understand that the Head of ICT and Head of Governance will be presenting a progress report to the committee meeting regarding improvements and progress made in Cyber Security. The outcome of our follow-up review will be reported to the next Audit, Risk and Assurance Committee meeting.

4 *The Internal Audit Plan*

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 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:

- IR35
- Key Financial Systems (draft report stage)
- Data Security
- Election Costs
- Mayoral Office
- National Fraud Initiative
- Recommendation Tracking

5 *2018/19 Internal Audit Plan – planning process*

We are currently in the process of developing the draft Internal Audit Plan for 2018/19 in liaison with senior management. The internal audit plan will be based, wherever possible, on management's risk priorities, as set out in the Authority's own risk analysis/assessment, developed by the Corporate Assurance Team. The plan will be designed to, wherever possible, cover the key risks identified by such risk analysis.

The auditable areas covered within the 2017/18 plan were as follows:

- Programme Management Office Project Appraisal and Support Functions
- Transport for West Midlands Capital Programme
- Expenses, and Gifts and Hospitality
- Investment Programme - Governance Arrangements for Project Appraisal and Approval
- Data Security
- Key Financial Systems
- Treasury Management
- IR35
- National Fraud Initiative
- Election Funding
- Mayoral Office
- Grant Certifications



Audit, Risk & Assurance Committee

Date	19 January 2018
Report title	Strategic Risk Register
Accountable Chief Executive	Deborah Cadman, Chief Executive of the WMCA email: deborah.cadman@wmca.org.uk tel: 0121 214 7200
Accountable Employee	Sean Pearce, Finance Director email: sean.pearce@wmca.org.uk tel: 0121 214 7936
Report to be/has been considered by	None

Recommendation(s) for action or decision:

The Audit, Risk and Assurance Committee is recommended to:

1. Consider and comment on the contents of the Strategic Risk Register (Appendix 1).

1.0 Purpose

1.1 This report is provided to support the Audit, Risk and Assurance Committee with their responsibility of providing oversight of Risk Management within the West Midlands Combined Authority (WMCA).

2.0 Background

2.1 Robust Risk identification and management arrangements are in place with regular monitoring being undertaken between Senior Managers, Programme Management and Commission representatives, following the principles of the Corporate Risk Management Strategy.

2.2 Following discussion at Audit, Risk and Assurance committee in September 2017, and the establishment of the WMCA Leadership team, the risk register has been scrutinised and subsequently consolidated to provide clarity and a greater focus on the strategic risks of the organisation. The WMCA Leadership Team formally confirmed the status of the risks shared in this report and the risk register as the strategic risks affecting the West Midlands Combined Authority. The Leadership will continue to own the strategic risk register and monitor the risks at regular intervals in the year.

2.3 Risks previously contained and reported to this committee but that are no longer contained within this register, have been retained within existing Management team risk registers and will be managed at the appropriate level.

3.0 Strategic Risk Register

3.1 11 risks have now been confirmed and recorded as strategic risks on the risk register. Full details of the risks including the associated remedial actions are detailed in the risk register as Appendix 1.

3.2 Risks captured within the register are recorded under the following headings, with the measurement of risk indicated prior to risk mitigation being considered, (inherent risk score) and the measurement of risk once mitigations have been applied, (residual risk score) being provided in the table below.

Risk	Inherent risk score	Residual risk score
Stakeholder & Political relations	12	8
Financial Assumptions of the Devolution deals	16	12
Delivery	12	8
Resources	12	9
Leadership team	8	4
Commerciality	8	8
Reputation	6	4
Governance	12	8
Information Security	12	9
Health & Safety	4	3
External factors	6	3

3.3 Of the risks detailed above, the 'Financial assumptions of the Devolution deals', 'Resources' and Information Security remain as key risks to the organisation.

3.4 Financial assumptions of the Devolution deals

3.4.1 Significant work has, and continues to be undertaken to realign the financial assumptions of the Investment programme from those previously determined at inception of the WMCA. It was determined at this time that 6% of the overall funding had been secured and further work was required to ensure the entire Investment Programme could be delivered as envisaged by the costs budgeted at that time.

3.4.2 A financial review in December 2017 has confirmed that 30% of funding is now secured and a programme is in place to ensure all other funding sources including public sector and local contributions, business rates, Hs2 funding, Gain Share and the mayoral precept will be achieved.

3.4.3 In addition, a review of the Investment Programme governance and appraisal processes has been commissioned to ensure effective arrangements are in place to support delivery of the Programme.

