



Audit, Risk & Assurance Committee

Date: Monday 15 April 2019

Time: 2.00 pm **Public meeting** Yes

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

Membership

David Lane (Chair)

Councillor Adam Aston

Councillor Tom Baker-Price

Councillor Richard Brown

Councillor Kerrie Carmichael

Councillor Craig Collingswood

Sean Farnell

Councillor Michael Gough

Councillor John Kraujalis

Councillor John O'Shea

Councillor Alexander Phillips

Councillor June Tandy

Councillor Vera Waters

Dudley Metropolitan Borough Council

Worcestershire Non-Constituent Authorities

Coventry City Council

Sandwell Metropolitan Borough Council

City of Wolverhampton Council

Coventry & Warwickshire LEP

Solihull Metropolitan Borough Council

Staffordshire Non-Constituent Authorities

Birmingham City Council

Shropshire Council

Nuneaton & Bedworth Borough Council

Walsall Metropolitan Borough Council

Quorum for this meeting shall be nine members.

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

Contact Tanya Patel, Governance Services Officer

Telephone 0121 214 7689

Email Tanya.Patel@wmca.org.uk

AGENDA

No.	Item	Presenting	Pages	Time
Meeting Business Items				
1.	Apologies for Absence	Chair	None	14:00
2.	Declarations of Interest Members are reminded of the need to declare any disclosable pecuniary interests they have in an item being discussed during the course of the meeting. In addition, the receipt of any gift or hospitality should be declared where the value of it was thought to have exceeded £25 (gifts) or £40 (hospitality).	Chair	None	
3.	Chair's Remarks <ul style="list-style-type: none"> • Investigation Report 	Chair	None	
4.	Minutes of the meeting held on 14 January 2019	Chair	1 - 8	
5.	Matters Arising <ul style="list-style-type: none"> • Whistleblowing • Adult Education Budget 	Tim Martin	None	
6.	Forward Plan	Tanya Patel	9 - 10	
Business Items for Noting / Approval				
7.	Deborah Cadman Chief Executive	Deborah Cadman	Verbal Report	14:15
8.	Arm's Length Companies: Proposed Audit Arrangements	Joti Sharma	11 - 14	14:35
9.	WMCA Strategic Risk Register	Loraine Quibell	15 - 24	14:45
10.	Internal Audit Plan 2019 - 2020	Peter Farrow	25 - 42	15:00
11.	Internal Audit Annual Report 2018/19	Peter Farrow	43 - 56	15:10
12.	WMCA Annual Governance Statement	Tim Martin	57 - 70	15:25
13.	Health and Safety Audit Update	Pete Bond	71 - 82	15:35
14.	Informing the audit risk assessment (a) West Midlands Combined Authority (b) West Midlands Integrated Transport Authority Pension Fund	Grant Patterson / Nicola Coombe	83 - 122	15:45
15.	Audit Progress Report and Sector Update	Grant Patterson /	123 - 144	15:50

		Nicola Coombe		
16.	Constitution and Governance Review Progress and Update on PCC and Fire Governance Proposals	Tim Martin	145 - 150	15:55
Date of Next Meeting				
17.	Friday 21 June 2019 at 10.00am	Chair	None	16:00

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West Midlands
Combined Authority

Audit, Risk & Assurance Committee

Monday 14 January 2019 at 10.00 am

Minutes

Present

David Lane (Chair)

Councillor Adam Aston

Councillor Tom Baker-Price

Councillor Richard Brown

Councillor Craig Collingswood

Sean Farnell

Councillor John O'Shea

Councillor Alexander Phillips

Councillor June Tandy

Councillor Vera Waters

Dudley Metropolitan Borough Council

Worcestershire Non-Constituent
Authorities

Coventry City Council

City of Wolverhampton Council

Coventry & Warwickshire LEP

Birmingham City Council

Shropshire Council

Nuneaton & Bedworth Borough Council

Walsall Metropolitan Borough Council

In Attendance

Councillor Jackie Taylor

Peter Farrow

Grant Patterson

Linda Downes

Sandwell Metropolitan Borough Council

City of Wolverhampton Council

Grant Thornton

Nuneaton & Bedworth Borough Council

Item Title

No.

116. Apologies for Absence

Apologies for absence were received from Councillor Michael Gough (Solihull) and Councillor Kerrie Carmichael (Sandwell). Councillor Jackie Taylor (Sandwell) substituted for Councillor Kerrie Carmichael.

117. Declaration of Interest

Committee noted that Councillor Adam Aston was Chairman of the Governance and Transformation Committee at the West Midlands Fire Authority dealing with the transfer of governance and that Councillor John O'Shea was Chair of the West Midlands Police & Crime Panel.

118. Chair's Remarks

- Chair confirmed that the meeting was quorate and thanked members for their attendance.
- Chair congratulated Linda Horne on being appointed as the S151 Officer and Interim Director of Finance.
- The following points were raised at WMCA Board on 11 January regarding Committee:

- Continued issues around meeting the quorum as echoed by the Chair of Overview & Scrutiny Committee.
- The need to ensure a report was made to WMCA Board for approval on health & safety arrangements in consideration of the absorption of Fire & Rescue Service.

119. Minutes of the meeting held on 12 November 2018

The minutes of the meeting held on the 12 November 2018 were agreed as a correct record.

120. Matters Arising

a) Health & Safety

The Monitoring Officer informed members that there were no health & safety issues requiring the attention of this committee. The Monitoring Officer also informed committee that the Senior Leadership Team received accredited health & safety training.

b) Whistleblowing

The Monitoring Officer informed the committee that there were no matters to be brought to the attention of the committee, through the assurance of the current system in place, which is regularly monitored.

c) Conflict of Interest Policy for Non-Elected Participants in Combined Authority Governance

Councillor Jackie Taylor requested further information regarding the appointment of Solihull Independent Person Panel as the Designated Independent Person as previously agreed at committee. Councillor Jackie Taylor was concerned that the panel may lack diversity and asked for consideration for members to represent the different Local Authorities. The Monitoring Officer advised that the panel needed to remain independent.

Resolved:

- (1) The appointment and working of the Designated Independent Panel arrangements to be reviewed by committee in January 2020.

121. Forward Plan

The committee considered the plan of items to be reported to future meetings of the committee.

Resolved:

- (1) Items of business to be reported at future meeting be noted.

122. Internal Audit Update

Committee considered a report updating them on the work completed by the internal audit so far this financial year. Nine audits had been completed so far in the current year. The Head of Audit reported that to date that no limited reports had been issued and was currently on course to deliver a clean internal audit opinion at the end of the year. A number of audits remained to be completed and would be brought to the next committee along with the Internal Audit annual report.

The Internal Audit Business Partner provided committee with an overview of the audit undertaken on WMCA's workforce planning arrangements in support of resource planning, capacity and capability strategy. The outcome of the audit was an overall opinion of satisfactory assurance. Councillor John O'Shea requested reassurance that employees were suitably equipped with right skills to deliver the strategic objectives as the Business Planning & Budget guidance for 2019/20. The Internal Audit Business Partner highlighted that the amber recommendations indicated that this needed to be more explicitly addressed.

Both Councillor John O'Shea and Sean Farnell raised concern over the back-loading of audit reporting work to be completed and the need for the planning of audit in a sensible manner. However the Head of Audit was confident that all remaining audits would be completed on schedule. It was agreed that approval would be required from the Chair if future completion dates were to slip beyond the agreed date of completion in the remainder of 2018/19 and for future years.

Resolved:

- (1) The contents of the latest Internal Audit Update report was noted.
- (2) A timescale for completion of the Internal Audits be included within the plan for 2019/20 for approval by committee.
- (3) The Chair's approval to be sought on any slippage / delay on audit completion in a timely manner on behalf of committee.
- (4) An update regarding the amber recommendations made against the workforce planning internal audit to be brought to committee in June 2019.

123. Draft Internal Audit Plan 2019 - 2020

The committee considered the draft internal audit plan for 2019/20. The draft plan was developed to achieve a balance between setting out planned audit work whilst allowing for flexibility and responsive to the changes in business needs, priorities and risks during the year.

Councillor Craig Collingswood queried the approximately 185 internal audit dates required to enable the audit plan being delivered would be resourced. The Head of Audit shared that the number of days had increased in comparison to the previous year but reflected the growth and the new areas that the WMCA was developing into. The Interim Head of Finance was comfortable with the number of days proposed.

Further to committee's request to have advance sighting of completed audit, the Head of Audit would look to introduce a process in which committee received notification of completed audits via the Chair, between meetings.

Resolved:

- (1) The current draft Internal Audit Plan for 2019/20 be noted.
- (2) The final draft Internal Audit Plan be submitted for approval at committee on the 15 April 2019.

- (3) A clear timescale for completion of the internal audits to be included within the plan for 2019/20.
- (4) Internal audits completed summary in advance of committee be circulated to members.

124. Health & Safety Internal Audit Update

Committee considered a report updating them on the progress made against recommendations identified during the Internal Audit of Health & Safety Arrangements. The Health & Safety Manager advised committee that the original target completion dates for many of the actions were overly ambitious given the wider challenges currently faced by the organisation and as such revised target dates had been provided and were more achievable. The Chair expressed disappointment that many completion commitments given in early December failed their end of December deadlines.

It was noted that the Senior Leadership Team received professional and accredited health & safety training.

Resolved:

- (1) The update on progress made against recommendations identified during the internal audit of Health & Safety Arrangements be noted.
- (2) A further update on progress on outstanding commitments made to ARAC in December 2018 to be provided at committee on the 15 April 2019 and any slippage be reported back ARAC by the accountable Director for Health & Safety.

125. Assurance Report - Arm's Length Companies: Assurance & Governance Arrangements

Committee considered a report from the Corporate Assurance Manager on the governance and assurance arrangements for WMCA arm's length companies. The four active arm's length companies were West Midlands Rail Ltd, West Midlands Development Capital Ltd, Midland Metro Ltd and West Midlands Growth Company Ltd.

Councillor Craig Collingswood requested assurance that committee had oversight on the company checklists as previously discussed. The Corporate Assurance Manager shared that the appropriate process would be to share the detailed checklists with the Chair which had been completed just prior to this committee meeting. Members were content with the Chair having oversight of the detailed checklists, with any arising concerns to be shared with committee.

Resolved:

- (1) The assurance arrangements that had been established to confirm the governance and assurance established for all WMCA's arm's length companies be noted as satisfactory.
- (2) It was noted that the WMCA Growth Company was an investment in which WMCA had a 5.3% stake and that Senior Leadership Team were currently reviewing the performance information from the Growth Company with a view to sharing the updated governance and assurance

arrangement with committee.

- (3) It was noted that WMCA had secured a bid to host a pilot of testing 5G technology with discussions taking place with Department of Culture, Media and Sport to look at delivery options and potential operating structures. Once the company has been established committee would receive information on its assurance and governance arrangements. It was expected that the arrangements for these companies will be reviewed again within the next 12 months, with an appropriate review cycle to be confirmed with the Interim Director of Finance.
- (4) That the Monitoring Officer to provide committee with a briefing on the roles and responsibilities for each board / committee at a future committee.

126. WMCA Strategic Risk Register

The committee considered a report from the Corporate Assurance Manager that supported the committee with its responsibility of providing oversight of risk management within the West Midlands Combined Authority. The report contained a detailed summary of the current status of the top three strategic risks as confirmed by the Senior Leadership Team at its meeting on 12 December 2018.

It was acknowledge that further to the report being shared with committee the risk identified for financial assumptions for exiting programmes had increased due to the funding gaps identified in the Investment Programme which continued to be monitored by the Investment Board along with work undertaken to mitigation options. The Director of Strategy highlighted that the risk towards the delivery of Commonwealth Games relating to funding had been reduced due to the confirmation of the process for drawing down funding.

Councillor John O'Shea referenced 'unplanned Corporate Services interventions' within the report and asked as to whether there were any cost implications. The Head of HR & Organisation Development shared that as a result of the organisation growing, Corporate Services was having to flex and change the way in meeting the demands. Corporate Service was being reviewed with the outcome being reported back to the Senior Leadership Team. It was also acknowledged that recruitment to specialist posts required external consultants and both the Head of HR & Organisation Development and Interim Head of Finance were aware of the cost implications. Councillor Alexander Phillips felt that the impact of a potential recession should be factored as a standing risk within the risk register.

The Chair asked that supporting evidence for significant improvements in risk/impact scoring be shared with ARAC to overcome the previous concerns of optimum bias.

Resolved:

- (1) That the top three Strategic Risks included within the Strategic Risk Register be noted.
- (2) That the status of Directorate Risk Registers be noted.

- (3) That an update on the position of the action against the strategic risk to be provided to committee in June 2019 be noted.
- (4) Committee be provided with further information surrounding the conflict of interest being identified through a specialist third party on the devolvement of Adult Education Budget.
- (5) That committee to receive copy of the report presented at WMCA Board on the devolution of the Adult Education Budget 2019/20 for information only purposes.
- (6) Committee to receive a report at a future meeting regarding the gender pay gap.
- (7) Supporting evidence for improved scoring of risks to be provided with future updates.

127. External Audit Plan

The committee considered a report from the External Auditor that provided an overview of the planned scope and timing of the statutory audits of West Midlands Combined Authority and West Midlands ITA Pension Fund.

Resolved:

- (1) That the overview provided to committee on the planned scope and timing of statutory audits of WMCA and West Midlands ITA Pension Fund for those charged with governance be noted.
- (2) That the external audit partner advised he had gone beyond the PSAA five year recommended period and he had dispensation to carry on for a further two years.

128. Investment Portfolio Governance Audit Update 2018

The committee considered a report from the Head of Strategic Programme Delivery which provided assurance that progress had been made against the original recommendations in the Internal Audit review of Investment Portfolio Governance Arrangements for Programme Approval & Appraisal.

Resolved:

- (1) That the progress made to date against the original actions in the Internal Audit Report be noted.
- (2) That the timescales for implementation of the enhanced Governance & Assurance Framework be noted.
- (3) That an update be provided to committee on the amber actions and accountability in June 2019.

129. Update on the consultation from the Transfer of West Midlands Police & Crime Commissioner Functions

The Monitoring Officer provided an update on the process for the transfer of West Midlands Police & Crime Commissioner functions.

Resolved:

- (1) The update provided on the consultation for the transfer of West Midlands Police & Crime Commissioner functions be noted.

130. Update on the Transfer of West Midlands Fire Service Governance

The Monitoring Officer informed committee of a potential delay to the implementation of the proposal of transferring governance. This was due receiving the revised order from the Home Office which proposed a change to the order necessary for any transfer and which was thought to be unacceptable to the Fire Authority. The Monitoring Officer would keep the Chair up-to-date as matters became clearer.

Councillor Craig Collingswood highlighted the current issues with meeting quorum and was concerned that meeting quorum for the proposed sub-committee may also not be met. He also referenced 4.2 of the report whereby no allowances would be paid in relation to attendance at the sub-committee. It was the Monitoring Officers intention to review allowances within the next finance year but confirmed no allowances would be paid for attendance at the proposal sub-committee.

Resolved:

- (1) The update provided in the report and endorsement of progress made to date be noted.
- (2) That the delegation of any final arrangements were to be agreed with the Chair and Vice-Chair of committee before presenting to WMCA Board.

131. Financial Monitoring Report 2018/19

The Interim Director of Finance provided committee with an update on WMCA's consolidated revenue budget monitoring position as at 30 November 2018.

The Interim Director of Finance highlighted that the Transport Delivery Committee monitored the position of the expenditure on travel concessions as this showed as under budget but was due to lower bus patronage than budgeted.

Councillor Craig Collingswood queried as to which member group scrutinised the financial monitoring position. The Interim Director of Finance confirmed that responsibility sits with the WMCA Board and was scrutinised by the budget working group of Overview & Scrutiny Committee.

Resolved:

- (1) That the consolidated revenue budget monitoring position as at 30 November 2018 as set out in the Financial Monitoring Report for November 2018 be noted.
- (2) That the Chair be informed immediately if there were significant variances within the budget.

132. Monday 15 April 2019 at 2.00pm

Date of the next meeting was noted.

The meeting ended at 12.00 pm.

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WMCA Audit, Risk & Assurance Committee - Forward Plan

Title of Report	Description of Purpose	Date of Meeting	Lead Officer
Strategic Risk Register	To receive an update on the Strategic Risk Register	21 June 2019	Joti Sharma
Assurance Report:	To receive an update on the position of 5G and West Midlands Growth Company.	21 June 2019	Joti Sharma
Internal Audit Report – Workforce Planning Audit	To receive an update regarding the amber recommendations made against the workforce planning internal audit.	21 June 2019	Peter Farrow
Investment Programme – Governance & Assurance	To receive a summary of progress against the internal audit actions.	21 June 2019	Sukhy Dhanoa
Capital Investment Cost Assurance	To note and be assured of the process.	21 June 2019	Linda Horne
WMCA Annual Accounts	To approve the WMCA Annual Accounts	21 June 2019	Linda Horne
WMCA Audit Findings	To receive an update from external audit	21 June 2019	Grant Patterson
WMITA Pension Fund - Audit Findings	To receive an update from external audit	21 June 2019	Grant Patterson/ Terry Tobin
Contingency Meeting - Accounts		15 July 2019	Linda Horne

Title of Report	Description of Purpose	Date of Meeting	Lead Officer
Conflict of Interest Policy for Non-Elected Participants in Combined Authority Governance	To receive an update on the reviewed appointed Solihull Independent Person Panel	January 2020	Tim Martin



Audit, Risk & Assurance Committee

Date	15 April 2019
Report title	Briefing Note – Arm’s Length Companies: Proposed Audit Arrangements
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Linda Horne Interim Director of Finance Email: Linda.Horne@wmca.org.uk Tel: (0121) 214 7508
Report has been considered by	Not Applicable

Recommendation(s) for action or decision:

Audit, Risk and Assurance Committee is recommended to:

- (1) Note the status of the WMCA’s Arm’s Length Companies.
- (2) Note the intended audit arrangements for each of the WMCA’s Arm’s Length Companies.

1. Purpose

- 1.1 The focus of this Briefing Note is to summarise the intended audit governance for the West Midlands Combined Authority's Arm's Length Companies.

2. Background

The WMCA currently has 4 active Arm's Length Company relationships, namely;

No.	Company Name	Stake	Accounting Treatment
a.	West Midlands Growth Company Ltd	5.3%	Investment
b.	West Midlands Development Capital Ltd	100%	Subsidiary
c.	West Midlands Rail Ltd	50%	Associate
d.	Midland Metro Ltd	100%	Subsidiary

- 2.1 To confirm to ARAC, the wider governance and assurance arrangements for companies' b-d, the Arm's length companies governance and assurance checklist was utilised. All the findings and arrangements were confirmed and approved by WMCA Interim Director of Finance and Head of Governance in December 2018. All the detail of the checklists content and supporting information has been shared with the Independent Chair of Audit, Risk & Assurance Committee as well as WMCA External Auditors. It is expected that the governance and assurance arrangements for each arm's length company will be reviewed in approximately 6 months' time again in June 2019.

3. Audit Committee Arrangements

West Midlands Growth Company:

- 3.1 The West Midlands Growth Company (WMGC) was excluded from the review because it is an investment and not a subsidiary and at this present time due to agreements, the investment is currently under review by the WMCA Senior Leadership Team. As this is an investment for the WMCA with a 5.3% investment share, audit arrangements are with the WMCA Growth Company to determine. The Head of Governance and Interim Finance Director have confirmed acceptance of this arrangement.

West Midlands Development Capital Ltd

- 3.2 The remit of the West Midlands Development Capital (WMDC) is to act as a fund manager for 2 WMCA investment funds. The first year's accounts are being prepared and the turnover is £485k. It is not an expectation to appoint audit arrangements for this company, WMCA are satisfied due to limited risk exposure.