3.5 Resources

3.5.1 The management of resources is a key focus of the Leadership team and organisational structures are under regular review to ensure they remain fit for the business needs. Further details are to be provided to this committee through a separate report by the Interim Head of Organisation Development.

3.6 Information Security

3.6.1 Attention to Information Security risks continues to progress with delivery of the recommendations from an Internal Audit and preparedness of compliance with the General Data Protection Guidelines (GDPR). Further details of progress on these is to be provided separately to this committee through a report from the Head of ICT.

4.0 Wider WMCA Implications

4.1 The effective identification and management of strategic risks is essential in ensuring wider WMCA implications are successfully removed, managed or adopted as appropriate.

5.0 Financial implications

5.1 There are no direct financial implications arising from this report.

6.0 Legal implications

6.1 There are no direct legal implications arising from this report.

7.0 Equalities implications

7.1 Equality considerations are taken into account in the assessment of individual risks. There are currently no direct implications arising from the risks contained in the corporate risk register or the contents of this report.

8.0 Appendices

Appendix 1 – Strategic Risk Register

WMCA strategic Risks - December 2017

Risk Description	Inherent Risk Score			Controls and measures already in place	Further actions required to mitigate risk	Residual Risk Score		
	Likelihood	Impact	Inherent Score			Likelihood	Impact	Residual Risk
<p>Stakeholder & Political Relations</p> <p>The devolution of new powers and budgets from government to the Authority under a reformed governance model will increase pressures on financial, operational, governance and scrutiny functions. There may be challenges in maintaining the relationships across the Region which helped to deliver The WMCA.</p>	3	4	12	<p>Ongoing close working with LEP's, Constituent and non-constituent members with regular communications in place to ensure all parties are fully engaged. Collaborative working to be maintained and extended where opportunities allow.</p> <p>The expectations of all members is to be clearly understood and shared with ongoing engagement with all partners and businesses at all stages of the Portfolio delivery.</p>	<p>Regular communication exists and is maintained at various levels.</p> <p>Wide representation at Governance Boards are to be maintained.</p> <p>New opportunities being identified by Leadership Team to maintain and improve relations.</p>	2	4	8
<p>Financial Assumptions of the Devolution Deals</p> <p>Assumptions of the Devolution deal have been made against expected economic growth, local precepts, business rate retention and interest rate levels. Not all have proved to be achievable to date.</p> <p>If these assumptions are not regularly monitored and reviewed to ensure assumptions and budgets remain valid, then should these prove to be incorrect, insufficient funds will be available to meet the Investment Programme funding requirements or the model will not meet financial expectations and a number of delivery schemes will be unachievable, or members of the Combined Authority will be liable for outstanding financial commitments.</p>	4	4	16	<p>Medium term financial strategy and Treasury management strategy in place, monitored and approved at Board level.</p> <p>Close working with Government to understand the ongoing financial position and its effects on the region including the: Ownership and accountability of funding sources Borrowing powers of the WMCA and/or mayor for regeneration Ownership of Local Growth funds Risks and implications of any existing Enterprise Zone business rate income commitments</p>	<p>Continuation of working with Government and constituent authorities regarding the assumptions relating to business rates. Mayoral rights to levy supplementary business rates has been incorporated into 2017 Devolution deal together with some capacity funding.</p> <p>Funding for Growth programme set up to look at alternative funding streams. Agreement required between all constituent and non-constituent members on a response strategy in the event of financial expectations not being achieved.</p> <p>Preparation for 2018/19 budget includes the alignment of the powers, budgets and the processes to ensure there is an accurate budget.</p> <p>Due to the funding gap in the programme, a ranking and sequencing exercise is going to be undertaken by Q2 of 2018</p>	3	4	12
<p>Delivery</p> <p>There is a risk the WMCA will come into disrepute if the organisation is unable to effectively deliver its obligations and aspirations as detailed in the Devolution programmes, the Strategic Economic and Mayoral Renewal plans or the Transport Act 2000.</p>	2	4	8	<p>WMCA Board undertakes overall responsibility for delivery of the Strategic Economic Plan, future devolution deal development, investment decisions and for allocating resources.</p> <p>Clear governance structures have been developed and approved by WMCA Board to provide direction and roles and responsibilities for individuals, boards and committees. These will remain under regular review to ensure they remain fit for purpose as the WMCA evolves.</p> <p>The Devolution Agreement Strategic Implementaion Plan (DASIP) has been agreed by DCLG and provides regular KPI reporting to Government.</p> <p>Robust assurance arrangements in place to ensure delivery meets all governance requirements including the DCLG Assurance Framework.</p>	<p>WMCA Board and Leadership team providing oversight of any shortfalls in Investment Programme funding and opportunities for investment from stakeholders.</p> <p>The availability of sufficient capacity and appropriate skills in the marketplace to deliver the forward agenda is key to delivery and is on the Leadership agenda.</p> <p>A review of investment programme governance and appraisal processes has been commissioned to ensure effective arrangements are in place to support the delivery of the Investment Programme</p>	2	4	8
<p>Resources</p> <p>If capacity and skills amongst WMCA senior managers and Officers are insufficient or conflicts with other priorities, this may impact on the ability to deliver the WMCA Strategic Economic plan or the Mayor's Renewal plan and impinge on the organisation's ability of securing future funding opportunities.</p>	3	4	12	<p>Retention of high quality resources is a focus of WMCA Board and resource structures are regularly monitored at departmental, Leadership and board level.</p> <p>Governance structure and monitoring provides for early warning of possible pressures and required interventions to be sourced.</p> <p>Regular communications in place with all staff to maintain engagement across all levels of the organisation.</p> <p>Regular monitoring of the Annual Business Plan provides early warning of non-achievement in expected deliverables.</p>	<p>Leadership team is reviewing the organisational structure to ensure its capability continues to meet the future aspirations of the organisation.</p>	3	3	9
<p>Leadership Team</p> <p>There is a risk the capacity of the Leadership team is not sufficient to enable business decisions to be made in a timely manner, for instance due to difficulties in recruitment or excessive workloads.</p>	2	4	8	<p>Leadership team has been established with key individuals who have an expertise in their specific field and have established relations with key stakeholders to support the continued delivery of WMCA agenda.</p> <p>Continued oversight of all functions is maintained by the CEO with weekly review meetings to enable early intervention.</p>	<p>Close working arrangements in place with member authorities in order for all parties to provide mutual support as required.</p>	1	4	4