West Midlands Rail Ltd:

- 3.3 West Midlands Rail (WMR) is the Manager of West Midlands Rail franchise, it is 50% owned by WMCA. Based on an assumption that the annual budget of WMR Ltd will be at £640k a year going forwards for the next 3-5 years, it is not expected that separate internal audit or audit committee arrangements will be created for WMR. However WMCA has specified that an external audit will be required for the current financial year onwards.

Midland Metro Ltd

- 3.4 Midland Metro Ltd (MML) was established on 24 June 2018 and operates the current Metro operations in the West Midlands. MML is a 100% subsidiary of WMCA. Internal Audit is only a statutory function for public bodies – most large companies have an Internal Audit function but it is not legally required. Midland Metro Ltd would not be classified as a 'large company definition'. However, Midland Metro Ltd have confirmed that an Audit Committee will be appointed in by May 2019, TOR have been approved by the MML Board in January 2019. The MML Audit Committee will be chaired by an Independent chair and will have independent members appointed as well. A recruitment process has been initiated and it is the aim for the MML Audit Committee to operate with the independent members before May 2019 to receive the final accounts for this year.

4. Financial Implications

No direct financial implications.

5. Legal Implications

- 5.1 All the companies are registered on Companies House by the WMCA Legal Team. The Head of Governance has confirmed that from a legal perspective that he is satisfied that all necessary legal due diligence requirements have been adhered to comply with Companies House procedures. WMCA legal team have had and will respond to any queries received from Companies House regarding any of WMCA's companies.

6. Equalities Implications

Not applicable.

7. Inclusive Growth Implications

Not applicable.

8. Geographical Area of Report's Implications

Not applicable.

9. Other Implications

Not applicable.

10. Schedule of Background Papers

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Audit, Risk & Assurance Committee

Date	15 April 2019
Report title	WMCA Strategic Risk Register
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Julia Goldsworthy Director of Strategy Email: Julia.Goldsworthy@wmca.org.uk Tel: (0121) 214 7941
Report has been considered by	Senior Leadership Team

Recommendation(s) for action or decision:

Audit, Risk and Assurance Committee is recommended to:

(1) Consider and note the strategic risks contained within the WMCA Strategic risk register.

1. Purpose

This report provides a summary on the current status of key risks being considered by Senior Leadership Team as captured within the strategic risk register, and presented as Appendix 1 to support Audit, Risk and Assurance committee in its function to monitor the operation of risk management at West Midlands Combined Authority.

2. Background

Senior Leadership Team (SLT) reviewed the register at its meeting of 13th March 2019 to ensure the register continues to reflect the key risks affecting WMCA at the present time.

Continuing work on the establishment and management of Directorate risk registers, it is anticipated Directorate risk registers will provide a focus on threats to delivery of organisational deliverables contained within the Annual Business Plan, and will also be aligned to the monitoring of performance indicators. This will support SLT members in providing clear oversight and visibility of risks requiring escalation to the Strategic risk register.

Senior Leadership Team has confirmed their intention to review the entire strategic risk register in the next few months in the context of the 2019/20 annual business plan. In preparation for this review, the Chief Executive has requested the attendance of the Chair of Audit, Risk and Assurance Committee during this risk discussion, and the register has been realigned to reflect the current risk score only for the intervening period.

18 strategic risks are currently recorded within the register with 7 risks rated as high (red) rated risks, 10 as medium (amber) risks and 1 rated as a low (green) risk. One risk has been closed during this reporting period.

3. Key risks

3.1 Risk ID: S01 – Financial Assumptions for Existing Programmes

This risk continues to present the greatest risk to WMCA due to a funding shortfall in the Investment Programme. A prioritisation exercise is being undertaken and will be presented to the Investment Board in due course.

3.2 Risk ID: S02 – Human Resources

Sustained progress has been made in managing the capacity and skills necessary to deliver the strategic objectives within tight timescales. This has been achieved by the appointment of the Investment and Commercial Activities Director to provide a full complement of Directors at SLT, a flexible approach to resources throughout the organisation, and the utilisation of specialist consultant services when required.

Resource requirements have been considered as part of the development of the 2019/20 budget and establishment of the annual business plan to ensure delivery of objectives can be achieved. This is being supported by the current review of the Corporate Services directorate by SLT, and will result in a future target operating model to be defined and implemented by the summer, ensuring the directorate has the capacity and skills to deliver an effective and efficient service to meet the continuing growth of WMCA.

Major delivery programmes that have been established more recently have developed resource plans alongside business plans and budgets, including the provision of specialist support services where required.

With the increased clarity on resources, this risk has been reviewed by SLT and has been reduced from high to a medium rated risk.

3.3 Risk ID: S07 – Delivery

Delivery of key programmes within the strategic economic plan continue to remain on the strategic risk register to support oversight of the devolution commitments and strategic aims by SLT, as non-delivery of any programme would have a significant impact on WMCA more broadly than each programme by itself.

Progress has been noted on delivery of the programmes captured within the register, with West Midlands Fire Service reducing to a low rated risk following decisions made at WMCA Board on 22nd March 2019, and confirmation of the funding drawdown being agreed in relation to delivery of transport services for the Commonwealth Games has enabled this risk to be reduced to a medium rating.

3.4 Risk ID: S11 – External Factors

This risk has been updated to capture specific elements relating to the exit from the EU and the potential for an economic downturn resulting in a recession in the future, as previously discussed by Audit Risk and Assurance Committee at its meeting in January 2019.

Strategic Leadership Team is closely monitoring the economic position, and whilst economic indicators are strong at the present time, it is recognised a downturn could occur creating a turbulent outlook in the foreseeable future.

WMCA is represented at the Economic Contingency Group in discussions on the likely impact on the region and a submission has been made to BEIS on WMCA's requirements in the event of a no-deal exit from the EU.

4. Risk closure

At WMCA Board on 22nd March 2019 it was decided (by recorded majority vote) that the transfer of the Police and Crime Commissioner should not proceed and the status of this work is therefore put on hold until further notice. As a result risk reference S07b, 'Transfer of Governance from Police & Crime Commissioner to Mayoralty', has been closed and removed from the Strategic risk register.

5. Financial Implications

N/A

6. Legal Implications

N/A

7. Equalities Implications

N/A

8. Inclusive Growth Implications

N/A

9. Geographical Area of Report's Implications

N/A

10. Other Implications

N/A

11. Schedule of Background Papers

Appendix 1 - Strategic Risk register

WMCA Strategic Risk Register - March 2019

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Current risk score			Further actions required to mitigate risk
						Likelihood	Impact	Current Score	
S01	Interim Director of Finance	Financial	OPEN 5/5 ↔	<p>Financial Assumptions for Investment Programme</p> <p>There is a risk that assumptions of the Devolution deal, that have been made against expected economic growth, local precepts, business rate retention and interest rate levels, do not prove to be achievable.</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, the model will not meet financial expectations, a number of delivery schemes will not be achievable, or members of the Combined Authority will be liable for outstanding financial commitments.</p>	<p>Close working with Government to understand the ongoing financial position and its effects on the region. Consulting with Government on Business Rates Growth solutions.</p> <p>Cost review exercise as agreed by Leaders / Mayor to be reported to Investment Board in April 2019.</p> <p>Soft consultation on Business Rates Supplement to be undertaken in April 2019. Factoring in Asks into the Comprehensive Spending Review 2019.</p> <p>Assessing opportunities to turn grants to loans and / or maximise 3rd party contributions and land value capture.</p> <p>Streamlining conversations are required with government to reduce duplication of different performance requirements and different timetables for different funding streams pursued.</p> <p>Preparation for 2019/20 budget includes the alignment of powers, budgets and processes to ensure an accurate budget is in place.</p>	5	5	25	<p>Expected outcome of the cost review exercise will be provided in the Autumn 2019.</p> <p>Continuation of working with Government and constituent authorities regarding the assumptions relating to business rates.</p> <p>Alternative funding and financing streams are being explored with HMT.</p> <p>Future (post 2020) precept options to be explored.</p>
S07	Senior Leadership Team	Programme Delivery & Devolution Commitments	OPEN 4/5 ↔	<p>Delivery</p> <p>The risk that the WMCA will lose credibility if the organisation is unable to effectively deliver its strategic objectives. Non-delivery of the following programmes carry a significant impact on WMCA's strategic aims:</p> <p>(a) West Midlands Fire Service (b) PCC (risk closed 25/03/19) (c) Adult Education Budget (d) 5G (e) Commonwealth Games (WMCA led programme only) (f) Housing</p>	<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>Robust assurance arrangements are in place to ensure delivery meets all governance requirements.</p> <p>Annual Conversation with Government provides clear KPI indicators on delivery.</p> <p>WMCA Board and Leadership team providing oversight of any shortfalls in Investment Programme funding and opportunities for investment from stakeholders.</p>	4	5	20	<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> <p>Aligned business planning and performance reporting will provide greater earlier insights into delivery areas at risk in order for mitigations to be developed.</p>
S07a	Director of Public Service Reform / Head of Governance	Programme Delivery & Devolution Commitments	OPEN 5/3 ↓	<p>Delivery - West Midlands Fire Service</p> <p>The proposed transfer of governance of West Midlands Fire Service to the Mayor of the West Midlands has been subject to a delay due to inconsistencies in the parliamentary legal drafting process which meant that Constituent Authorities were unable to approve the order. Notwithstanding the mitigating factors noted in accompanying columns, there remains a relatively minor risk of further delay as a result of accessing parliamentary time and/or buy-in to proposed constitutional changes</p>	<p>WMCA and WMFS officers have created a number of constitutional assurances to ensure the proposed transfer can take place; and are in regular dialogue with the Home Office to ensure the order can be laid in parliament within this mayoral term. At the time of writing, we have a date of 5th June 2019 for the Order to be laid in Parliament. Joint implementation team is established and will resume work on implementation once governance journey is resumed post-22nd March</p>	2	3	6	<p>Operational arrangements continue to be established for implementation upon delivery.</p>
S07c	Director of Productivity and Skills	Programme Delivery & Devolution Commitments	OPEN 3/4 ↔	<p>Delivery - Adult Education Budget</p> <p>There is a risk to the delivery of the Adult Education budget within the set timescales of 1st August 2019 due to capacity of WMCA to manage the process and uncertainty regarding the number of tenders that will be received.</p>	<p>Local Authorities have been invited to participate in the scoring of tenders for the £28m put out to market and all 7 mets have put forward officers to support. This is in addition to WMCA officers. Just under £100m will continue to be grant funded to local authorities and local colleges.</p> <p>A clear timetable has been set out to outline the requirement of corporate service teams to support the process and additional dedicated procurement and legal resource, funded through AEB, is in place.</p>	3	4	12	<p>Review of capacity following the conclusion of the tender process in May 2019 and ensure that appropriate resources are in place to manage the number and range of providers that will be delivering on behalf of WMCA.</p>

WMCA Strategic Risk Register - March 2019

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likelihood	Impact	Current Score	Further actions required to mitigate risk
S07d	Director of Public Service Reform	Programme Delivery & Devolution Commitments	New	<p>Delivery - West Midlands 5G</p> <p>5G is a complex, multi-stakeholder project which is part of the national TestBeds and Trials programme within DCMS. There is managed risk inbuilt within the programme as to the market response, the technical requirements of a hitherto largely untested (at scale) technology, and the extent to which we as a region can build the mix of supply and demand that will be needed to realise maximum economic and social value for the region.</p>	<p>WMCA and DCMS are developing robust assurance frameworks for the programme. Finances throughout the project will be drawn down subject to robust business case criteria within both DCMS (via an over-arching grant agreement) and within WMCA (via investment programme mechanisms). The governance structure further reinforces this - via an arms length, wholly owned subsidiary company of WMCA, overseen by an independent chair held ultimately to account by a joint-venture board - each with senior representation from WMCA, DCMS and other stakeholders.</p>	3	4	12	We will continue to ensure that finance, governance and assurance processes reflect the commitments as to ensuring maximum regional benefit made to WMCA Board. Nonetheless, the region is participating in a 'testbed and trial' project which due to its innovative nature carries an inherent element of risk (and commensurate reward)
S07e	Managing Director, TfWM	Financial	OPEN 4/4 ↓	<p>Delivery - Commonwealth Games (CWG)</p> <p>We have received confirmation of the budget draw down process for funding expended by WMCA in preparation for the Games in relation to transport, and to recover costs for the development of the operational transport plan. Work will continue to determine the budget for transport within the overall budget envelope for the games to ensure we are able to provide the level of transportation services required for the region to successfully deliver the 2022 Commonwealth Games.</p>	<p>TfWM is Chairing a multi-agency Joint Transport Group (JTG) which includes relevant Government departments, Local Authorities and the Organising Committee. WMCA CEO and TfWM MD are members of the Chief Executive Officers Group (CEOG) for the Games. All current spend is approved in advance by the JTG and the CEOG. TfWM, through JTG, led a review of transport budgets in Summer 2018 and is due to review again in early 2019. All budget and planning assumptions are being recorded and tracked to ensure no budget surprises. TfWM has established a Transport Programme Office for the Games and staff are participating in the Cross Partner Programme Group led by the Organising Committee and DCMS.</p>	2	4	8	We will continue to work in partnership with Government, the organising committee, Birmingham City Council and other authorities to ensure a successful games for the region
S07f	Director of Housing and Regeneration	Programme Delivery & Devolution Commitments	New	<p>Delivery - Housing</p> <p>The Combined Authority's Housing & Regeneration priorities and objectives are contingent on the deployment of funding secured through Devolution and subsequent agreements with HMG. The updating, where necessary, of local plans for constituent and non-constituent members is a core element of Government support for the Housing Deal agreed in 2018. There is a risk that a lack of progress with local plans, which the Combined Authority does not control, could affect securing continuing funding, support and confidence from Whitehall to achieve the Combined Authority's outcomes. In addition, there are potential consequences for maintaining relationships with local authorities, delivery of objectives and reputational and political damage.</p>	<p>WMCA is in ongoing dialogue with officials in MHCLG, Treasury and No 10 to maintain relationships and confirm progress towards the Housing Deal goals. This includes updates on Local Plan progress and delivery of housing in the region. The Housing and Land Board consists of elected Members from all local authorities in the WMCA geography, alongside representation from LEPs, Homes England and the housing industry. Housing & Regeneration team members at all levels are in regular contact with colleagues at local authorities and all reports are considered by an officers steering group. This collective approach is in place to ensure all parties are fully engaged in the strategic approach of the WMCA.</p>	3	4	12	<p>Regular dialogue with civil servants to establish WM progress and delivery Development of stakeholder engagement tools</p> <p>Close working relationships with Members and Officers at local authorities</p> <p>Meetings of officer Steering Group to include workshops and task and finish sessions.</p> <p>Communications plan for Housing & Regeneration to ensure consistent messaging and that LAs and other partners are included and engaged in relevant work.</p> <p>Housing & Regeneration business plan to set out consistent approach to targets, measures and reporting</p>

WMCA Strategic Risk Register - March 2019

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likelihood	Impact	Current Score	Further actions required to mitigate risk
S03	Senior Information Risk owner (MD, TFWM) / Head of Governance	Operations Core Functions	OPEN 4/4 ↔	<p>Data Protection & Information Security</p> <p>The risk that data protection requirements and/or ICT system security are not maintained, causing 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> <p>Cyber terrorism is an increasing threat and public sector bodies are regular targets. National advice sets the risk at substantial. Failure to maintain adequate response has the potential for severe reputational, operational and regulatory impact on WMCA. Financial penalties for breach of Data Protection obligations are now significantly increased.</p>	<p>The WMCA has an Information Assurance Framework in place supported by a suite of Information Security/Management and Data Protection policies. The IA Frameworks, ratified at Senior Leadership level, sets out the organisation commitment and response to the mitigation of identified information threats and risks.</p> <p>In accordance with the IA framework, the WMCA is committed to counter the cyber threat and appropriately protect its business and Data Protection relevant information assets. To enable this, the organisation has adopted all standards, warnings, advice, guidance and best practice as indicated by the CPNI, NCSC and other external experts.</p> <p>The Information Assurance framework provides an internal information governance hierarchy for risk owners, whose function it is to consider and manage information risk at strategic and operational levels.</p> <p>Mandatory requirement in place for all staff to complete Information Security training, including GDPR.</p>	4	4	16	<p>Increasing organisational maturity surrounding the employment of baseline HMG standards of physical and Environmental, Policy and Procedural, and Personnel security, including staff training and awareness of Information Security and Data Protection.</p> <p>Comprehensive review of ICT strategy and service delivery in progress.</p>
S04	Senior Leadership Team	Political	OPEN 4/4 ↔	<p>Stakeholder & Political Relations</p> <p>The risk that as WMCA continues to expand and absorb new remits and accountabilities that WMCA's stakeholder & political relations become more pressured. Positive stakeholder and political relations are needed to deliver the ambitions of the organisation.</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> <p>Additional political pressure is also likely due to the impending changes associated with WMFS, and Mayoral elections.</p>	<p>Ongoing close working with LEPS, 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>WMCA are developing more regular stakeholder and political liaison and engagement to discuss both inflight and emerging opportunities for the wider benefit of the region.</p>	4	4	16	<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>
S05	Head of Governance	Operations Core Functions	OPEN 4/4 ↔	<p>Governance Arrangements</p> <p>The risk that 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> <p>As the WMCA is going through a period of growth with absorption of new and emerging priorities there is a risk that existing governance arrangements do not support the delivery of the organisation's objectives. With new devolved budgets, different government departments have specified different assurance requirements which are adding to pressures to develop bespoke governance arrangements.</p>	<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 Internal Audit.</p> <p>WMCA assurance framework in place and currently under review. Governance requirements for Adult Education Budget, West Midlands Fire Service, Housing and 5G have, or are being established to ensure the adoption of streamlined approaches where required.</p> <p>Governance activities are managed centrally to ensure robust arrangements are in place and conform to all legal requirements.</p>	4	4	16	<p>Ongoing programme of risk based Internal audits undertaken to provide an independent review that governance arrangements and internal policies are adhered to and remain effective.</p> <p>Corporate Assurance Team and Governance continue to liaise with new functions to establish appropriate assurance and governance arrangements.</p> <p>A full review of the Constitution and Assurance Framework is in progress.</p>

WMCA Strategic Risk Register - March 2019

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likelihood	Impact	Current Score	Further actions required to mitigate risk
S12	Senior Leadership Team	Programme Delivery & Devolution Commitments	OPEN 3/5 ↔	<p>Project/Programme Appraisal & Assurance</p> <p>The risk that new project and programme proposals are not effectively appraised or assured. This could lead to poor investment decisions and failure to realise anticipated benefits or value for money, hence it will have an adverse financial and reputational impact.</p>	<p>A WMCA Assurance framework is in place and currently under review to provide guidance and further enhance the supporting processes.</p> <p>Role of Investment Director has been established to provide a commercial approach to funding opportunities.</p>	3	5	15	A plan to develop and implement an enhanced Governance and Assurance Framework was endorsed by the Investment Board on 10th December 2018. The enhanced framework is scheduled for approval at Investment Board and by MHCLG in August 2019.
S11	Senior Leadership Team	Economic	OPEN 3/5	<p>External Factors</p> <p>The risk that external challenges or changes in policy from global, EU or government / political or financial change are not factored into WMCA plans, which could make delivery ambitions more difficult to achieve</p> <p>There is a lot of external uncertainty - there is a risk that instability in the external economic environment could adversely impact WMCA including Brexit and/or recession.</p>	<p>All parties remaining cognisant of external factors including the short, medium and long term effects of the exit from the EU. WMCA supports wider regional EU exit planning activities, and leads the Economic Contingency Group in the region.</p> <p>Close monitoring of economic indicators will help with early identification of an economic downturn.</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>	3	5	15	<p>Working closely with the Department for Business, Energy and Industry Strategy (BEIS) to ensure the CA has access to the latest intelligence and government priorities.</p> <p>Brexit implications continue to be monitored and the organisation remains cognisant of its developments and the emerging risks.</p>
S09	Senior Leadership Team	Operations Core Functions	OPEN 4/4 ↓	<p>Leadership Team</p> <p>The risk that 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. This risk is heightened as not all teams/directorates have recruited to vacant posts to deliver priorities. Finances are constraining budget availability for all required resources.</p>	<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 the WMCA agenda.</p> <p>Continued oversight of all functions is maintained by the CEO with weekly review meetings to enable early intervention.</p> <p>A Corporate Management Team of Heads of Service has been established to provide additional leadership capacity and support to the Strategic Leadership Team by providing regular oversight of organisational policy, development and performance. An integrated Performance Management Framework has been established to provide SLT with early trigger warnings affecting delivery.</p>	3	4	12	<p>Close working arrangements in place with member authorities in order for all parties to provide mutual support as required.</p> <p>Recruitment of Investment Director complete, it is anticipated the post holder will commence duties in April '19.</p>
S13	Head of Governance / Managing Director TfWM	Operations Core Functions	OPEN 4/5 ↓	<p>WMCA Resilience</p> <p>The risk that WMCA cannot respond in an effective and timely manner to events that disrupt operations and activities, which could lead to financial loss (or failure to realise expected benefits or funding) reputational damage, legal or regulatory breach.</p>	<p>A business Continuity framework and programme exists and continues to be advanced to ensure that WMCA can respond to any business disruption in a timely manner.</p> <p>An incident management team and out of hours On Call arrangements are in place with alternative workspace identified at alternative WMCA locations.</p> <p>Independent review by Internal Audit provided 'substantial' rating for corporate business continuity arrangements.</p>	3	4	12	<p>Raising business continuity awareness and embedding the programme within the business.</p> <p>A separate ICT disaster recovery plan to be reviewed to ensure consistency between ICT and operational requirements are met.</p>

WMCA Strategic Risk Register - March 2019

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likelihood	Impact	Current Score	Further actions required to mitigate risk
S08	Senior Leadership Team	Programme Delivery & Devolution Commitments	OPEN 3/4 ↔	<p>Reputation</p> <p>The 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 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> <p>There is reputational risk involved in that there is a wider perception that the WMCA is accountable for more than it is, i.e. Delivery of the Commonwealth Games.</p>	<p>The Communications department is 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>Communications Director and all WMCA spokespersons provided with media training.</p> <p>Regional Communications Group established ensuring access to media facilities for all WMCA members and stakeholders.</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>	3	4	12	<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>
S02	Senior Leadership Team	Operations Core Functions	OPEN 4/5 ↓	<p>Human Resources</p> <p>There is a risk that capacity and skills amongst managers and officers are insufficient, or conflicts with other priorities, which will impact on the ability to deliver the WMCA's strategic deliverables and impinge on the organisation's ability to secure future funding opportunities.</p> <p>There is currently a great deal of change in WMCA with new projects and initiatives. This is placing additional pressure on existing staff while vacancies remain unfilled, potentially impacting on staff morale and stress levels.</p>	<p>Recruitment and retention of high quality resources is a focus of WMCA Board and resource structures are regularly monitored at departmental, Leadership and board level. With a growing remit of new and additional priorities, the pressures on staff requirements needs close monitoring and planning to deliver these new ambitions.</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>The budget process is aligned to the Business Plan, incorporating resource and capacity requirements to the budget to ensure delivery of known commitments.</p> <p>Utilisation of consultants to manage delivery where specialist skills cannot be recruited to a permanent post.</p>	3	3	9	<p>Leadership team is reviewing the structure of Corporate Services in light of senior management changes to ensure its capability continues to meet the future aspirations of the organisation.</p> <p>Staff Personal Objectives and Development Plans will be aligned to organisational business plan requirements.</p>
S06	Interim Director of Finance	Financial	OPEN 2/4 ↔	<p>Commerciality</p> <p>The risk that, having 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>	<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>Adopting commercial models will allow the WMCA to become less dependent on government as it can diversify funding income.</p> <p>Investment Director appointed to provide a commercial perspective on funding opportunities presented to WMCA.</p>

WMCA Strategic Risk Register - March 2019

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likelihood	Impact	Current Score	Further actions required to mitigate risk
S10	Managing Director, TfWM	Operations Core Functions	OPEN 2/4 ↔	<p>Health & Safety</p> <p>There is a risk that Health & Safety procedures to ensure safe working conditions for staff, visitors and users of all WMCA facilities are absent or inadequate. Failure to provide a safe environment for all users will result in potential legal challenges and reputational damage due to unsafe, or unreliable infrastructure particularly on the transport network.</p> <p>The WMCA is now accountable for the delivery of Metro Operations & a number of project construction sites with the growing number of infrastructure projects in delivery.</p>	<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>Strategic and operational Safety, Health, and Environment (SHE) committees established providing operational and Director engagement.</p>	2	4	8	<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> <p>Further plans will need to be developed to ensure all H&S requirements are developed for the governance transfer of WMFS.</p>

Closed risks

S07b	Director of Public Service Reform / Head of Governance	Political	Closed	<p>Delivery - Transfer of Governance from Police & Crime Commissioner to Mayoralty</p> <p>The proposed transfer of the role and functions of the WM Police and Crime Commissioner to the West Midlands Mayor in May 2020 is inherently a risk due to the politically contingent nature of the decision making process, and the constraints of the timeline agreed by WMCA Members.</p>	A full public consultation has been conducted and is being reported to WMCA Board on 22nd March 2019, at which point members will agree on next steps for the transition.	4	3	12	<p>Ongoing monitoring and WMCA Board, OPCC and Home Office engagement</p> <p>25/03/2019: This process was identified as a risk due to political contingency within the timeline to effect a governance transfer in time for 2020 elections. At WMCA Board on 22nd March it was decided (by recorded majority vote) that the transfer should not proceed. The status of this work is therefore put on hold until further notice and the risk closed.</p>
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Audit, Risk & Assurance Committee

Date	15 April 2019
Report title	Internal Audit Plan 2019-2020
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Tim Martin, Chief Audit Executive Email: Tim.Martin@wmca.org.uk Tel: (0121) 214 7435
Report has been considered by	Leadership Team

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

(1) Review and approve the Internal Audit Plan for 2019-2020.

1.0 Purpose

- 1.1 The purpose of internal audit is to provide the WMCA with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the WMCA's agreed objectives.
- 1.2 The purpose of this document is to provide the WMCA with a draft risk-based internal audit plan, incorporating a strategic statement for internal audit, and based upon an assessment of assurance needs. The assessment of assurance needs exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will be used to direct internal audit resources to those aspects of the WMCA which are assessed as generating the greatest risk to the achievement of its objectives.
- 1.3 In addition, all Directors of the WMCA have been consulted as part of development of the draft risk-based internal audit plan. The draft plan was presented to the WMCA Leadership Team for review prior to presentation to the Audit, Risk and Assurance Committee. The draft plan was presented to the Audit, Risk and Assurance Committee at its meeting in January 2019 and the Committee requested that the scheduling for each audit be added to the plan. This latest version of the plan includes such a schedule. There are no other changes since the draft was presented at the January 2019 meeting.

2.0 Background

- 2.1 Internal audit is a statutory requirement for all Local Authorities. The audit service provided to the WMCA is in accordance with the Local Government Act (1972), the Accounts and Audit Regulations Act and the Public Sector Internal Audit Standards.

3.0 Wider WMCA Implications

- 3.1 There are no implications

4.0 Financial implications

- 4.1 There are no implications.

5.0 Legal implications

- 5.1 There are no implications.

6.0 Equalities implications

- 6.1 There are no implications.

7.0 Other implications

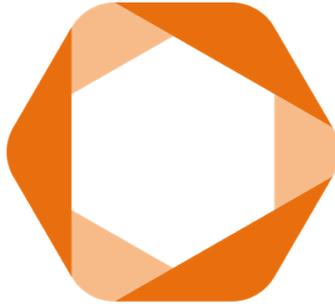
- 7.1 Not applicable.

8.0 Schedule of background papers

- 8.1 None.

9.0 Appendices

None



West Midlands Combined Authority

Internal Audit Plan – 2019-2020

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A quick guide to the audit and assurance planning process

Glossary of Terms

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Assessing the effectiveness of the system of control

The assessment of assurance needs methodology

The assessment of assurance needs

Developing an internal audit plan

Considerations required of the Audit, Risk and Assurance Committee and senior WMCA management

How the internal audit service will be delivered

The internal audit plan

A quick guide to the audit and assurance planning process

Step 1- Audit universe/auditable areas

Identify the audit universe (i.e. a list of themes and areas within them that may require assurance) using a variety of methods:

- Areas of potential risk identified through a variety of sources (including the strategic risk register) as having the potential to impact upon the WMCA's ability to deliver its objectives. Then, identify if we can gain assurance that any of these risks are being managed adequately from other sources of assurance.
- Key Financial Systems - work undertaken in close liaison with the external auditors, to help inform and support the work they are required to undertake.
- Areas where we use auditor's knowledge, management requests and experience etc.



Step 2 – Ranking

Where appropriate score each auditable area as a high, medium or low assurance need using the CIPFA scoring methodology of materiality/business impact/audit experience/risk/ potential for fraud.



Step 3 - Next Year's Plan

List the themes and where appropriate the types of work that will be undertaken in the 2019-20 internal audit plan.

A glossary of terms

Definition of internal auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Governance

The arrangements in place to ensure that the WMCA fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an economical, effective, efficient and ethical manner.

Control environment

Comprises the systems of governance, risk management and internal control. The key elements include:

- establishing and monitoring the achievement of the WMCA's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded

- ensuring the economical, effective and efficient use of resources and for securing continuous improvement
- the financial management of the WMCA and the reporting of financial management
- the performance management of the WMCA and the reporting of performance management.

System of internal control

The totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

Risk Management

A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

Risk based audit and assurance reviews

A review that:

- identifies and records the objectives, risks and controls
- establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives
- evaluates the controls in principle to decide if they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate
- tests the effectiveness of controls i.e. through compliance and/or substantive testing
- arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

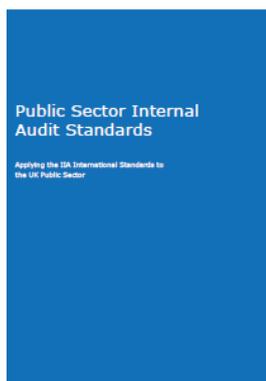
Audit, Risk and Assurance Committee

The governance group charged with independent assurance of the adequacy of the internal control environment and the integrity of financial reporting.

Assurance

A confident assertion, based on sufficient, relevant and reliable evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance will be set out and it may be qualified if full comfort cannot be given. The Head of Audit may be unable to give an assurance if arrangements are unsatisfactory. Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the WMCA's policies, processes and controls and the second being managers' own checks of this first line.

Internal Audit standards



The internal audit team comply with the standards as laid out in the Public Sector Internal Audit Standards.

Introduction

- The purpose of internal audit is to provide the Chief Executive, Director of Finance and Audit, Risk and Assurance Committee with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the WMCA's agreed objectives. To provide this opinion, we are required to review annually the risk management and governance processes within the WMCA.
- We also need to review on a cyclical basis, the operation of the internal control systems. It should be pointed out that internal audit is not a substitute for effective internal control. The true role of internal audit is to contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness.
- There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. The WMCA has an Internal Audit Charter which was last reviewed and approved by the Audit, Risk and Assurance Committee in November 2017 and defines the activity, purpose, authority and responsibility of internal audit, and establishes its position within the WMCA. This document sits alongside the charter, and helps determine how the internal audit service will be developed.
- The purpose of this document is to provide the WMCA with an internal audit plan, based upon an assessment of its assurance needs. The assessment of assurance needs exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will be used to direct internal audit resources to those aspects of the WMCA which are assessed as generating the greatest risk to the achievement of its objectives.

Assessing the effectiveness of risk management and governance

The effectiveness of risk management and governance will be reviewed annually, to gather evidence to support our opinion to the Chief Executive, Director of Finance and Audit, Risk and Assurance Committee. This opinion is reflected in the general level of assurance given in our annual report and where appropriate within separate reports in areas that will touch upon risk management and governance.

Assessing the effectiveness of the system of control

- To be adequate and effective, management should:
 - Establish and monitor the achievement of the WMCA's objectives and facilitate policy and decision making.
 - Identify, assess and manage the risks to achieving the WMCA's objectives.
 - Ensure the economical, effective and efficient use of resources.
 - Ensure compliance with established policies, procedures, laws and regulations.
 - Safeguard the WMCA's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption.
 - Ensure the integrity and reliability of information, accounts and data.
- These objectives are achieved by the implementation of effective management processes and through the operation of a sound system of internal control. The annual reviews of risk management and governance will cover the control environment and risk assessment elements, at a high level. The programme of work developed as the outcome of the assessment of assurance need exercise will cover the system level control activities.
- The plan contained within this report is our assessment of the audit work required to measure, evaluate and report on the effectiveness of risk management, governance and internal control.

Assessment of assurance needs methodology

- Internal audit should encompass the whole internal control system and not be limited only to financial control systems. The scope of internal audit work should reflect the core objectives of the WMCA and the key risks that it faces. As such, each audit cycle starts with a comprehensive analysis of the whole system of internal control that ensures the achievements of the WMCA's objectives.
- Activities that contribute significantly to the WMCA's internal control system, and to the risks it faces, may not have an intrinsic financial value necessarily. Therefore, our approach seeks to assign a relative assurance need value. The purpose of this approach is to enable the delivery of assurance to the WMCA over the reliability of its system of control in an effective and efficient manner.
- We have undertaken our assessment using the following process:
 - We identified the core objectives of the WMCA and, where available, the specific key risks associated with the achievement of those objectives.
 - We then identified auditable themes and areas that impact significantly on the achievement of the control objectives.
 - We assigned assurance need values to the auditable themes and areas, based on the evidence we obtained
- The audit plan is drawn out of the assessment of assurance need. The proposed plan covers the 2019-2020 financial year and is detailed at the end of this document.

The assessment of assurance needs - identifying the WMCA's priorities and the associated risks

- The following are the WMCA's key priorities:
 - Drive economic growth
 - Create more efficient and faster transport
 - Provide better skills training
 - Build more and better homes
 - Deliver public sector reform
 - Develop sustainable cross sector partnerships
- Supported by the WMCA's values:
 - Be collaborative
 - Be innovative
 - Be driven
 - Be inclusive
- The WMCA has identified the following strategic risks as potentially impacting upon its ability to achieve its key priorities:
 - Financial assumptions for existing programmes
 - Delivery of programmes and devolution commitments
 - WMCA resilience
 - Governance arrangements
 - Leadership Team capacity
 - Stakeholder and political relations
 - Impact of external challenges and policy changes on WMCA plans

Identifying the “audit universe”

To undertake the assessment of assurance need, it is first necessary to define the audit universe for the WMCA. The audit universe describes all the systems, functions, operations and activities undertaken by the WMCA. Given that the key risk to the WMCA is that it fails to achieve its objectives, we have identified the audit universe by determining which systems and operations impact upon the achievement of the core objectives of the WMCA, as identified above. These auditable areas include the control processes put in place to address the key risks.

In addition to this, there are also common systems and functions which are generic to all areas, along with several mandatory reviews. Where deemed appropriate they may also be included in the audit universe set out in detail at the end of this document.

Assessing the risk of auditable areas within the assurance framework

- Risk is defined as “The threat that an event or action will adversely affect an organisation's ability to achieve its business objectives and execute its strategies.”

Source: Economist Intelligence Unit - Executive Briefing.

- There are several key factors for assessing the degree of assurance need within the auditable area. These have been used in our calculation for each auditable area and are based on the following factors:
 - Materiality
 - Business impact
 - Audit experience
 - Risk
 - Potential for fraud
- In this model, the assignment of the relative values is translated into an assessment of assurance need. These ratings used are high, medium or low to establish the frequency of coverage of internal audit.

Developing an internal audit plan

- The internal audit plan is based, wherever possible, on management's risk priorities, as set out in the WMCA's own risk analysis/assessment. The plan has been designed to, wherever possible, cover the key risks identified by such risk analysis.
- In establishing the plan, the relationship between risk and frequency of audit remains absolute. The level of risk will always determine the frequency by which auditable themes and areas will be subject to audit. This ensures that key risk themes and areas are looked at on a frequent basis. The aim of this approach is to ensure the maximum level of assurance can be provided with the minimum level of audit coverage.
- It is recognised that a good internal audit plan should achieve a balance between setting out the planned audit work and retaining flexibility to respond to changing risks and priorities during the year. Traditionally Audit Services produced quite detailed internal audit annual plans identifying all the individual audits planned for the year, and this approach does have the advantage of providing a clear route map to the end of year opinion. However, as the year progresses it is likely that the risks and organisational priorities will change, resulting in changes to the plan. This is an issue within the Combined Authority environment at this moment in time, due to the pace of change and high level of uncertainty affecting the risk environment. Therefore, for this year we are keeping the audit plan relatively open. More detailed working plans will be maintained operationally within Audit Services. This approach should hopefully result in a more realistic and flexible plan.
- Auditor's judgement will be applied in assessing the number of days required for each audit identified in the plan.
- The assessment of assurance need's purpose is to:
 - determine priorities and establish the most cost-effective means of achieving audit objectives;
 - assist in the direction and control of all audit work.
- This exercise builds on and supersedes previous internal audit plans.
- Included within the plan, in addition to audit days for field assignments are:

- a contingency allocation, which will be utilised when the need arises, for example, special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.
- a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to key recommendations agreed by management during the prior year.
- an audit management allocation, which is used for management, quality control, client and external audit liaison and for preparation for, and attendance at various member meetings and Audit, Risk and Assurance Committee etc.

Considerations required of the Audit, Risk and Assurance Committee and the WMCA's Senior Management Team

- Are the objectives and key risks identified consistent with those recognised by the WMCA?
- Does the plan include all the themes which would be expected to be subject to internal audit?
- Is the allocation of audit resource accepted, and agreed as appropriate, given the level of risk identified?
- Does the plan cover the key risks as they are recognised?

How the internal audit service will be delivered

Staffing

The audit team follow the City of Wolverhampton Council's core behaviours. They are recruited, trained and provided with opportunities for continuing professional development. Employees are also sponsored to undertake relevant professional qualifications. All employees are subject to the Council's appraisal scheme, which leads to an identification of training needs. In this way, we ensure that employees are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills and experience.

Resources required

It is estimated that approximately 185 internal audit days (including fraud, assurance and contingency work) will be required to deliver the audit plan.

Quality assurance

All audit work undertaken is subject to robust quality assurance procedures as required by the Public Sector Internal Audit Standard and reports are subject to thorough review by professionally qualified accountancy staff.