WMCA strategic Risks - December 2017

Risk Description	Inherent Risk Score			Controls and measures already in place	Further actions required to mitigate risk	Residual Risk Score					
	Likelihood	Impact	Inherent Score			Likelihood	Impact	Residual Risk			
<p>Commerciality</p> <p>The WMCA has chosen to use commercial company delivery models in some areas. Challenging economic conditions and/or material loss of revenue from investments may result in commercial income streams not being able to deliver commercial revenue targets and/or the services which are contracted to be provided.</p>	2	4	8	<p>Formal governance structures in place between WMCA and commercial bodies.</p> <p>CA directors appointed to companies providing regular interface between parties.</p> <p>Compliance of all financial accounting arrangements.</p> <p>Assurance & Governance checklist in place to review and confirm satisfactory arrangements are in place for all 'Arms Length companies'</p>				2	4	8	
<p>Reputation</p> <p>There is a risk that the reputation of the WMCA will be compromised if the organisation does not present itself as, or deliver an effective and efficient organisation resulting in negative media coverage and an inability to deliver expectations.</p> <p>Where the WMCA has significant monetary investment and/or where the Mayor is heavily involved in projects/proposals run by partners, for example the Commonwealth Games, the operation of Arms Length Companies or high profile sporting or cultural events in the region; the WMCA needs to manage the additional indirect reputational risks that are posed by association with these projects/proposals.</p>	2	3	6	<p>Communications engaged in all business activity, providing regular liaison with the Mayor's office to ensure a pro-active and consistent message is delivered by all, at all times.</p> <p>WMCA spokespersons provided with media training.</p> <p>Regional Communications Group established ensuring access to media facilities for all WMCA members and stakeholders have access to media facilities.</p> <p>Progress of financial contributions monitored to enable coverage of all WMCA successes or early intervention of possible challenges.</p> <p>Close engagement with wider organisations.</p>	<p>Ensure regular review of Communication issues including forward planning Communications Grid.</p> <p>Ensure that major Regional initiatives e.g. Commonwealth Games have clear and transparent governance arrangements in place.</p>				2	2	4
<p>Governance</p> <p>A lack of, or non-adherence, to formal governance arrangements will result in a risk of ineffective or unsuccessful delivery of WMCA objectives and possible legal challenge impacting on the WMCA's ability to meet its obligations and future aspirations.</p>	3	4	12	<p>Comprehensive governance arrangements are in place and contained in the WMCA constitution, approved by the Board.</p> <p>The Head of Governance and Monitoring officer has direct access to the Leadership Team and WMCA Board, and responsibility for oversight of all assurance activities, including Audit.</p> <p>WMCA assurance framework developed in conjunction with, and approved by DCLG.</p> <p>Governance activities are managed centrally to ensure robust arrangements are in place and conform to all legal requirements.</p>	<p>Ongoing programme of Internal audits undertaken to provide an independent review that governance arrangements and internal policies are adhered to and remain effective.</p>				2	4	8
<p>Information Security</p> <p>An inability to follow data protection requirements or to maintain secure ICT systems will cause the loss or misuse of personal data and ICT systems including opportunities for cyber crime and will result in legal challenges and an inability to maintain operations.</p>	3	4	12	<p>A Retention and Disposal policy is in place which follows the 8 principles of the Data Protection Act.</p> <p>Comprehensive suite of ICT security systems and monitoring in place to maintain secure ICT systems and protect against potential cybercrime structured in line with the 10 Steps to Cyber Security' as set by the National Cyber Security Centre.</p> <p>Role of Senior Information Risk Officer (SIRO) undertaken by the Finance Director, providing board-level accountability for Information Security.</p> <p>Gap analysis of WMCA compliance with the forthcoming General Data Protection Regulations has been undertaken to establish WMCA's preparedness for compliance by May 2018.</p>	<p>Delivery of the Action Plan resulting from the gap analysis to be completed including the mandatory appointment of a Data Protection Officer.</p>				3	3	9