The internal audit plan 2019-2020

Auditable area	Purpose	Rating	Quarter / Month	ARAC Meeting (indicative)
Cross Service				
Programme and Project Management Framework	A high-level review of the programme and project management framework in operation for the effective governance, risk management, project management and application of project controls for programmes and projects delivered by the WMCA.	High	Quarter 1 - May 2019	September 2019
Employee Performance Management	A review of performance management and support arrangements at strategic and operational levels for maintaining and improving employee performance ensuring alignment with the WMCA's objectives.	High	Quarter 1 - June 2019	September 2019
ICT Strategy	A review to seek assurance that a clearly defined ICT strategic plan has been developed for the WMCA covering development, maintenance (including disaster recovery) and enhancement of information systems, and clearly aligns to the organisational aims and objectives, and enables efficient and effective achievement of wider business objectives.	High	Quarter 2 - August 2019	November 2019
Key Financial Systems Focused Reviews	Focused reviews of the WMCA's key financial systems to be determined in-year.	High	Quarter 3 - October 2019	January 2020

Auditable area	Purpose	Rating	Quarter / Month	ARAC Meeting (indicative)
Investment Programme	The Investment Programme continues to underpin several of the WMCA's strategic risks and therefore merits annual audit coverage. Where appropriate we will take account of ongoing development and improvement work being undertaken by the WMCA as well as any sources of external and internal assurance to determine the focus of any in-year audit review.	High	To be confirmed in-year	To be confirmed in-year
Housing and Regeneration				
Single Commissioning Framework	A review of the systems and controls established for the Single Commissioning Framework to ensure that the Framework effectively supports achievement of the strategic objectives of the WMCA, Housing and Land Fund and the Housing Deal.	High	Quarter 1 - June 2019	September 2019
Housing and Regeneration Programme and Project management arrangements	A high-level review of the arrangements in place for overall programme governance, risk management and control including monitoring and reporting to inform achievement of the strategic objectives for the Housing and Regeneration Programme.	High	Quarter 2 - September 2019	November 2019
Commissioning and funding arrangements for externally led projects	A review of the systems and operational arrangements in place for the commissioning and funding of projects led by external organisations on behalf of the WMCA including project bid appraisal, prioritisation and approval, funding allocation, compliance with funding agreements, and subsequent monitoring and evaluation to ensure projects achieve strategic delivery.	High	Quarter 3 - October 2019	January 2020

Auditable area	Purpose	Rating	Quarter / Month	ARAC Meeting (indicative)
Productivity and Skills				
Employment Support Pilot	A review of the mechanisms established to deliver achievement of the strategic aims and objectives of the Pilot including performance monitoring and reporting.	Medium	Quarter 1 - May 2019	September 2019
Construction Retraining Funds	A review of the strategy, governance, management, funding and operational arrangements for delivery of the strategic objectives and outcomes of the Construction Retraining scheme.	Medium	Quarter 2 - August 2019	November 2019
Adult Education Budget	A review of the governance, management, funding and operational arrangements established and proposed for the effective management of devolved monies and achievement of relevant strategic objectives.	High	Quarter 4 - January 2020	April 2020
Public Service Reform				
Homelessness Taskforce	A high-level review of the governance, risk, management and partnership arrangements established to contribute to and support effective delivery of the five key objectives that underline the Mayor's mainstream strategies for the WMCA through the work of the Homelessness Taskforce.	High	Quarter 1 – May 2019	September 2019

Auditable area	Purpose	Rating	Quarter / Month	ARAC Meeting (indicative)
West Midlands 5G Programme	A high-level review of governance, management and funding arrangements including the application of robust systems and controls, to ensure that they effectively support the WMCA's role and responsibilities regarding the Joint Venture and Delivery Entity and achievement of the WMCA's strategic objectives and benefits.	High	Quarter 3 - December 2019	April 2020
Strategy				
Local Industrial Strategy	A high-level review of the systems established to support programme delivery for the Local Industrial Strategy including governance, risk, performance management, monitoring and reporting arrangements.	High	Quarter 2 – July 2019	September 2019
Bid Management Framework	A high-level review of the bid management framework to ensure effective governance, risk and support arrangements are established at the outset for major bids to facilitate effective, efficient and consistent transition to service delivery.	High	Quarter 3 - November 2019	January 2020
West Midlands Fire Service	A high-level review of the governance, risk management, assurance and reporting arrangements established by the WMCA for the West Midlands Fire Service, post integration.	High	Quarter 4- February 2020	April 2020

Auditable area	Purpose	Rating	Quarter / Month	ARAC Meeting (indicative)
Transport for West Midlands				
Swift Managed Services Data and Payment Arrangements	A review of the financial and operational processes in operation for the delivery of the managed services to external operators regarding processing and payment of contract fees and ticketing income as well as supporting data processing arrangements.	Medium	Quarter 2- July 2019	September 2019
West Midlands Rail	A review of the governance and relationship management in operation between the WMCA and the wholly owned West Midlands Rail company to ensure effective governance, risk management, monitoring and reporting arrangements have been established to provide assurance that the company continues to contribute to and supports the strategic aims of the WMCA.	High	Quarter 2 - September 2019	November 2019
Third Generation Tram Procurement Project	A review of the governance, project management, risk management and control systems in operation for the Third Generation Tram Procurement Project.	High	Quarter 4 - January 2020	April 2020

The following reviews and associated services will be delivered corporately across the WMCA:

Auditable Area	Purpose
Consultancy and advice	<p>Special projects, advice and assistance, unplanned and ad-hoc work as and when requested. This could include coverage of the following areas:</p> <ul style="list-style-type: none"> • Mayoral Election 2020 – a review of the plans and preparations proposed for the forthcoming Mayoral election including reference to lessons learnt from the previous election. The outcome of this review to be reported to the Audit, Risk and Assurance Committee in quarter four of 2019-2020.
Counter Fraud	<p>Where required:</p> <ul style="list-style-type: none"> • the carrying out of investigations into areas of suspected or reported fraudulent activity across the WMCA. • Undertaking a series of pro-active fraud activities, including the targeted testing of areas open to the potential of fraudulent activity • The development of a fraud risk register • Organising raising fraud awareness seminars fraud surgeries. • Assisting in the Cabinet Offices NFI data matching exercise. • Representing WMCA at national and local fraud related events.
Recommendation follow up	<p>The follow up of key internal audit recommendations made in 2018/19 including continued oversight of limited opinion audit reports.</p>
Audit Management	<p>Day to day management of the internal audit service, quality control, client and external audit liaison and preparation for, and attendance at various meetings. Preparation and presentation of papers for the Audit, Risk and Assurance Committee, and providing advice and training to committee members as and when required.</p>
Risk Management	<p>We will review the scoring and evidence-based methodology that underpins the Strategic Risk Register.</p>



Audit, Risk & Assurance Committee

Date	15 April 2019
Report title	Internal Audit Annual Report 2018/19
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Tim Martin, Chief Audit Executive Email: Tim.Martin@wmca.org.uk Tel: (0121) 214 7435
Report has been considered by	Leadership Team

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

(1) Note the contents of the Internal Audit Annual Report 2018-2019.

1.0 Purpose

- 1.1 The purpose of this report is to provide the Audit, Risk and Assurance Committee with an annual internal audit opinion on the adequacy and effectiveness of the Combined Authority's governance, risk management and internal control processes.

2.0 Background

- 2.1 The Annual Internal Audit Report summarises the work completed by Internal Audit during 2018-2019. It also provides an annual audit opinion that based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Combined Authority by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the Combined Authority has adequate and effective governance, risk management and internal control processes.

3.0 Wider WMCA Implications

- 3.1 There are no implications

4.0 Financial implications

- 4.1 There are no implications.

5.0 Legal implications

- 5.1 There are no implications.

6.0 Equalities implications

- 6.1 There are no implications.

7.0 Other implications

- 7.1 Not applicable.

8.0 Schedule of background papers

- 8.1 None.

9.0 Appendices

None



West Midlands Combined Authority

Internal Audit Annual Report – 2018-2019

Delivered by City of Wolverhampton Council - Audit Services

Introduction

Our internal audit work for the period from 1 April 2018 to 31 March 2019 was carried out in accordance with the approved Internal Audit Plan. The plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Combined Authority's governance, risk management and control processes. In this way our annual report provides one element of the evidence that underpins the opinion of the Chief Audit Executive and the Annual Governance Statement the Combined Authority is required to make to accompany its annual financial statements. This is only one aspect of the assurances available to the Combined Authority as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Combined Authority may rely, could include:

- The work of the External Auditors (Grant Thornton)
- The work of the Combined Authority's Corporate Assurance Team
- The result of any quality accreditation
- The outcome of any visits by Her Majesty's Revenues and Customs (HMRC)
- Other pieces of consultancy or third-party work designed to alert the Combined Authority to areas of improvement

The definition of internal audit, as described in the Public Sector Internal Audit Standards, is "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter.

Overall Assurance

As the providers of internal audit to the Combined Authority, we are required to provide the Chief Executive and the Audit, Risk and Assurance Committee with an opinion on the adequacy and effectiveness of the Authority's governance, risk management and control processes. In giving our opinion, it should be noted that assurance can never be absolute. The most that Internal Audit can provide is reasonable assurance that there are no major weaknesses in the Combined Authority's governance, risk management and control processes. We have taken into account:

- All audits undertaken for the year ended 31 March 2019.
- Any follow-up action taken in respect of audits from previous periods.
- Any key recommendations not accepted by management and the consequent risks.
- Any limitations which may have been placed on the scope of internal audit.
- The extent to which any resource constraints may impinge on the ability to meet the full audit needs of the Combined Authority.

Internal Audit Opinion

We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

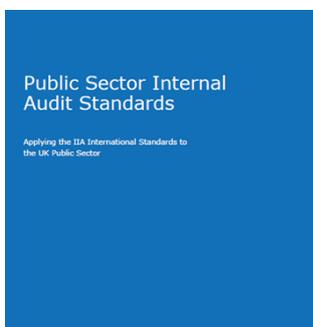
Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Combined Authority by other providers as well as directly by Internal Audit, we can provide **reasonable assurance** that the Combined Authority has adequate and effective governance, risk management and internal control processes.

However, we do note that there have been some delays in the implementation of previously agreed audit recommendations. Where this has occurred, they have been reported through the Audit, Risk and Assurance Committee.

In reaching our opinion, the following factors were taken into particular consideration:

- The WMCA continued to experience a changing environment in 2018 - 2019 with the further establishment of several new directorates, development of arrangements for the devolution of Adult Education Budget funding and award of further funding as part of the Housing Deal and the 5G programme.
- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance, identified because of our audit work performed in year are included in a table at the end of this report.

Compliance with the Public Sector Internal Audit Standards



Internal Audit has a quality assurance and improvement programme. During the year, the internal audit activity has followed this programme and there have been no significant areas of non-conformance or deviations from the standards as set out in the Public Sector Internal Audit Standards.

Summary of work completed

A detailed written report and action plan is prepared and issued for every review where appropriate. The responsible officer will be asked to respond to the report by completing and returning the action plan. This response must show what actions have been taken or are planned in relation to each recommendation.

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.

12 pieces of audit work have been completed so far in 2018-2019, where an audit opinion has been provided. A summary of the audit opinions given, with a comparison over previous years, is set out below:

Opinion	2018/19
Substantial	9
Satisfactory	3
Limited	-

A summary for each completed audit review is detailed below.

Summary of audit reviews completed

The following internal audit reviews were completed during 2018-2019 and have been presented to the Audit, Risk and Assurance Committee at various points throughout the year.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Health and Safety Arrangements	High	-	2	5	7	7	Satisfactory
Asset Management Arrangements	Medium	-	1	2	3	3	Satisfactory
Accounts Payable	High	-	-	1	1	1	Substantial
Accounts Receivable	High	-	-	1	1	1	Substantial
Payroll	High	-	-	-	-	-	Substantial
Budgetary Control	High	-	-	-	-	-	Substantial
General Ledger	High	-	-	-	-	-	Substantial
Treasury Management	High	-	-	-	-	-	Substantial
Human Resources Workforce Planning	High	-	1	-	1	1	Satisfactory
Corporate Business Continuity	High	-	-	3	3	3	Substantial
Budget Management Role and Responsibilities	Medium	-	-	3	3	3	Substantial
Data Insight Service	Medium	-	-	3	3	3	Substantial
Birmingham Eastside Metro Extension Project	High	In progress – verbal update will be provided.					

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Devolution Deal Objectives and Financial Assumptions, including Business Planning	High	In progress – verbal update will be provided.					
WMCA Governance Arrangements	High	In progress – verbal update will be provided.					
Midland Metro Operational Transfer	High	In progress – fieldwork commenced 8 April 2019.					

Summary of follow-up reviews completed

The following reviews were completed during 2018-2019 and have been presented to the Audit, Risk and Assurance Committee at various points throughout the year.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Expenses, Gifts and Hospitality (2017-2018)	Medium	-	1	3	4	4	Recommendations implemented.
Data Security Arrangements (2017-2018)	High	1	3	-	4	4	Recommendations implemented.
Cyber Security Arrangements (2016-2017)	High	1	6	-	7	7	One red and four amber recommendations implemented. Progress noted for remaining two amber recommendations.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Human Resources Recruitment and Retention (2016-2017)	High	6	2	1	9	9	Recommendations implemented
Transport Capital Programme Prioritisation (2017-2018)	High	-	2	1	3	3	Two amber recommendations implemented. Progress noted for remaining green recommendation.
National Fraud Initiative (2017-2018)	High	-	2	4	6	6	Two green recommendations implemented. Progress noted regarding the remaining two green recommendations. Two amber recommendations not fully implemented.
Management of IR35 (2017-2018)	High	-	4	3	7	7	Progress noted for one amber and one green recommendations. Three amber and two green recommendations not fully implemented.
Establishment of the Mayoral Office (2017-2018)	High	1	6	0	7	7	Draft report issued – one red and two amber recommendations implemented. Progress noted for one amber to be implemented at next election. Three amber recommendations not fully implemented.

Summary of individual audits

No reviews were categorised as Limited Assurance.

The following reviews were categorised as either Satisfactory or Substantial Assurance.

Health and Safety Arrangements

The objective of our audit was to seek assurance that a robust health and safety management system was in operation for the West Midlands Combined Authority (WMCA) to effectively manage health and safety risks. We found that suitable operational Health and Safety management arrangements were evident, supported by regular reporting and an effective management system, specifically noting the continuing accreditation achieved by the WMCA Health and Safety Team.

At the time of review, Health and Safety arrangements were subject to change as the Team's remit was being developed to encompass and engage with the wider WMCA, albeit most risks would continue to remain within TfWM and therefore the focus of most health and safety activity. We therefore made recommendations to further support and build upon arrangements going forward, as well as develop greater visibility across the WMCA regarding the role of the Health and Safety Team as an organisational wide function.

We specifically noted that positioning of the proposed Safety, Health and Environment Strategic Committee and the existing Safety, Health and Environment Committee (constituted under relevant Regulations) and associated lines of accountability and reporting required clarity and in support of this, contracts of employment for Directors required reference to Health and Safety responsibilities for compliance with legislation and policy, and training as mandatory.

As reported to the January 2019 meeting of the Audit, Risk and Assurance Committee, actions identified within audit report are expected to be implemented by 31 March 2019. A follow-up review will be undertaken within the first quarter of 2019-2020 to confirm progress with implementation.

Asset Management Arrangements

We reviewed the asset management arrangements developed for the WMCA seeking assurance that current arrangements reflected best practice and supported achievement of the organisation's strategic objectives. Whilst we identified several areas of good practice, proposed developments were also reviewed to ensure would facilitate effective control within asset management arrangements. As part of ensuring implementation of these developments, a recommendation was made to ensure that a formal action plan was developed with supporting monitoring and reporting regarding progress.

Key Financial Systems

We reviewed the following key financial systems, with a particular focus on compliance with the Financial Regulations and Contract Procedure Rules. No significant issues of concern were raised:

- Accounts Receivable
- General ledger
- Payroll
- Budgetary Control
- Accounts Payable
- Treasury Management

Human Resources Workforce Planning

Our review sought assurance that appropriate arrangements were in place for effective workforce planning that supported and aligned with organisational strategy and business planning to ensure appropriate skills and capacity are developed to achieve organisational success in delivering services in the future. The WMCA had been through a fairly rapid recruitment process particularly at a senior level and to address vacancy management of approximately 158 full time equivalent posts.

Whilst action was being taken to develop workforce planning processes, we noted that current strategic and organisational mechanisms that contributed to and underpinned strategic workforce planning could be improved through greater formalisation within a clear strategic and operational framework, and clearer alignment between Human Resource workforce planning activities and the rest of the organisation. The target implementation date for the one amber recommendation made was 30 June 2019. Consequently, a follow-up review will be undertaken within the second quarter of 2019-2020 to confirm progress with implementation.

Corporate Business Continuity

The objective of our audit was to seek assurance that adequate and effective business continuity arrangements had been established by the WMCA. The WMCA has established two key plans covering business continuity arrangements:

- The Corporate Business Continuity Plan covering all services operating from the WMCA premises at 16 Summer Lane and the building itself.
- The Transport for West Midlands (TfWM) Network Emergency Plan regarding major incidents.

This audit focused on a review of the Corporate Business Continuity Plan. A separate review will be undertaken of the TfWM Network Emergency Plan once updated to reference the Key Routes Network.

We found that a clear framework of controls for business continuity, resilience and incident management had been developed, supported by on-call arrangements, with the current form of arrangements had been developed during the period up to September 2018 and took account of the flood incident in March 2018, leading to a strengthening of on-call arrangements.

However, it is recognised that business continuity is an area that warrants ongoing review to address changes in risk profiles, and organisational and service delivery changes and is only truly tested in the event of incidents occurring and risks materialising that could affect the well-being and safety of employees and customers, and the WMCA's assets. Coupled with the WMCA continuing to experience fairly rapid strategic and organisational change, current business continuity arrangements will understandably be subject to further development and embedment.

We made recommendations to enhance current arrangements regarding more explicit reference to Policy within documentation and consistency in cross referencing and naming conventions within the Plan.

Budget Management Role and Responsibilities

The review recognised that as the WMCA is responsible for managing significant funding monies from various sources to improve the quality of life for everyone in the West Midlands, it is important that employees and seconded officers tasked with financial responsibilities to support achievement of strategic aims and implementation of major programmes and projects have sound financial understanding and training.

Consequently, the review focused on induction, training and support mechanisms in place to support budget managers appointed for newly established budget areas and to ensure that they were undertaking their role and associated responsibilities in an effective, compliant and accountable manner.

We found that surveyed Budget Managers were clear on their roles and responsibilities and clear guidance and policy had been provided regarding budget management responsibilities. To further enhance current arrangements, we recommended that budget management responsibilities be clearly included within job descriptions as applicable, current provision of training be made mandatory and feedback from surveyed Budget Managers be captured and addressed regarding additional areas of support.

Data Insight Service

The objective of the audit review was to seek assurance that in-house service delivery arrangements and contract management arrangements for externally procured functions, as part of the new operating model, were operating effectively and support achievement of transport strategic objectives through delivery of key strategic data and intelligence to stakeholders and partners.

The Transport for West Midlands Data Insight Service through provision of data collation, analysis and insight as well as complex transport and housing modelling helps to support future strategic infrastructure investment, business case development, compliance with external and internal assurance requirements as well as supporting compliance with the Localism Act 2011 Duty to Cooperate by Local Authorities. The Data Insight Service is largely funded by annual contributions from the seven constituent Local Authorities as well as contribution through resource allocated by Transport for West Midlands.

Previously operated by Birmingham City Council, the service transferred to the WMCA in 2017. In April 2018 the new Data Insight Service was launched. Consequently, at the time of review the Service was experiencing a period of significant transition from what was previously mainly data processing, to data insight through collection, collation and presentation of data, and strategic analysis and insight, and forecasting including modelling. Procurement activities were also in progress to further develop the capability and capacity of the Strategic Transport and Housing Modelling tool to ensure continue to be compliant and effective.

Recommendations were made to further enhance processes through development of a single strategic document outlining the aims and objectives of the service as well as services provided through collation the various existing documentation, documenting the contract management arrangements in operation and revisiting governance documentation.

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Audit, Risk & Assurance Committee

Date	15 April 2019
Report title	WMCA Annual Governance Statement
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Report has been considered by	None

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Approve the draft Annual Governance Statement prior to its inclusion within the financial statements for 2018/19.

Purpose

- 1.1 This report provides members with a draft of the Annual Governance Statement (AGS) for their consideration and to approve sections 3.0 to 9.0.

2.0 Background

- 2.1 The Annual Governance Statement (AGS) is a statutory document which explains the processes and procedures in place to enable the West Midlands Combined Authority (WMCA) to carry out its functions effectively. This AGS is brought as a draft document at this stage for two reasons. The close down of the financial year has not yet been completed and so it is always possible that another issue might arise that requires comment or inclusion. Secondly, approval for the final AGS will be sought as part of the process of approving the annual accounts of the WMCA in June 2019.
- 2.2 The WMCA has continued through a period of change and development since the last AGS was approved. There is now a stable leadership team and structure including a new Director of Investment and Commercial Activities and Director of Strategic Communications and Public Affairs, although there are vacancies and turnover – including the Director of Finance role which at the time of writing is being covered on an interim basis. Work has continued to strengthen and improve governance arrangements, Board Reporting, Forward Planning and the work of the Audit, Risk and Assurance Committee (ARAC) and Overview and Scrutiny Committee.
- 2.4 The WMCA continues to mature and evolve through a period of growth and the operational model is becoming more complex – particularly in light of the existing and potential additions to WMCA functions (within the last 12 months Midlands Metro Operations have come in house and the West Midlands Rail has been established) including some additional statutory transfer of existing services such as the West Midlands Fire Service. These additions will lead to accountability changes and will be reviewed in year with the correct governance arrangements being put in place. This AGS should be seen in this context.

3.0 Scope

- 3.1 This Annual Governance Statement (AGS) reflects the activities of West Midlands Combined Authority (WMCA) from 1st April 2018 to 31st March 2019.
- 3.2 The WMCA is made up of seven district councils, constituent and non-constituent members, three Local Enterprise Partnerships (LEPs), observers and a co-opted member.
- 3.3 The WMCA Constituent Council consists of the seven district councils across the region. They are:
- Birmingham City Council
 - City of Wolverhampton Council
 - Coventry City Council
 - Dudley Metropolitan Borough Council
 - Sandwell Metropolitan Borough Council
 - Solihull Metropolitan Borough Council
 - Walsall Metropolitan Borough Council
- 3.4 The Non-Constituent member of the WMCA are comprised of non-constituent authorities and LEP members.

Non-constituent authorities

- Cannock Chase District Council
- North Warwickshire Borough Council
- Nuneaton and Bedworth Borough Council
- Redditch Borough Council
- Rugby Borough Council
- Shropshire Council
- Stratford-on-Avon District Council
- Tamworth Borough Council
- Telford and Wrekin Council
- Warwickshire County Council

LEP members

- Black Country LEP
- Coventry and Warwickshire LEP
- Greater Birmingham and Solihull LEP

3.5 There are also four Observers of the WMCA. These are:

- Herefordshire Council
- The Marches LEP
- West Midlands Fire and Rescue Authority
- West Midlands Police and Crime Commissioner

3.6 There is one member co-opted on to the WMCA board at the discretion of the WMCA board. They are:

- Trade Union Congress (TUC)

3.7 The WMCA currently has 5 active Arm's Length Company relationships, namely;

No.	Company Name	Stake	Accounting Treatment
a.	West Midlands Rail Limited	50%	Associate
b.	West Midlands Development Capital Limited	100%	Subsidiary
c.	Midland Metro Limited	100%	Subsidiary
d.	West Midlands Growth Company Limited	5.3%	Investment
e.	West Midlands Integrated Transport Authority Pension Fund (closed)	N/A	Administering authority

3.8 The management of the West Midlands Integrated Transport Authority Pension Fund was discharged from the West Midlands Combined Authority to the West Midlands Pension Fund Pensions Committee. Assurance on governance and legal and financial controls are placed on the West Midlands Pension Fund.

3.9 In addition to the above, a new wholly owned subsidiary, WM5G Limited, was incorporated in February 2019 and is expected to remain dormant until summer 2019. Its proposed governance is being discussed with the Department of Digital, Culture, Media and Sport (DCMS).

- 3.10 For each of the arm's length companies where WMCA owns a 50% or greater share an assurance and governance checklist has been completed to confirm all legal and financial controls have been satisfied. In addition confirmation of wider assurance and governance is approved.
- 3.11 WMCA is an enabling body which brings together the political leadership in the region; reinforcing and strengthening existing partnership arrangements to help co-ordinate strategic economic planning and drive forward inclusive economic growth.

4.0 Purpose of Corporate Governance Framework

- 4.1 The West Midlands Combined Authority is responsible for ensuring that business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for and delivers value for money.
- 4.2 To demonstrate good corporate governance, WMCA carries out its functions in a way that provides accountability, transparency, effectiveness, integrity, and inclusivity; enabling WMCA to pursue its vision and secure its agreed objectives in the most effective and efficient manner and in line with the approved constitution.
- 4.3 In discharging this overall responsibility, WMCA Senior Leadership Team and Statutory Officers are responsible for putting in place proper arrangements (known as a Governance Framework) which comprises the legislative requirements, systems and processes, cultures and values. This enables WMCA to govern its affairs, facilitate the effective exercise of its functions, which includes arrangements for the management of risk, in addition to exercising leadership and being held accountable for its decisions and activities.
- 4.4 The WMCA has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.
- 4.5 The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives; and evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.
- 4.6 WMCA has developed a Risk Management Strategy and strategic risk register, which is regularly reported to ARAC and the WMCA Senior Leadership Team. It provides visibility of risk at strategic, operational, and programme levels. Risk management processes are also being embedded within the organisations performance management framework as it is being developed.

5.0 Annual Governance Statement

- 5.1 This Annual Governance Statement meets the requirements of Regulation 6(1) (b) of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an annual governance statement.
- 5.2 WMCA demonstrates compliance with the seven core principles of good governance set out in the latest CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016).

These seven principles are:

- (a) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- (b) Ensuring openness and comprehensive stakeholder engagement.
- (c) Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- (d) Determining the interventions necessary to optimise the achievement of the intended outcomes.
- (e) Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- (f) Managing risks and performance through robust internal control and strong public financial management.
- (g) Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

6.0 Governance Framework

6.1 Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

6.1.1 The code of conduct is laid out in the Constitution; this defines standards of behaviour for Members and officers working on behalf of the Authority. The Head of Governance who is the monitoring officer deals with issues of conduct and generally promotes high standards among officers, members and the Mayor. ARAC perform the role of the Standards Committee.

6.1.2 WMCA embeds standards of conduct and behaviour through promoting a culture with values:

Be collaborative

- We work with others to reach common goals
- We are respectful and act with integrity
- We communicate clearly, openly and encourage feedback

Be innovative

- We encourage creativity, originality and curiosity from everyone
- We embrace change, and we are open to new possibilities and exploring new ideas
- We adopt best practices and keep up to date with new developments to enhance our work

Be driven

- We have a positive, proactive and a solution oriented attitude
- We set ourselves high standards and strive to exceed these
- We take ownership for our performance and outcomes

Be inclusive

- We care about and treat each other with dignity and respect
- We create a positive working environment
- We value diversity and consider other people's viewpoints ensuring no-one is excluded
- We encourage and support each other

6.1.3 The business of WMCA will also be conducted in accordance with the Seven Principles of Public Life identified in The Nolan Committee Report (1995), and defined as selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

6.2 Ensuring openness and comprehensive stakeholder engagement.

6.2.1 We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. Meetings are held in public unless there are good reasons for confidentiality.

6.2.2 We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements. This has been developed further this year by working with the arm's length companies to confirm assurance and governance arrangements.

6.2.3 We assess the effectiveness of relationship frameworks in order to identify any changes required.

6.2.4 Our inclusivity work ensures we encourage engagement from all members of society. Commissions have been created to include a cross section of stakeholders so that a wide range of views can be considered.

6.3 Defining outcomes in terms of sustainable economic, social, and environmental benefits

6.3.1 WMCA ensure the vision and the implications for governance arrangements are reviewed including monitoring its achievement of intended outcomes from social, economic and environmental and organisational health perspectives through the budget and performance framework and project delivery process. The performance management framework is currently being refreshed and will evolve as the organisation grows.

6.3.2 WMCA is focused on delivering value for money and success in this respect is reviewed by independent auditors in line with the NAO's Code of Audit Practice and Auditor's Guidance Note AGN03. The results of the Value for Money audit work and the key messages arising will be reported in an Audit Findings Report and in the Annual Audit Letter.

6.3.3 Each of these benefit categories are assessed in major project business case submissions. WMCA wants to ensure strategically important projects with high benefits for the region are progressed.

6.3.4 The WMCA is working to achieve the priorities set out in the Devolution Deals that have been negotiated with Central Government. WMCA's purpose and vision are detailed in the Strategic Economic plan (SEP) and the Mayor's Renewal Plan. Devolution 1 is currently being audited and the results will be monitored and assessed throughout 2019/20.

6.3.5 To ensure the purpose and vision of WMCA is clear and well communicated an annual review titled The Annual Business Plan outlines WMCA activities and achievements. This will be signed off by the WMCA Board in June 2019.

6.4 Determining the interventions necessary to optimize the achievement of the intended outcomes.

6.4.1 The WMCA works closely with the relevant Government Departments, local and national stakeholders and constituent and non-constituent authorities to determine the necessary actions to achieve these priorities.

6.4.2 Senior Leadership Team oversees the corporate decision making process and reports are considered at an appropriate level of the organisation in accordance with the provisions of the Constitution.

6.4.3 Corporate decisions are primarily taken at meetings of the WMCA Board, although each of the Board's thematic delivery committee's exercise a degree of delegated authority in respect of their powers to make decisions on behalf of the Authority. This includes reviewing progress of outcomes against delivery plans.

6.5 Developing the entity's capacity, including the capability of its leadership and the individuals within it.

6.5.1 We have defined and documented in our Constitution the roles and responsibilities of the Board, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. As the Authority develops we are reviewing our governance arrangements and the Constitution to ensure they remain fit for purpose in a growing organisation. A scheme of delegation is laid out in the Constitution.

6.5.2 The collective and individual roles and responsibilities of the Senior Leadership Team, Members and officers have been established. We now have in place a complete and stable leadership team.

6.5.3 The Leadership team is reviewing the structure of Corporate Services in light of senior management changes to ensure its capability continues to meet the future aspirations of the organisation.

6.5.4 We identify and aim to address the development needs of members and officers in relation to their roles and support with appropriate induction and training. In 2018/2019 approximately 30% of the training budget was spent on the leadership of the organisation. Specifically in 2018 ARAC members received finance training to allow them to understand financial accounts, reporting arrangements and pensions accounting.

6.5.5 Training requirements for 2019/20 will be reviewed following ARAC in June when new committee members are decided. Overview and Scrutiny Committee Chairs and leading Members have also participated in external training and events.

6.6 Managing risks and performance through robust internal control and strong public financial management.

6.6.1 Risk management is embedded in the culture; accountabilities and responsibilities defined within roles, and with processes determining ways of working, managing and reporting risk. This continues to evolve and steps are being undertaken to improve the process across the organisation. WMCA risk appetite for the 6 recognised risk categories has been reconfirmed by SLT for 2019/20.

6.6.2 WMCA ensures compliance with relevant laws and regulations, internal policies and procedures. We are rigorous and transparent about decision making and the recording of decisions. The Overview and Scrutiny Committee reviews and challenges the work and decisions of WMCA amidst with policy review and development.

- 6.6.3 The Audit, Risk and Assurance Committee (ARAC) is independent of the executive and scrutiny function. They monitor and review risk and governance processes, and results, in order to provide assurance to the WMCA Board on their effectiveness. Appropriate controls are in place for arms-length companies and as good practice external auditors have been appointed for West Midlands Rail Limited and Midland Metro Ltd.
- 6.6.4 Internal Audit provides the ‘third line of defence’ with the first line being policies, procedures and controls and the second being managers’ own checks of the control environment. Professional advice and good quality information is provided to ensure those making decisions are provided with relevant information that is fit for purpose. In 2018 all WMCA key financial audits received an ‘outstanding’ internal audit outcome.
- 6.6.5 A robust assurance framework consistently ensures governance and process are independently reviewed and reported and the risks have been identified and are being adequately managed. The assurance framework is currently undergoing a refresh to ensure it remains fit for purpose and will be expanded to include assurance requirements for the new and proposed devolution deals. This assurance framework will be approved by Ministry of Housing, Communities and Local Government (MHCLG) and will be aligned to the National Single Pot Assurance Framework.
- 6.7 Implementing good practices in transparency, reporting, and audit, to deliver effective accountability**
- 6.7.1 The WMCA has implemented the WMCA Assurance Framework which was approved by MHCLG (previously Department of Communities and Local Government (DCLG)) in July 2016. This is currently under review and will be refreshed in Autumn 2019 to include new schemes being developed such as the Adult Education Budget, 5G and Housing which will become one Assurance Framework document for the WMCA.
- 6.7.2 The WMCA is working closely with Department for Business, Energy and Industrial Strategy (BEIS) who will review the performance of the Devolution objectives and adherence to the Assurance Framework. The Annual conversation with BEIS and MHCLG is planned for the end of June 2019.
- 6.7.3 The WMCA has a monitoring officer who sits on both SLT and attends WMCA board meetings to ensure all of our activity is legal. Our high level of Governance standards include the publishing of Agendas, minutes and reports in the public domain and only limited use of confidential reporting. The 2019/20 audit plan is approved at the start of the year.
- 6.7.4 A checklist has been implemented for the arm’s length companies of the WMCA to ascertain confidence in governance and assurance arrangements. This action came out of the Audit, Risk and Assurance Committee, to develop a checklist of questions that would provide a mechanism of assurance to the Committee that could provide overall assurance on all of WMCA’s activities. 3 of the 4 have been completed at the time of writing and all relationships will be reviewed at least once a year. WM5G is being established but not currently trading. Governance and Assurance arrangements are being considered by WMCA Board.
- 6.7.5 Arrangements are in place for “whistleblowing” and “counter-fraud” for receiving and investigating complaints from both officers and members of the public. There were no issues raised during 2018/19.

7 Action Plan for the Significant Governance Issues

- 7.1 Table in **Appendix 1** gives an update on those matters that were identified as being significant for the purpose of the 2017/18 annual governance statement and the actions taken to address them.
- 7.2 Table in **Appendix 2** shows matters that have been identified as being significant for the purpose of the 2018/19 annual governance statement. These issues will need addressing in 2019/20 and over the coming year appropriate actions to address these matters and further enhance governance arrangements will be taken.

To help strengthen the assurance confidence provided to support governance arrangements the internal audit plan 2019/20 has increased audit days by 32% (to 185 from 140) and covers all new and existing directorate areas purposely selected to look at high risk areas.

8 Annual Review of Effectiveness of Governance Framework

The Opinion of the Head of Governance 2018/19

- 8.1 CIPFA (The Chartered Institute of Public Finance & Accountancy) defines the role of Governance and the Chief Financial Officer as follows:
- Governance is defined as “The arrangements in place to ensure that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an economical, effective, efficient and ethical manner” and;
 - The Chief Financial Officer is “The organisation’s most senior executive role charged with leading and directing financial strategy and operations.”

These statements have been confirmed and agreed by the Head of Governance and the Interim Head of Finance respectively.

- 8.2 The Head of Governance is satisfied that the system of internal assurance is robust and providing visibility of risk and reasonable assurance to the senior management teams.
- 8.3 The opinion is based on the results of an on-going programme of activities and review, the outcomes of which were considered by the Audit, Risk & Assurance Committee. Activities include:
- External audit
 - Internal audit
 - The Risk Management Process, particularly the Strategic Risk Register
 - Performance information
 - Assurance
- 8.4 During 2018/19, the Treasury Management audit and five other ‘key financial systems’ audits were given ‘Substantial’ rating by internal audit and 100% ‘Green’ in terms of its recommendations, whilst a ‘Satisfactory’ level was achieved by Health & Safety (71% green recommendations), Asset Management (66% green recommendations) and Human Resources Workforce Planning (1 Amber recommendation). None of the audit recommendations were flagged as ‘red’ where imperative action is required. This demonstrates that the systems and processes around audit, risk and governance are effective.

- 8.5 A total of 45 project assurance reviews have been undertaken by the Corporate Assurance Team in this period, covering 32 different projects. These projects follow the WMCA Gateway Project Methodology for minor projects. This is an increase in both number and complexity on the 27 assurance reviews and 19 Projects undertaken last year.
- 8.6 To recognise the increase in transport projects and the Commonwealth Games a Transport Implementation Office has been created to provide greater insight and support in planning and project controls for transport projects.
- 8.7 Progress of the 2018/19 Annual Business Plan is monitored monthly by internal management teams with key risks impacting on its delivery, being escalated to the directorate risk registers. The new Annual Business Plan is being developed and will be approved by the Board in June 2019.
- 8.8 Regular risk management review meetings are now in place across all WMCA activities including all directorates to enable full visibility of key risks having the potential to impact on the organisation. Risk Management and Performance Management is intended to be brought together to provide a strong evidence base to substantiate the risk assumptions.
- 8.9 There are a total of 5 operational Risk Registers feeding into the WMCA Strategic Risk Register with another 2 areas – Economic Risk Register and Strategic & Industrial strategy – being finalised at the time of writing. There are regular meetings in place with both the management team of each business area and the Strategy Director to monitor the status of risks and to ascertain the level of risk exposure in each of these areas to determine the assurance conclusions. Additionally the Strategic Risk Register is reviewed by the Strategic Leadership Team on a bi-monthly basis.
- 8.10 The WMCA is one of England’s Combined Authorities to successfully negotiate a further devolution deal. This has helped lead to the Region successfully acquiring the Commonwealth Games in 2022, 5G programme pilot and the new Housing Delivery deal.
- 8.11 The WMCA has set itself a demanding programme of work and is ambitious for itself and the benefits that it hopes to bring to the region. It has been successful in negotiations for a second Devolution Deal and has recruited an able team of experienced professionals to form the leadership team. However there is a significant pressure on resources, particularly in matching staff resources to the tasks in hand and this is being carefully monitored by the WMCA and a plan in place to mitigate these pressures accordingly.

9 Conclusion

- 9.1 In undertaking the review of internal control and governance framework, WMCA is satisfied the systems of internal control that facilitate the effective exercise of the organisation’s functions are in place and that all issues raised through the Audit, Risk and Assurance Committee have been appropriately addressed and actions have been assigned an appropriate owner.

10 Wider WMCA Implications

- 10.1 The framework will be subject to continued review to ensure it remains fit for purpose and takes into account the increasing remit of WMCA.

11 Financial implications

11.1 There are no direct costs or other financial implications involved with the production of these statements.

12 Legal implications

12.1 This Annual Governance Statement meets the requirements of Regulation 6 (1)(b) of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an annual governance statement, demonstrating compliance with the seven core principles of good governance set out in the CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016).

13 Equalities implications

13.1 There are no equalities implications as a direct consequence of this report.

14 Other implications

14.1 None.

15 Schedule of background papers

15.1 None.

16 Appendices

Appendix 1: Significant Governance Issues identified during 2017/18 which needed addressing in 2018/19 – Updated with actions.

Appendix 2: Action Plan for the Significant Governance Issues identified during 2018/19 which will need addressing in 2019/20.