WMCA strategic Risks - December 2017

Risk Description	Inherent Risk Score			Controls and measures already in place	Further actions required to mitigate risk	Residual Risk Score		
	Likelihood	Impact	Inherent Score			Likelihood	Impact	Residual Risk
<p>Health & Safety</p> <p>Health & Safety procedures need to be maintained to ensure safe working conditions for staff, visitors and users of all WMCA facilities. Failure to provide a safe environment for all users will result in potential legal challenges due to unsafe, or unreliable infrastructure particularly on the transport network.</p>	1	4	4	<p>Health & safety duties are delivered to ISO18001 standard with ongoing compliance externally assessed 6 monthly.</p> <p>Quarterly inspections of all assets undertaken to ensure H&S compliance is maintained including review of accident reports.</p> <p>Monthly H&S position statement provided to satisfy Boards of the Organisation's Corporate responsibilities.</p> <p>Health & safety obligations are considered in the development of all projects and programmes.</p>	<p>Ongoing engagement with all WMCA departments to ensure adherence of H&S policies by all.</p> <p>Immediate engagement with emergency services and /or HSE to provide proactive management of H&S incidents.</p>	1	3	3
<p>External Factors</p> <p>If external challenges or changes in policy from global, EU or government / political or financial change are not factored into WMCA plans, the delivery ambitions may become unachievable.</p>	2	3	6	<p>All parties remaining cognisant of external factors including the short, medium and long term effects of the exit from Europe.</p> <p>Maintaining awareness of existing and new legal and environmental regulations to ensure compliance at all times.</p> <p>Innovative programme delivery mechanisms to be sourced, working towards joint venture modelling (similar to the Metro Alliance) working collectively with the private sector on sharing of risk and costs with partners.</p> <p>Close liaison with HS2 Board to deliver synergies across programmes and providing a collective investment vehicle for growth to local residents and businesses.</p>	<p>Working continually with the Department for Business, Energy and Industry Strategy (BEIS) to ensure the government agenda is met</p> <p>Brexit implications continue to be monitored and the organisation remains cognisant of it's developments and the emerging risks.</p>	1	3	3

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WEST MIDLANDS
COMBINED AUTHORITY

Audit, Risk & Assurance Committee

Date	19 January 2018
Report title	WMCA Arm's Length Companies Checklist – Jan 2018
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive of the WMCA Email: Deborah.Cadman@wmca.org.uk Tel: 0121 214 7552
Accountable Employee	Sean Pearce, WMCA Director of Finance Email: Sean.Pearce@wmca.org.uk Tel: 0121 214 7936
Report to be/has been considered by	None

Recommendation(s) for action or decision:

The Audit, Risk & Assurance Committee is recommended to:

1. 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 an updated checklist for Members to consider. The checklist has been updated and has incorporated some of the member's additions since the initial review in November 2017. 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. Appendix A confirms which recommendations were incorporated into this revised checklist.
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. Since the last update to the Schedule of Companies, West Midlands Rail has now changed its status to 'Live' since December 2017.
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 Development Capital Ltd (previously Finance Birmingham) will be 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. The checklist once approved shall be used to assess West Midlands Rail's assurance and governance arrangements.