Appendix 1**Significant Governance Issues identified during 2017/18 which needed addressing in 2018/19 – Updated with actions.**

2018-2019 - Key areas and actions for implementation	Officer Responsible	Original Target Date
<p>Review of Constitution In February 2018, the West Midlands Combined Authority Board approved the establishment of a task and finish review group to review the West Midlands Combined Authority's Constitution following its first 18 months of operation. The group will be established in April 2018 with a view completing its review over the spring/summer period to ensure that its recommendations are put in place in time for the preparation of the West Midlands Combined Authority Medium Term Financial Plan for 2019/20 to 2022/23. Audit, Risk & Assurance Committee have asked to be kept apprised about the evolution in the Governance framework, as there is a recognition that now needs updating.</p> <p>2018/19 update: WMCA have brought in dedicated resource to complete this task ahead of the AGM in June 2019. Progress has been slower than anticipated due to the work carried out on PCC and Fire governance which has been time sensitive and had a bearing on the overall constitution. The review of the Constitution is progressing and will be available for further discussion during Q1 2019/20. There is also a separate external review being taken of overview and scrutiny arrangements headed up by the Centre of Public Scrutiny to ensure they are still fit for purpose. The WMCA has recognised that as it grows the overview and scrutiny also needs to adapt and grow.</p>	<p>Head of Governance</p>	<p>September 2018</p>
<p>Financial Sustainability The West Midlands Combined Authority Board also approved the establishment of a task and finish review group to review arrangements for developing the West Midlands Combined Authority's Medium Term Financial Plan to provide assurance around future financial sustainability. The intention is to develop jointly and through consensus a new plan for 2019/20 to 2022/23 to ensure Medium Term Financial Planning can continue to provide more certainty for the delivery of objectives within a financial framework that meets the needs of its Constituent Members. Again, the group will be established in April 2018 with a view completing the review over the spring/summer period to ensure that its recommendations are put in place in time for the preparation of the 4 year West Midlands Combined Authority Medium Term Financial Plan for 2019/20 to 2022/23.</p> <p>2018/19 update: WMCA's Medium Term Financial Plan for 2019/20 to 2023/24 was successfully developed during the autumn of 2018 in collaboration with the Leaders, Chief Executives and Finance Directors of the seven Constituent Authorities. The Medium Term Financial Plan was noted by WMCA Board on 8 February 2019 and the 2019/20 Annual Budget Approved. Work has now commenced on development of the Medium Term Financial Plan for 2020/21 to 2024/25, again, in collaboration with Member Authorities, recognising that more could be done to develop the presentation of WMCA's budget as the individual portfolio activities gather pace and to further strengthen collaborative engagement by Portfolio Leads. This will help to develop clearer ownership of the budget proposals being put forward and also a clearer all round understanding of the impact of proposals on the overall forward plan and future financial sustainability.</p>	<p>Head of Finance</p>	<p>September 2018</p>

<p>Information Governance & Cyber Security This will be kept under review during the year by both relevant Officers and Internal Audit. There is a significant amount of activity on going in these areas as the new WMCA Information Assurance Framework is rolled out during this period to strengthen and enhance the Authority's responses in this area. Activity and progress is reported regularly to ARAC.</p> <p>2018/19 update: This is an ongoing work stream but specifically to this action an Information Assurance Framework supported by a number of information assurance polices has been rolled out across WMCA. Assurance responsibilities have been allocated, and an Information Assurance Group has been established. The group meets quarterly and oversees compliance with legislative requirements and good practice around Information Governance & Security.</p>	<p>Head of ICT</p>	<p>December 2018</p>
<p>Delivery of the Devolution Deals & Investment Programme The West Midlands Combined Authority Board also approved the establishment of a task and finish review group to review governance and performance reporting for the Investment Programme including ranking and scheduling, of both funding and costs. The West Midlands Combined Authority is also working towards developing additional potential funding sources including extending existing borrowing powers and using new Mayoral powers to develop a supplementary business rates scheme.</p> <p>2018/19 update: Work was undertaken throughout the autumn of 2018 in collaboration with the Leaders, Chief Executives and Finance Directors of the seven Constituent Authorities to begin to identify viable solutions to delivering the Investment Programme, recognising that although Devolution Deal grant is substantially secured, the remaining income sources originally identified to fund the Investment Programme when it was first conceived will potentially not be realised in full. Work will continue throughout 2019/20 to manage the Investment Programme funding challenge. The Mayor and Leaders recently agreed a set of six strategies designed to help address the short term funding issue, whilst the longer term issues around income generation are being resolved. This piece of work is ongoing and will be reported to Investment Board and WMCA Board during the Summer of 2019. Work around securing a business rates supplement is ongoing and material for the soft consultation phase is being agreed and finalised.</p>	<p>Head of Finance</p>	<p>September 2018</p>

Appendix 2

Action Plan for the Significant Governance Issues identified during 2018/19 which will need addressing in 2019/20.

2019/20 - Key areas and actions for implementation	Officer Responsible	Target Date
<p><i>Mayoral election campaign process</i></p> <p>We are reviewing our processes to make sure there are robust arrangements in place to deliver a successful Mayoral election in 2020. This includes commissioning Coventry and Birmingham City Councils to provide the returning officer process and ensuring that the WMCA has a plan in place for different scenarios and different candidates so that we maintain our political independence and engage appropriately with candidates. Being built into this plan is staff guidance on purdah.</p>	<p>Head of Governance Tim Martin</p>	<p>March 2020</p>
<p><i>Assurance Framework</i></p> <p>A plan to develop and implement an enhanced Governance and Assurance Framework was endorsed by the Investment Board on 10th December 2018. The enhanced framework is scheduled for approval at Investment Board and by MHCLG in August 2019.</p>	<p>Head of Governance Tim Martin</p>	<p>September 2019</p>
<p><i>Programme Management monitoring and Performance Management</i></p> <p>The Performance Management Framework is being reviewed to ensure we are clear on our outcomes and how these will be assessed in terms of delivering economic, social and environmental benefits.</p>	<p>Director of Strategy Julia Goldsworthy</p>	<p>September 2019</p>
<p><i>Significant Governance Transfers</i></p> <p>There will be a significant amount of activity to carry through the programme related to incorporating the West Midlands Fire Service into the WMCA. This includes both operational and strategic considerations. Preparation for this has continued despite a recent pause in the legislative process.</p>	<p>Director of Public Sector Reform Henry Kippin / Head of Governance Tim Martin</p>	<p>March 2020</p>
<p><i>Supplier / Contractor Failure</i></p> <p>At the end of 2018/19 a significant provider of services to WMCA went into administration. The implications of this are yet to be resolved although in the interim services have been secured. At the appropriate time Internal Audit will be commissioned to undertake a review of the WMCA response to be reported to ARAC. The scope of the review to be agreed with the chair of ARAC.</p>	<p>Interim s151 Officer Linda Horne/ Head of Governance Tim Martin</p>	<p>December 2019</p>



**West Midlands
Combined Authority**

Audit, Risk & Assurance Committee

Date	15 April 2019
Report title	Health and Safety Audit Update
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7552
Accountable Employee	Pete Bond, Director of Integrated Network Services Email: Pete.Bond@tfwm.org.uk Tel: (0121) 214 7388
Report to be/has been considered by	Not Applicable

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note the further update on progress made against recommendations identified during the Internal Audit of Health and Safety Arrangements conducted by City of Wolverhampton Council Audit Services.

1.0 Purpose

1.1 The purpose of this report is to present the Audit, Risk and Assurance Committee with a further update on progress against recommendations identified within the Internal Audit Report in relation to the Health and Safety Arrangements for the West Midlands Combined Authority (WMCA) issued on 8 October 2018 and last updated in January 2019.

2.0 Background

2.1 An audit of the Health and Safety Arrangements in operation for the WMCA was undertaken by the City of Wolverhampton Council Audit Services as part of the approved internal audit plan for 2018-2019 following a request by the Director of Integrated Network Services. The audit sought assurance that a robust health and safety management system is in operation for the WMCA to effectively manage health and safety risks.

2.2 The audit identified that suitable operational health and safety management arrangements were evident, supported by regular reporting and an effective management system. It was also noted that revised governance and reporting arrangements were being consulted upon prior to approval with supporting mechanisms being developed by the Health and Safety Team in the meantime.

2.3 Recommendations were made to further support and build upon the current and proposed arrangements going forward, as well as developing greater visibility across the WMCA regarding the role of the Health and Safety Team as an organisational wide function. Further to the agreed actions within the audit report, the Director of Integrated Network Services and Health and Safety Manager have advised that **two** additional actions would also be taken in relation to (i) governance arrangements for West Midlands Fire Service and (ii) stress and long-term sickness absence.

2.4 An update of the action log detailing the issues arising, recommendations, current progress and action status is contained within **Appendix 1** attached to this report.

2.5 At the last meeting it was acknowledged that the original target completion dates for many of the actions were overly ambitious given the wider challenges faced by the organisation and revised targets were provided where applicable. The attached appendix reports on the actions as at 31st March 2019.

2.6 Whilst the actions committed to ARAC at the November 2018 meeting were intended to be completed in the main by the end of December 2018, it was clear that many of the target dates were overly ambitious given some of the wider challenges which were raised at the previous meeting in January 2019. Whilst a significant amount of work has been undertaken to review, update and evolve the Health and Safety Policy and Safety Management System, it has been critical to work through those processes and procedures for various areas of the WMCA. In transport this has been traditionally a relatively straight forward process of revision and updates but in some areas of the WMCA's new activities such as Housing and Regeneration there has been a need to establish processes and procedures which have not previously existed. This work continues and it is anticipated that the 25% of actions in progress, which remain to be completed will all be able to be closed down by the target dates identified in **Appendix 1**.

3.0 Wider WMCA Implications

- 3.1 Since the last update the WMCA Health and Safety Policy has been updated and signed by the Chief Executive and the policy incorporated within the Safety Management System (SMS), which has also been signed off by the chief executive. A process of reviewing all accountable actions and responsibilities within the SMS has begun by the Director of Integrated Network Services and the Health and Safety Manager to ensure that the SMS processes are embedded across the WMCA.
- 3.2 The Health and Safety Strategic Committee has also met since the last update was provided to the Committee in January which brought together directors and senior managers from across the WMCA to consider the strategic requirements for Health and Safety, particularly in the more recently expanding areas of the WMCA such as land and housing, Public Service Reform, and some of the more established areas of transport which have evolved such as Metro through the Midland Metro Alliance.
- 3.3 The Chief Executive of the WMCA, who holds overall accountability for health and safety has agreed to support the Health and Safety Strategic Committee. In addition to supporting the committee additional meetings have been established between the Director responsible for Health and Safety and the Chief Executive on a monthly basis.
- 3.4 Most recently, approval for the West Midlands Fire Service (WMFS) to come into the WMCA structure will now give clarity to the conversations between WMFS and WMCA on the future health and safety structure. These discussions have already commenced but had been interrupted when the proposal was delayed. Now that this has been approved further meetings on the most effective structure for Health and Safety will commence as soon as practical to ensure a robust and effective structure is proposed to the WMCA. These discussions will result in a proposed H&S Policy returning to the WMCA Board for full approval once discussions are concluded between the WMCA and WMFS. This will allow the WMCA Board to consider the Health and Safety structure and accountabilities in light of this significant change.
- 3.5 Furthermore, an additional post within the Health and Safety team has been confirmed and funded with a recruitment process now underway. This will help to ensure that the team has the resources required to continue to support the Health and Safety agenda moving forward.

4.0 Financial implications

- 4.1 There are no specific financial implications arising from this report, however as the remit and responsibilities of the WMCA evolve, additional resources and budgetary allocation may be required (above those set out in 3.5) to ensure effective delivery of the aims and objective set out within the Health and Safety Policy and associated Strategy.

5.0 Legal implications

- 5.1 Although there are no current legal implications, cognisance should be given to all applicable Health and Safety legislation that places duties upon the organisation.

6.0 Equalities implications

- 6.1 There are no specific equalities implications arising from this report.

7.0 Other Implications

- 7.1 There are no other implications arising from this report.

8.0 Schedule of background papers

8.1 Final Internal Audit Report Health and Safety Arrangements 2018-2019
(8 October 2018) – Delivered by City of Wolverhampton Council Audit Services

9.0 Appendices

Appendix 1 Health and Safety Internal Audit Action Log

No.	Issue Arising	Recommendation	Agreed Action	Responsible Person(s)	Target Date	Progress Update	Status / Target Date
2.1 (a)	<p>Safety, Health and Environment Committees</p> <p>As part of the proposed reporting arrangements, we note that a new Safety, Health and Environment (SHE) Strategic Committee will be established. Currently, the supporting diagram shows the SHE Strategic Committee as accountable and reporting to the Health and Safety Lead Director Integrated Network Services responsible for WMCA wide health and safety and the operational Health and Safety Team.</p> <p>Whilst the membership and terms of reference were yet to be established, the current proposed reporting structure for the SHE Strategic Committee may not facilitate an appropriate level of challenge or support delivery of strategic direction if not aligned or made directly accountable to the TfWM Managing Director as WMCA Executive Health and Safety Lead or to the WMCA Leadership Board.</p>	As part of the consultation process for the proposed health and safety arrangements, review should be included to determine at which level of the organisation the SHE Strategic Committee and SHE Committee should sit to facilitate the appropriate level of challenge, effective escalation of issues where required, and support delivery of strategic direction i.e. through alignment and accountability to the TfWM Managing Director as WMCA Executive Health and Safety Lead or directly to the WMCA Leadership Board.	The consultation process is ongoing. Supporting diagram in relation to the proposed reporting arrangements has been updated to show alignment and accountability of SHE Strategic Committee (SHESC) to the WMCA Leadership Board via the TfWM Managing Director as WMCA Executive Health and Safety Lead as per recommendation.	Ben Gittings - Health and Safety Manager Pete Bond - Health and Safety Lead, Director of Integrated Network Services	31/12/2018	The consultation process is now complete. Supporting diagram in relation to the reporting arrangements has been updated to show alignment and accountability of SHE Strategic Committee to the WMCA Strategic Leadership Team (SLT). The existing SHE Committee is retained at its current level.	Complete 10/12/2018
2.1 (b)	<p>Environment Committee (SHE Committee) will report into the new SHE Strategic Committee. However, the proposed reporting structure did not clearly reflect lines of reporting and accountability between the SHE Strategic Committee and the SHE Committee.</p> <p>Considering the regulatory requirement to constitute a SHE Committee, there is a need to ensure accountability for the effective operation of the SHE Committee is clearly assigned within governance arrangements.</p> <p>We noted that not all current members of the SHE Committee had attained an appropriate level of training as required by the terms of reference (i.e. within a one-year time frame of becoming a Committee member) However, the newly appointed Health and Safety Manager had confirmed that in addition to himself, several of the current members held relevant professional qualifications. We were further advised that SHE Committee members will be required to attain Institute of Occupational Safety and Health Managing Safely training as a minimum, and that training will be introduced once the review of the SHE Committee membership had been completed and all new members have been appointed.</p>	Once the proposed arrangements have been approved, appropriate terms of reference should be established for the SHE Strategic Committee and the SHE Committee that clearly reflect revised lines of reporting and accountability between the two Committees as well as to other governance boards.	Terms of Reference for the SHESC to be established. Terms of Reference for SHEC to be reviewed and updated to reflect revised reporting lines and accountabilities.	Ben Gittings - Health and Safety Manager	31/12/2018	Terms of Reference reviewed and approved at inaugural meeting of the SHE Strategic Committee on 17th January 2019.	Complete 17/01/2019
2.1 (c)	<p>The status of the SHE Committee as a regulatory requirement should be clearly communicated and evidenced as such within governance and policy documentation.</p> <p>The lines of independent reporting and accountability between the WMCA Health and Safety Team and the SHE Strategic Committee (as distinct from its line management reporting within TfWM) should be clearly documented within terms of reference.</p>	The status of the SHE Committee as a regulatory requirement should be clearly communicated and evidenced as such within governance and policy documentation.	Draft WMCA Safety Management System (Section SMS 4.0) and associated policies and documentation clearly outline the statutory requirements in relation to Committees, namely: - Safety Representatives and Safety Committees Regulations 1977 (as amended); - Health and Safety (Consultation with Employees) Regulations 1996 (as amended). Further review of applicable governance documentation to be undertaken and revised as necessary.	Ben Gittings – Health and Safety Manager and Pete Bond - Health and Safety Lead, Director of Integrated Network Services in liaison with Tim Martin, Head of Governance	31/12/2018	WMCA Safety Management System (Section SMS 4.0) and associated policies and documentation now outlines the statutory role and requirements in relation to Committees in the revised SMS. Process in place for regular review of the SMS suite of documents as part of the ongoing process. Additionally a review of governance documentation is also being undertaken through Governance Services that will further censor check the appropriate processes for checks and balance.	Complete 01/04/2019
2.1 (d)	<p>Specific responsibility for ensuring that the SHE Committee operates effectively and in accordance with all relevant Regulations should be clearly assigned to a Senior Responsible Officer.</p>	The lines of independent reporting and accountability between the WMCA Health and Safety Team and the SHE Strategic Committee (as distinct from its line management reporting within TfWM) should be clearly documented within terms of reference.	Lines of independent reporting and accountability between WMCA Health and Safety Team and SHESC to be clearly defined within SHESC Terms of Reference.	Ben Gittings – Health and Safety Manager	31/12/2018	Terms of Reference reviewed and approved at inaugural meeting of the SHE Strategic Committee on 17th January 2019. These clearly define lines of independent reporting and accountability between WMCA Health and Safety Team and Health and Safety Strategic Committee.	Complete 17/01/2019
2.1 (e)	<p>Specific responsibility for ensuring that the SHE Committee operates effectively and in accordance with all relevant Regulations should be clearly assigned to a Senior Responsible Officer.</p>	Specific responsibility for ensuring that the SHE Committee operates effectively and in accordance with all relevant Regulations should be clearly assigned to a Senior Responsible Officer.	Senior Responsible Officer to be identified and appointed to ensure ongoing compliance and effective operation of SHESC/SHEC.	Pete Bond - Health and Safety Lead, Director of Integrated Network Services in liaison with Tim Martin, Head of Governance	31/12/2018	Deborah Cadman is SRO for Health & Safety, with SLT responsible for ensuring effective operation of H&S Strategic Committee / SHEC Committee. H&S Strategic Committee managed through by Governance Services.	Complete 17/01/2019

No.	Issue Arising	Recommendation	Agreed Action	Responsible Person(s)	Target Date	Progress Update	Status / Target Date
2.1 (f)	<p>Implication: Governance arrangements may not be fully effective in achievement of objectives if not clearly defined and established.</p>	Once the proposed reporting arrangements have been approved and new membership appointed, action should be taken to ensure that all members of the SHE Committee have or will attain the appropriate level of training in accordance with Regulation and within one year of becoming a member.	It will be ensured that all members of the revised SHE Committee membership have or will attain the appropriate level of training within one year of becoming a member.	Ben Gittings – Health and Safety Manager	31/12/2018	<p>A full review of the membership of the existing SHE Committee to ensure sufficient coverage from employee representatives from across the organisations activities has been undertaken and completed in December 2018.</p> <p>Training provider has been contacted to establish potential training dates for IOSH Managing Safely courses within the next 6 months to ensure all members of the SHE Committee have attained the appropriate level of training.</p>	Complete Training Booked
2.2 (a)	<p>Directors' roles and responsibilities Whilst the current and proposed Health and Safety Policy included the roles and responsibilities of Directors, we found that contracts of employment may not make specific reference to Health and Safety.</p> <p>We further understand that a Health and Safety Overview to provide a level of Health and Safety knowledge commensurate to the roles and responsibilities of Directors had been scheduled but that this training had not been made mandatory.</p>	Contracts of employment should include reference to Health and Safety responsibilities where the post holder (i.e. Executive and Non-Executive Directors) has overall responsibility for ensuring compliance with Health and Safety legislation and policy.	To be reviewed in liaison with Human Resources and Organisation Development.	Pete Bond - Health and Safety Lead, Director of Integrated Network Services in liaison with Tracy Walters – Head of Human Resources and Organisation Development	31/12/2018	<p>Review of applicable contracts of employment is to be undertaken with assistance of HR & OD in Q4 2018/19.</p> <p>HR have incorporated effective wording in all new roles profiles from January 2019 as provided by H&S Manager. Existing role profiles linked to the H&S structure directly have also been reviewed. Other job descriptions are being revised through organisational change as they come up through a review within the HR team.</p>	In Progress 31/03/2019
2.2 (b)	<p>Implication: Roles and responsibilities may not be fully undertaken if appropriate training has not been undertaken.</p>	Considering the above and in accordance with the proposed Health and Safety policy, training should be made mandatory for all Directors of the WMCA.	Health and Safety Overview for Directors training scheduled for 20th & 25th September 2018. Attendance strongly encouraged and subject to monitoring by Head of Human Resource & Organisation Development. Directors who fail to attend are to be provided with training later within the next six months.	Ben Gittings – Health and Safety Manager in liaison with Tracy Walters - Head of Human Resources and Organisation Development	31/12/2018	<p>Continuous review of training requirements undertaken.</p> <p>QSS delivered <i>H&S Overview for Directors</i> to TfWM Directors on 20th September 2018.</p> <p>Steve Sumner OBE CFIOSH scheduled to deliver H&S Overview for Directors course to the WMCA Senior Leadership Team on 9th January 2019.</p> <p>Pete Bond (Nominated Director Responsible for H&S) to attend NEBOSH National General Certificate in OSH course in November 2019.</p>	Complete 20/09/2018 09/01/2019
2.3 (a)	<p>Governance Arrangements We noted that whilst roles and responsibilities across the organisation were detailed within existing and proposed policy, and current delegations were stipulated within the proposed policy, these had not been clearly referenced to date within the WMCA Constitution or the terms of reference for the various boards including the WMCA Board.</p> <p>Whilst it was clear that WMCA wide reporting was presented to the TfWM Board, the terms of reference for the TfWM Board only referred to responsibility for "oversight of transport related health & safety requirements and network resilience issues". The dual role of the TfWM Board had not been explicitly</p>	<p>All terms of reference should be reviewed to ensure include clear reference to roles and responsibilities as stipulated within the proposed Health and Safety Policy (once ratified), including (but not limited to):</p> <ul style="list-style-type: none"> - WMCA Board - WMCA Leadership Board - All Portfolio boards (i.e. Executive Director level boards equivalent to the TfWM Board for example) - All Portfolio operational boards (i.e. equivalent to Transport Operations Board for example). 	Governance Services to assist in a review of all Terms of Reference ensuring that they are aligned to the responsibilities as stipulated within the Health and Safety Policy.	Pete Bond - Health and Safety Lead, Director of Integrated Network Services in liaison with Tim Martin, Head of Governance	31/12/2018	<p>Review of applicable TORs to be undertaken with assistance of Governance Services during Q4 2018/19.</p> <p>A full review of TOR is being undertaken with this action forming part of that review process. Review process has begun and will be completed by June 2019.</p>	In Progress 31/03/2019

No.	Issue Arising	Recommendation	Agreed Action	Responsible Person(s)	Target Date	Progress Update	Status / Target Date
2.3 (b)	<p>reflected within the terms of reference.</p> <p>We also noted that the proposed reporting structure whilst refers to the Executive and Non-Executive Health and Safety Lead roles, these could be made more explicit as distinct roles separate to their specific TfWM Roles both within the proposed reporting structure and TfWM Board terms of reference.</p> <p>Implication: Governance documents may not clearly reflect the Health and Safety arrangements in operation or proposed.</p>	Action should be taken to ensure reference to Health and Safety responsibilities and any delegations under the Health and Safety policy are included in the WMCA Constitution in liaison with Governance Services.	Governance Services to ensure reference to H&S responsibilities and any delegations under the Health and Safety policy are included in the WMCA Constitution.	Pete Bond - Health and Safety Lead, Director of Integrated Network Services in liaison with Tim Martin, Head of Governance Services	31/12/2018	<p>Governance Services will ensure that responsibilities and any delegations under the Health and Safety policy will be included in the WMCA Constitution following the sign-off of the policy by Deborah Cadman OBE on 17/01/19.</p> <p>Governance Services have confirmed that the constitution is regularly updated in line with significant changes to WMCA. The further review being undertaken during April 2019 will include verification that this is satisfactorily completed.</p>	Complete 31/03/2019
2.3 (c)		The terms of reference for the TfWM Board should clearly refer to the dual role and responsibilities undertaken with specific reference to the Executive and Non-Executive Safety Lead roles, regarding both TfWM specific health and safety issues and wider organisational issues as well as any specific issues relating to other WMCA portfolios.	Governance Services to assist TfWM Board in update of Terms of Reference to ensure the dual roles of Executive Director and Director Health and Safety Lead roles are clearly defined.	Pete Bond - Health and Safety Lead, Director of Integrated Network Services in liaison with Tim Martin, Head of Governance	31/12/2018	Review of TfWM Board undertaken to clarify H&S roles. Since the internal audit a Corporate Management Team (CMT) has been established which will now also receive monthly Health & Safety reporting and updates and the TORs are being reviewed to incorporate this. Senior Leadership Team (SLT) TOR now being reviewed to reflect the additional H&S reporting received on a monthly basis.	In Progress 30/04/2019
2.4 (a)	<p>Health and Safety reporting and action tracking</p> <p>We found that whilst regular reporting was undertaken and presented to the relevant TfWM Boards for their consideration and noting, review of TfWM Board minutes for the period January 2018 to June 2018 identified that the minutes required enhancement to more explicitly reflect the Board's wider remit for WMCA Health and Safety, consideration of wider WMCA issues contained within Health and Safety reports and progression of actions relating to non-TfWM matters.</p> <p>We noted that the report recommended noting of TfWM dashboards only, although non-TfWM areas were covered in the report.</p> <p>We also found that a formal action plan to support the Health and Safety report was yet to be established. However, it was clear that TfWM related actions and issues which made up most of the report were minuted and captured as actions where required by the Transport Operations Board</p> <p>Implication:</p> <ul style="list-style-type: none"> - Records may not clearly evidence the governance and scrutiny undertaken and may be difficult to demonstrate in the event of query or challenge. - Actions required by specific portfolios or by the organisation may not be progressed or completed. 	Minutes or other records of meetings should clearly evidence the governance, scrutiny undertaken and review of Health and Safety reporting as demonstration that assigned roles and responsibilities are being undertaken. This should be undertaken at all relevant Board meetings throughout and at all levels of the governance arrangements for Health and Safety.	Governance Services (or those responsible for the records of each forum) to ensure minutes and other records of meetings provide sufficient documentary evidence of consideration and scrutiny of Health and Safety reporting.	Pete Bond - Health and Safety Lead, Director of Integrated Network Services in liaison with Tim Martin – Head of Governance	31/12/2018	<p>It is confirmed that minutes of the following forums contain evidence of consideration and scrutiny of Health & Safety matters:</p> <ul style="list-style-type: none"> - WMCA SLT Board - TfWM Board - Metro Board - Transport Operations Board - Corporate Management Team - H&S Strategic Committee - SHE Committee - Audit, Risk and Assurance Committee <p>Where H&S is included as an agenda item it is included within the minutes.</p>	Complete 31/03/2019
2.4 (b)		The current format of and recommendations made within the monthly and quarterly Health and Safety reports should be reviewed to ensure that they fully support the WMCA wide Health and Safety role and can be presented to each operational and director level portfolio Board as currently undertaken for TfWM.	Options for the structure, format, recommendations and associated action plan for monthly and quarterly Health and Safety reports are currently under review by the H&S Manager. It is intended the revised report and action format will successfully implement the criteria set out in the recommendation.	Ben Gittings – Health and Safety Manager	31/12/2018	<p>WMCA Health & Safety Board report structure revised to better identify the issues relevant to the various areas of the organisation. Structure as below:</p> <p>Section A: West Midlands Combined Authority</p> <p>Section B: Transport for West Midlands</p> <p>Section C: Corporate Services (incorporating 16 Summer Lane)</p> <p>Section D: Audit and Inspection Programme</p> <p>Section E: Health and Safety Board Report Action Log</p>	Complete 03/09/2018

No.	Issue Arising	Recommendation	Agreed Action	Responsible Person(s)	Target Date	Progress Update	Status / Target Date
2.4 (c)		<p>As part of current development of engagement with all portfolios within the WMCA, the Health and Safety report should be submitted to the operational and director level boards for each portfolio to support Executive and Non-Executive Directors in fulfilling their responsibility for ensuring compliance with Health and Safety legislation and policy as specified in the proposed Health and Safety Policy.</p> <p>The reporting mechanism should be used as a vehicle to engage with new portfolios and initiate discussions of any potential Health and Safety implications of new programmes, initiatives and service development.</p>				<p>Efforts to further develop engagement and effective communication on Health and Safety matters across all areas of the WMCA being undertaken.</p> <p>Quarterly Health & Safety Board Report provided to WMCA SLT and presented by Pete Bond, Director Responsible for H&S.</p> <p>Monthly Health & Safety Board Report now issued to all members of the WMCA SLT and presented by Ben Gittings, Health & Safety Manager to TfWM Board and Transport Ops Board. Where other applicable Boards are established, the report will also be provided and presented.</p>	Complete 08/10/2018
2.4 (d)		<p>An action plan should be developed to accompany the Health and Safety reporting to capture:</p> <ul style="list-style-type: none"> - Actions for specific portfolios with responsible officers and target dates. - Actions relating to Health and Safety guidance or advice that all portfolios (including TfWM) across the organisation should address. 				<p>WMCA Health & Safety Board report now incorporates an Action Log (Section E) as per recommendation highlighting any action pertaining to the report, responsible officers and target dates.</p>	Complete 03/09/2018
2.5 (a)	<p>Escalation routes and exception reporting</p> <p>We found that regular reporting by the Health and Safety Team included details of specific incidents, actions taken to date as part of their standard operational processes and any further actions required as well as any engagement with external organisations where relevant.</p> <p>Whilst these reports were presented at Transport Operations Board through to TfWM Board and more recently to WMCA Leadership, criteria or thresholds for escalating incidents required formalising</p>	<p>Escalation routes for specific incident and issues as part of exception reporting outside of regular reporting should be clearly defined and established within the proposed Health and Safety arrangements. This could include a framework of criteria or thresholds against which assessment is made to determine the reporting route for specific incidents and issues.</p>	<p>Draft SMS supporting document <i>SMS 04.5 Health and Safety Reporting</i> provides guidance and sets out the arrangements for Health and Safety reporting within the WMCA including annual, quarterly, monthly and exception reporting, along with the audience and methods of delivery. The draft document will be expanded to include a framework of criteria for exception reporting as recommended.</p>	Ben Gittings – Health and Safety Manager	31/12/2018	<p>Draft SMS supporting document <i>SMS 04.6 Health and Safety Reporting</i> to be expanded to include a framework of criteria for exception reporting and made live and issued as part of wider roll-out of new SMS in Q1 2019/20.</p>	In Progress 30/04/2019

No.	Issue Arising	Recommendation	Agreed Action	Responsible Person(s)	Target Date	Progress Update	Status / Target Date
2.5 (b)	<p>for escalating incidents required for raising.</p> <p>The Health and Safety Manager advised that escalation of specific incidents outside the regular reporting undertaken would be based on an assessment of risks impacting on the WMCA and whether that required escalation as far as the WMCA Board.</p> <p>We also note that the proposed reporting arrangements required clearer definition of escalation routes between operational and strategic levels of governance. The current terms of reference for the SHE Committee stated that it could make recommendations to relevant Boards and Committees on areas within its remit and determine any issues that need escalating to the Chief Executive. However, the proposed reporting structure and the proposed Health and Safety policy stated that their route for escalation of issues will be to the SHE Strategic Committee.</p> <p>Implication: It may be difficult to demonstrate the basis for reporting and escalation in the event of query or challenge regarding specific incidents.</p>	Clarity regarding the routes of escalation for the Health and Safety Team, SHE Committee and SHE Strategic Committee should be sought and reflected within relevant terms of reference	Further clarity regarding routes of escalation to be incorporated into wider review and update of relevant Terms of Reference.	Ben Gittings – Health and Safety Manager	31/12/2018	Terms of Reference reviewed and approved at inaugural meeting of the SHE Strategic Committee on 17th January 2019 and detail routes for escalation.	Complete 17/01/2019
2.6 (a)	<p>Communication, training and induction</p> <p>We understand that Health and Safety information was included within the mandatory induction training for new starters. Whilst Health and Safety training was available, testing found that of the 36 new starters in the last six months, only 10 had attended this training. We note that it is the responsibility of the new starter to arrangement attendance.</p> <p>However, we understand that during the audit Health and Safety training had been made mandatory for all employees.</p>	In accordance with the proposed Health and Safety Policy, all existing and new employees should be required to undertake the mandatory Health and Safety Training.	Monthly Health and Safety Induction courses are conducted by the Health and Safety Team. Further discussions between Health and Safety Manager and Head of Human Resources & Organisation Development to be undertaken to identify route of escalation for repeated non-attendance by employees.	Ben Gittings – Health and Safety Manager	31/12/2018	All new employees enrolled onto Health & Safety Induction Course as part of new starter process undertaken by HR. Those who do not attend initial session are enrolled on to the next available session. HR to address any issues of repeated non-attendance.	Complete 01/10/2018
2.6 (b)	<p>We also found that training records were kept in several places with no central record maintained.</p> <p>We noted that although the Health and Safety Policy was displayed and was available via the WMCA intranet, there was no evidence that the current policy had been communicated to all employees. As</p>	A single centrally held training record should be maintained.	The majority of Health and Safety related training records are held by the Health and Safety Team. However, it is acknowledged that there are improvements which could be made and will hopefully be addressed via the introduction of an online e-learning platform which incorporates a training record function.	Ben Gittings – Health and Safety Manager	31/12/2018	Online e-learning platform which incorporates a training record function to be introduced in Q1 2019/20 and all H&S records held centrally. Roll-out planned for May 2019 following liaison with HR & OD.	In Progress 01/05/2019

No.	Issue Arising	Recommendation	Agreed Action	Responsible Person(s)	Target Date	Progress Update	Status / Target Date
2.6 (c)	<p>Health and Safety regulations require that employees be able to raise concerns and be consulted in health and safety issues, it is imperative that employees are made aware of policy and routes for advice and assistance.</p> <p>Implication: Employees may not be fully aware of their roles and responsibilities regarding health and safety.</p>	A WMCA wide communications plan should be developed to support wider engagement within the WMCA, implementation of the proposed governance and reporting arrangements and the introduction of the new Health and Safety Policy as well as increasing the visibility of the Health and Safety Team as a WMCA wide function.	Health and Safety Manager to liaise with Internal Communications to develop communications plan to support wider engagement within the WMCA and enhance delivery of new policy, reporting arrangements and overall visibility.	Ben Gittings – Health and Safety Manager	31/12/2018	<p>Current Health & Safety Policy available on all Statutory H&S Noticeboards, available on intranet and all new starters advised of where to obtain a copy as part of the H&S Induction Course.</p> <p>Wider communications plan developed in collaboration with Internal Communications and which incorporates a new H&S intranet included in 19/20 delivery plan.</p>	Complete 31/03/2019
2.7 (a)	<p>Events We understand that a process had been in operation for the Health and Safety Team to be consulted and engaged within risk assessments for external events, largely planned through the Marketing Team.</p> <p>However, the process was yet to be formalised and documented, and required further action to ensure</p>	Processes to ensure all WMCA events (external and internal) are suitably risk assessed by Health and Safety prior to being undertaken should be formalised and documented.	SMS supporting guidance document to be produced to formalise and document procedure for Events to supplement existing draft SMS supporting documents SMS 8.2 Event Management – Pre-Event Checklist and SMS 8.3 Event Management – Emergency Action Plan.	Ben Gittings – Health and Safety Manager	31/12/2018	Draft SMS supporting document SMS 08.1 <i>Event Management</i> outlining the requirements in relation to Event Management made live and issued as part of wider roll-out of new SMS in Q1 2019/20.	Complete 02/04/2019
2.7 (b)	<p>process clearly extended and communicated to cover the newer areas of the WMCA.</p> <p>Implication: The wider organisation may not be clearly aware of the need to engage the Health and Safety Team during event planning.</p>	The necessity to ensure the Health and Safety Team are consulted within events planning should be communicated to all areas of the organisation.	Process to be communicated to all areas of the organisation by most appropriate means e.g. PING.	Ben Gittings – Health and Safety Manager	31/12/2018	<p>Regular communication with Marketing Team and Mayoral Events Manager established to ensure H&S Team consulted on planned events.</p> <p>Event Management process to be communicated to all areas of the organisation once made live as part of wider roll-out of new SMS in Q1 2019/20.</p>	In Progress 30/04/2019
(i)	Health and Safety governance arrangements for the West Midlands Fire Service post 1 April 2019	Presentation of proposals for review and approval by the WMCA Board, to include a specific decision to review retention of WMCA Health and Safety responsibility within TfWM.		Pete Bond - Health and Safety Lead, Director of Integrated Network Services in liaison with Tim Martin, Head of Governance	N/A	<p>Health & Safety Manager held initial meeting with WMFS to discuss existing H&S Governance Arrangements on 14th December 2018, with a further meeting planned in April 2019.</p> <p>Transition team continue to work on wider transfer of WMFS Governance to WMCA.</p> <p>Paper with proposal for H&S Governance arrangements for WMFS post transfer to be prepared for presentation, review and approval by the WMCA SLT / WMCA Board as appropriate.</p> <p>Please note: Transition date for WMFS has been subject to delay. Paper to be prepared and presented at appropriate time.</p>	In Progress Oct 2019

No.	Issue Arising	Recommendation	Agreed Action	Responsible Person(s)	Target Date	Progress Update	Status / Target Date
(ii)	Human Resource stress and long-term sickness absence	Establishment of mechanisms to facilitate monitoring, review and trend analysis as well as risk identification by the Health and Safety Team through receipt of regular updates from Human Resource and Organisation Development regarding work-related health issues. Stress and long-term absence monitoring to be a standing agenda item for the Safety, Health and Environment Strategic Committee.		Ben Gittings - Health and Safety Manager Pete Bond - Health and Safety Lead, Director of Integrated Network Services	N/A	Stress and long-term absence monitoring is to be a standing agenda item for the H&S Strategic Committee, and was included in the inaugural meeting 17th January 2019, with HR & OD providing regular updates.	Complete 17/01/2019

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Informing the audit risk assessment for the West Midlands Combined Authority

Year ended 31 March 2019

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between those charged with governance for the Combined Authority, and Grant Thornton as your external auditor. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Combined Authority under auditing standards.

Background Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit, Risk and Assurance Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Combined Authority and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit, Risk and Assurance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Combined Authority and supports the Audit, Risk and Assurance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication as part of our risk assessment procedures we are required to obtain an understanding of the Combined Authority management processes and the Audit, Risk and Assurance Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- related parties
- accounting estimates.

This report includes a series of questions on each of these areas and the response we have received from the Combined Authority's management. These responses have been reviewed and agreed by the relevant heads of departments. The Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Fraud

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit, Risk and Assurance Committee and the Combined Authority management. Management, with the oversight of the Audit, Risk and Assurance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit, Risk and Assurance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Combined Authority's external auditors, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit, Risk and Assurance Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour

We need to understand how the Audit, Risk and Assurance Committee oversees the above processes. We are also required to make inquiries of both the Combined Authority management and the Audit, Risk and Assurance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Combined Authority's management.