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

Appendix A – Members Feedback

WMCA Risk & Assurance Checklist for Arm's Length Companies

Overview		Notes		
1.	Summarise the remit of the organisation?			
2.	Summarise what success looks like for the interfacing organisation and what measures are in place to monitor its success?			
Legal		Yes	No	Notes
3.	Confirm the legal interface with the arm's length company and the WMCA?			
4.	Are there clear legal agreements in place to describe the relationship and interface with the company and WMCA?			
Governance		Yes	No	Notes
5.	Description of the arm's length company interface with WMCA governance			
6.	Is the board of sufficient size and composed of appropriate skills to ensure its responsibilities are met?			
7.	What is the balance between executive and non-executive board members? Confirm the independent members of the Board, their appointment process and the duration of their appointment.			
8.	Is there a terms of reference for the Board? Are minutes taken for board meetings? A statement of how the board operates.			
9.	Is there a conflict of interest policy?			
10.	Has anybody on either board declared a conflict, if so how is this going to be mitigated?			

11.	Please confirm that the Arms Length Company Audit Committees to include an up-to-date annual return of this checklist, signed, with their Annual Governance Statement and External Audit Report to enable ARAC to take appropriate assurance.			
Financial		Yes	No	Notes
12.	Are adequate company internal financial regulations (or the equivalent) in place?			
13.	Have the content and frequency of financial performance reporting to WMCA been agreed?			
14.	Is there agreement for the company to supply an Audited Set of Accounts annually to WMCA?			
15.	Have the content and the deadline of the supply of all relevant and necessary year-end financial information been agreed between WMCA and the company?			
Procurement		Yes	No	Notes
16.	Does the company have its own procurement policies and processes? Has the WMCA procurement team confirmed that these are aligned to WMCA standards?			
17.	How is procurement non-compliance captured and reported?			
18.	In what name will your contracts be awarded in?			
19.	In what name will your purchase orders be in?			
20.	Do you have your own financial procurement to pay system (i.e. Business World) and e-tendering portal?			
21.	What is the agreed mechanism for contacting the WMCA procurement team?			

Internal & External Audit		Yes	No	Notes
22.	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.			
23.	Annual Governance Statement (AGS) / Statement of Internal Control			
24.	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)			
25.	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).			
26.	There may also be other 'assurance' providers such as government agencies/bodies who may come in and review certain grants or funding streams etc.			
27.	Is there an internal audit function for the organisation?			
28.	Is there an audit committee? If so, how often does it meet? Please confirm the membership of the committee including independent membership.			
29.	Who are the external auditors?			
Risk Management/ Insurance & Business Continuity		Yes	No	Notes
30.	Is there are a risk management policy for the organisation? What is the greatest risk/ affecting the company?			
31.	Provide overview of risk governance structure for the organisation?			
32.	Are there any risks that could impact WMCA adversely?			

33.	What is the agreed mechanism of risk escalation to the WMCA?			
34.	Does the organisation have adequate insurance for its level of operations? Please provide evidence			
35.	Are there adequate business continuity arrangements and plans in place?			

Appendix A – Members Feedback:

Through the initial review of this proposed checklist at the November 2017 Audit, Risk & Assurance Committee, members provided their feedback. Members requested that:

No.	Request	Incorporated [YES/NO]	Comments
1	Separate Legal and Governance Sections	Yes	Recommendation incorporated.
2	Request a copy of the Arm's Length Company Audit Committees to include an up-to-date annual return of this checklist, signed, with their Annual Governance Statement and External Audit Report to enable ARAC to take appropriate assurance.	Yes	Added into Question 11
3	Request confirmation of what is the balance between executive and non-executive Board members?	Yes	Incorporated into Question 7
4	How are (non-exec) Board members to be appointed - and remunerated?	Yes	Incorporated into Question 7 Remuneration details are not being requested as that is the corporate policy for Arm's lengths organisation.
5	Is appointment made on a fixed term basis and if so, how long?	Yes	Incorporated into Question 7
6	Is there provision for performance review (and for releasing Board members if performance falls short of expectations?	No	This question has not been incorporated as it was deemed to be the responsibility of the Arm's lengths organisational governance to put performance review arrangements in place.
7	What would "success" look like for each of these companies, i.e. what criteria would be used to determine whether the company was failing.	Yes	Incorporated into Question 2. Responding to performance issues or failings would be the responsibility of the Arm's lengths organisational governance
8	Is annually enough? Should e.g. quarterly management accounts be seen?	Yes	Question 13 already incorporates this request. The frequency of financial monitoring will be determined by the WMCA Head of Finance & Business Planning on a case by case basis.

By virtue of paragraph(s) 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

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