Fraud risk assessment

Question	Management response
<p>Has the Combined Authority assessed the risk of material misstatement in the financial statements due to fraud or error?</p> <p>Is this consistent with the feedback from your risk management processes?</p>	<p>Considered to be low risk.</p> <p>Yes, and consistent with findings in the Internal Audit of Key Processes. Six key financial systems audits were undertaken and all six received substantial assurance.</p>
<p>Are you aware of any instances of fraud, either within the Combined Authority as a whole or within specific departments since 01 April 2018?</p> <p>If so how does the Audit, Risk and Assurance Committee respond to these?</p>	<p>No.</p> <p>If a potential fraud was to be reported, there is a known process in place to contact the Corporate Assurance Manager who would then commission Wolverhampton Audit Services to conduct an investigation. Wolverhampton Audit Team now supply our Internal Audit services by contract.</p>
<p>Do you suspect fraud may be occurring, either within the Combined Authority or within specific departments?</p> <p><input type="checkbox"/> Have you identified any specific fraud risks?</p> <p><input type="checkbox"/> Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Combined Authority where fraud is more likely to occur?</p>	<p>No.</p> <p>No.</p> <p>No.</p> <p>No.</p>

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Fraud risk assessment (continued)

Question	Management response
<p>Are you satisfied that the overall control environment is robust, including:</p> <ul style="list-style-type: none"> <input type="checkbox"/> the process for reviewing the system of internal control; <input type="checkbox"/> internal controls, including segregation of duties; exist and work effectively? 	<p>Yes. Wolverhampton Internal Audit regularly review the key systems and processes and their recommendations and observations have been acted upon.</p>
<p>If not where are the risk areas?</p>	<p>N/A.</p>
<p>What other controls are in place to help prevent, deter or detect fraud?</p>	<p>Monthly financial reporting including account reconciliation which is a robust process.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>No.</p>
<p>How do you encourage, and communicate to, employees about your views on business practices and ethical behaviour?</p> <p>How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud?</p>	<p>Policies and procedures are published on the Intranet covering theft and fraud and the process staff should follow if they suspect anything. These procedures also state the escalation procedure if required.</p> <p>As part of all new staff and member inductions they are given an overview of business practices and ethical behaviours and their roles in identifying or responding to fraud.</p> <p>Regular Director briefing sessions are held when staff can raise any concerns and business practice and ethical behaviour can be reinforced.</p>

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Fraud risk assessment (continued)

Question	Management response
From a fraud and corruption perspective, what are considered to be high-risk posts?	Treasury team.
How are the risks relating to these posts identified, assessed and managed?	Treasury Management Group and clear segregation of duties and segregated approval limits.
Are you aware of any related party relationships or transactions that could give rise to instances of fraud?	No.
How do you mitigate the risks associated with fraud related to related party relationships and transactions?	Robust procurement procedures.
<p>What arrangements are in place to report fraud issues to Audit, Risk and Assurance Committee?</p> <p>How does the Audit, Risk and Assurance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p>	<p>Policies and procedures are published on the Intranet covering theft and fraud and the process staff should follow if they suspect anything. These procedures also state the escalation procedure if required.</p> <p>The Internal Audit function delivered by Wolverhampton Internal Audit Services presents audit reports to the Audit, Risk and Assurance Committee. The Client Manager from Wolverhampton has access to both the Chief Audit Executive and the Chair and Vice Chair of the Audit, Risk and Assurance Committee</p>
Are you aware of any whistle-blower reports under the Bribery Act since 01 April 2018? If so how does the Audit, Risk and Assurance Committee respond to these?	No.

Laws and regulations

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Combined Authority, is responsible for ensuring that the Combined Authority's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Combined Authority as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

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Question	Management response
<p>How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does the Combined Authority have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>Responsibility for ensuring compliance with relevant laws and regulations lies with the Head of Governance (Monitoring Officer) who advises the Combined Authority. The constitution and governance arrangements within the Combined Authority have been reviewed and confirmed that they are appropriate and robust. All governance arrangements are currently monitored to ensure that they comply with relevant legislation and are fit for purpose. Individual experts also take responsibility within their own areas of expertise and where relevant appoint external advisors.</p>
<p>How is the Audit, Risk and Assurance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Chief Audit Executive is the Head of Governance and a qualified solicitor, as well as Monitoring Officer. It is the duty of care of all these roles to ensure laws and regulations have been adhered to. The West Midlands Combined Authority legal team reports to the Head of Governance and also are the custodians of the West Midlands Combined Authority Constitution. Again the Chief Audit Executive would flag to the committee if any breaches to the constitution had been made. Where the Chief Audit Executive is not present at an Audit, Risk and Assurance Committee meeting, it is advised that a legal representative is present at the committee.</p>
<p>Have there been any instances of non-compliance with law and regulation since 01 April 2018 with on-going impact on the 2018/19 financial statements?</p>	<p>None.</p>

Impact of laws and regulations (continued)

Question	Management response
Is there any actual or potential litigation or claims that would affect the 2018/19 financial statements?	Cover is in place through Municipal Mutual Insurance – currently administered via Zurich on behalf of Municipal Mutual – with an excess of £25k. Finance are kept up to date with any claims and potential claims. Whilst the West Midlands Combined Authority have a number of potential claims at investigation stage, there are no significant litigation claims at this time.
What arrangements does the Combined Authority have in place to identify, evaluate and account for litigation or claims?	All claims are controlled by the legal team, in conjunction with our insurers. Where appropriate these are taken to the Board for approval.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

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Going Concern

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
<p>Has a report been received from management forming a view on going concern?</p>	<p>A detailed Business Plan for the Combined Authority is approved each year. Regular management reporting is produced for the Combined Authority indicating positive trading performance of the business, which is reported to the Senior Leadership Team, Transport Delivery Committee, Programme Board, Audit, Risk and Assurance Committee and WMCA Board</p>
<p>Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Combined Authority Business Plan and the financial information provided to the Combined Authority throughout the year?</p>	<p>N/A</p>
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>Yes</p>
<p>Have there been any significant issues raised with the Audit, Risk and Assurance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>No</p>

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Going concern considerations (continued)

Question	Management response
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code?</p> <p>If so, what action is being taken to improve financial performance?</p>	<p>No.</p>
<p>Does the Combined Authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Combined Authority's objectives?</p> <p>If not, what action is being taken to obtain those skills?</p>	<p>Yes, with ongoing monitoring to ensure we have the necessary skills and experience to deliver the Combined Authority's objectives.</p>
<p>Does the Combined Authority have procedures in place to assess the Combined Authority ability to continue as a going concern?</p>	<p>Yes– continued medium term financial planning</p>
<p>Is management aware of the existence of events or conditions that may cast doubt on the Combined Authority ability to continue as a going concern?</p>	<p>No.</p>
<p>Are arrangements in place to report the going concern assessment to the Audit, Risk and Assurance Committee?</p>	<p>Yes. Financial monitoring takes place on a monthly basis to the Senior Leadership Team and bi-monthly to the WMCA Board. In addition the Audit, Risk and Assurance Committee will receive a financial update at each of their meetings.</p>

Related Parties

Matters in relation to Related Parties

Local Government bodies are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Combined Authority(i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the Combined Authority that gives it significant influence over the Combined Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Combined Authority, or of any entity that is a related party of the Combined Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Combined Authority's perspective but material from a related party viewpoint then the Combined Authority must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties considerations

Question	Management response
Who have the Combined Authority identified as related parties?	Currently reviewing related parties for the 2018/19 statutory accounts.
What are the controls in place to identify, account for, and disclose, related party transactions and relationships?	Key officers complete a disclosure form detailing their interests. These are reviewed annually. Robust procurement procedures are in place to provide assurance that all expenditure is carried out on a commercial basis.

Accounting estimates

Matters in relation to accounting estimates

Local government bodies apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in Appendix A to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Combined Authority to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting estimates considerations

Question	Management response
Are management aware of transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	No, significant judgements expected over and above those already outlined at Appendix A.
Are the management arrangements for the accounting estimates, as detailed in Appendix A, reasonable?	Yes.
How is the Audit, Risk and Assurance Committee provided with assurance that the arrangements for accounting estimates are adequate?	These are explained as appropriate as part of the financial monitoring to the Audit, Risk and Assurance Committee, Transport Delivery Committee, Senior Leadership Team, Programme Board and WMCA Board by the Director of Finance.

Appendix A – Accounting Estimates

Appendix A - Accounting estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	Fair value for land/buildings defined as 'existing use' by The Code.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be revalued in 2018/19.	Bruton Knowles	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Estimated remaining useful lives of PPE	Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Discussion with internal asset team and where applicable Bruton Knowles as the valuer.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No
Depreciation & Amortisation	See above	See above	See above	See above	No

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Appendix A - Accounting estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Barnett Waddingham. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Combined Authority responds to queries raised by the administering body, Wolverhampton Council.	The Combined Authority are provided with an actuarial report by Barnett Waddingham (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.
Impairments	Review of all assets undertaken annually in line with the code.	See left.	Discussion with internal asset team as appropriate.	N/A.	No.
Non adjusting events -events after the BS date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	N/A.	N/A.	No.
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year	N/A.	N/A.	No.

Appendix A - Accounting estimates (continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Measurement of Financial Instruments	Financial instruments consist of investments (Collective Investment Fund (CIF)). Measured initially at cost and subsequently at amortised cost using the effective interest method.	Knowledge by the Investment team who manages the CIF portfolio in assessing the potential risk in credit losses.	Fund advisers – West Midlands Development Capital Limited	The CIF portfolio is assessed on an individual borrower for its expected credit losses using: i) Probability of default ii) Loss of given default	No as this is the first year of accounting
Bad Debt Provision	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off to the CIES.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. Interim Director of Finance signs off the write off.	N/A	N/A	No.
Provisions for liabilities	Provisions are identified through detailed monthly management accounts which flags any potential issues to management.	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.

Informing the audit risk assessment for West Midlands Integrated Transport Authority Pension Fund

Year ended 31 March 2019

March 2019

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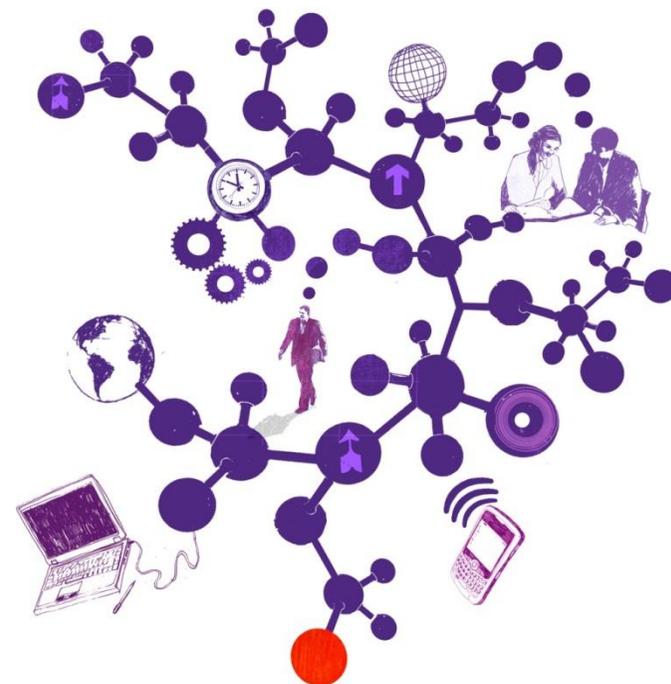
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the West Midlands Combined Authority Audit, Risk and Assurance Committee (ARAC), as 'those charged with governance'. The West Midlands Combined Authority has, however, delegated its functions to the West Midlands Pension Fund Pensions Committee (Pensions Committee) and is therefore considered as the sub-group of those charged with governance. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of ARAC and the West Midlands Pension Fund Pensions Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with ARAC as they are deemed Those Charged with Governance. ISA(UK&I) emphasise the importance of two-way communication between the auditor and ARAC and also specify matters that should be communicated.

This two-way communication assists both the auditor ARAC in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from ARAC and supports ARAC in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Pensions Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- accounting estimates
- related party transactions

This report includes a series of questions on each of these areas and the response we have received from management and the Pensions Committee. ARAC should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA (UK&I) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the management and ARAC. Management, with the oversight of ARAC and the Pensions Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of their oversight, ARAC and the Pensions Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls. As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with ARAC and the Pensions Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the ARAC and the Pensions Committee oversee the above processes. We are also required to make inquiries of management and, ARAC and the Pensions Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from management.

Fraud risk assessment

Question	Management response
<p>Has the Pension Fund assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p>The Pension Fund is consolidated into the accounts of West Midlands Combined Authority, as well as producing its own set of accounts. Fraud risks are identified by Internal Audit in their audit plan covering the Combined Authority and the Pension Fund, and all fundamental systems which feed the statement including the Pension Fund accounts are reviewed annually to ensure that controls in place are satisfactory.</p> <p>The statement of Pension Fund accounts is also subject to an analytical review each year which considers any significant or material changes to figures, to confirm that the accounts are presented without such misstatements.</p>
<p>What processes does the Pension Fund have in place to identify and respond to risks of fraud?</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 109</p>	<p>Specific fraud risks are identified in the internal audit planning process noted above; in identifying key controls to be assessed as part of an audit; in targeted fraud prevention work and by raising awareness of the potential for fraud with staff, members and people working and involved with the Combined Authority and Pension Fund. This is done through the Anti-Fraud, Bribery and Corruption Policy, Whistle Blowing Policy, and supporting training. In addition systems and processes are designed by managers and users to minimise the risk of fraud and corruption.</p> <p>In relation to pensioner payroll, the Fund takes part in the National Fraud Initiative scheme. Any queries identified are investigated and resolved. Fund Managers and their Administrators send internal control reports and these are reviewed by the pension team and any exceptions reported on. Internal Audit also reviews the internal control reports as part of their annual audit cycle. Pensions Committee meetings monitor the Fund's investment managers and business risk including fraud will be communicated to 'those charged with governance'.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Internal controls, including whether segregation of duties exist, are reviewed by Internal Audit as part of their routine and investigative work; exceptions are reported to managers and inform the Internal audit opinion.</p>

Fraud risk assessment

Question	Management response
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	There is always the potential for an override of controls within systems, however our control framework has established secondary compensatory controls in place that would identify any such override has taken place. Financial reporting is produced and balanced from the financial system, and the reporting hierarchy allows for checks to be performed throughout the process, for example by the S151 Officer, Senior Management Team, the Audit, Risk & Assurance Committee and the Pensions Committee.
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	No, as detailed above, there are compensatory controls in place to flag any overrides of controls.
<p>Page 110</p> <p>How does ARAC and the Pensions Committee exercise oversight over management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to ARAC and the Pensions Committee?</p>	The Internal Audit Risk Based Plan is approved by Audit, Risk & Assurance Committee of the Combined Authority and the West Midlands Pension Fund Pensions Committee in relation to pensions issues before commencement each year. Internal Audit complete a robust review of internal controls on a risk basis and reports regularly to the Committee. The Pensions Committee are informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting the Audit, Risk & Assurance Committee receives an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes. The Pension Fund Pensions Committee members are informed at their meetings of any pension based issues.
How does the Pension Fund communicate and encourage ethical behaviour of its staff and contractors?	The Pension Fund follows the Combined Authority's Whistleblowing policy and guidelines. The Whistleblowing policy is available to the public and all contractors. The terms and conditions within Pension Fund contracts also include ethical considerations for contractors and suppliers. The vision and values for the Pension Fund identify the need for staff to act with integrity in all the undertakings.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (Whistleblowing) policy and the Combined Authority's Counter Fraud, Bribery and Anti-Corruption Strategy.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	None identified.
Are you aware of any instances of actual, suspected or alleged, Fraud within the Pension Fund as a whole since 1 April 2018.	No

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA (UK&I) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of ARAC and the Pensions Committee, is responsible for ensuring that the Pension Fund's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management, ARAC and the Pensions Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
What arrangements does the Pension Fund have in place to identify, evaluate and account for litigation or claims?	Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Pension Fund. Any potential liabilities are highlighted each year in the Pension Fund's Statement of Accounts, which includes consideration of the Pension Fund, which is consolidated into the Combined Authority's financial statements.
Is there any actual or potential litigation or claims that would affect the financial statements?	The Director of Finance is not aware of any actual or potential litigation or claims that would affect the financial statements.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No such reports have been received.

Impact of laws and regulations

Question	Management response
What arrangements does the Pension Fund have in place to prevent and detect non-compliance with laws and regulations?	Each year the Pension and Combined Authority's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. This would include the Pension Fund if applicable. The Pension Fund has a robust corporate governance and risk management process in place, which are based on approved policies and procedures.
How does management gain assurance that all relevant laws and regulations have been complied with?	The Combined Authority has a Monitoring Officer and Director of Finance (S151 officer) who provide assurance that all relevant laws and regulations have been complied with. The Director of Pensions at the West Midlands Pension Fund provides expertise and advice via the inclusion of the ITA Pension Fund within all of the wider West Midlands Pension Fund requirements. The Pension Fund has adopted the Local Government Pensions Scheme Regulations. The Pensions Committee receive reports of compliance from officers, who are suitably qualified. Any non compliance would be reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues. These would cover the Pension Fund as applicable.
How is ARAC and the Pensions Committee provided with assurance that all relevant laws and regulations have been complied with?	See above
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2018, or earlier with an on-going impact on the 2018/19 financial statements?	No - The Director of Finance and the Chair of ARAC are not aware of any instances of non-compliance with relevant laws and regulations in 2018-19. The Chair of the Pensions Committee is not aware of any instances of non-compliance during 2018-19.

Going concern

Issue

Matters in relation to going concern

ISA (UK&I) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Pension Fund is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the pensions fund's financial resilience.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Pension Fund's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Pension Fund's financial and operating performance.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
Are management or members of ARAC and the Pensions Committee aware of the existence of events or circumstances that have or will lead to the winding up of the scheme or an entry into a Pensions Protection Fund assessment period.	No such events or circumstances are known of or considered likely in the foreseeable future.
Is management aware of the existence of other events or conditions that may cast doubt on the Pension Fund's ability to continue as a going concern?	No events or conditions have been identified.
Are arrangements in place to report the going concern assessment to the Pensions Committee and Pension Fund?	Yes, the Audit, Risk & Assurance Committee and the Pensions Committee consider a number of financial reports which provide them with assurance that the Pension Fund continues as a going concern. They also receive reports stating that all controls and risks have been managed appropriately and as Members will have access to all reports produced across the Pension Fund whether public or exempt. The Tri-annual pension fund valuation also provides an independent view as to the financial viability of the fund.

Estimates

Issue

Matters in relation to accounting estimates

ISA (UK&I) 540 covers auditor responsibilities relating to estimates in an audit of financial statements.

Local authorities use estimates in the preparation of their financial statements. We need to obtain an understanding of:

- how management identifies the transactions, events and conditions that give rise to the need for an accounting estimate.
- how management actually make the estimates, including the control procedures in place to minimise the risk of misstatement.

We need to be aware of all estimates that the Pension Fund use as part of their accounts preparation. These are set out overleaf.

Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
Pension fund liability	The administering authority engage the Actuary who provides the estimate of the pension liability.	Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year.	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.	No
Bulk Annuity Insurance Buy-In	The value of the buy-in is recalculated at each year end by the consulting actuary. The value as at 31 March 2019 is based on the roll-forward of the actuarial valuation as at 31 March 2018 and adjusted for estimated pension payments and discount rate. The key underlying inputs for the buy-in valuation are the discount rate and life expectancy.	The data is provided to the Actuary	Consulting actuary	As disclosed in the actuary's report. Complex judgements including the discount rate used, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	No

Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
Accruals	Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Review financial systems to identified where goods have been received but not paid for. Requests of service managers to identify any other goods or services received or provided but not paid for.	No	Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used.	No

Related parties

Issue

Matters in relation to related parties

ISA (UK&I) 550 covers auditor responsibilities relating to related party transactions.

Many related party transactions are in the normal course of business and may not carry a higher risk of material misstatement. However in some circumstances the nature of the relationships and transaction may give rise to higher risks.

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24: related party disclosures. The Code identifies the following as related parties to local government bodies:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Pension Fund (i.e. subsidiaries)
- associates
- joint ventures in which the Pension Fund is a venturer
- an entity that has an interest in the Pension Fund that gives it significant influence
- key officers, and close members of the family of key officers
- post-employment benefit plan (pension fund) for the benefit of employees of the Authority, or of any entity that is a related party of the Authority.

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the Pension Fund and the related party.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related party considerations

Question	Management response
Who are the Pension Fund's related parties?	The Pension Fund's main related party is West Midlands Combined Authority, with some disclosures in relation to employees who hold key responsibilities.
What are the controls in place to identify, account for, and disclose, related party transactions and relationships?	A number of arrangements are in place for identifying the nature of a related party and reported value including: <ul style="list-style-type: none">• Maintenance of a Register of Interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions.• Annual return from senior managers/officers requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests.



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Audit Progress Report and Sector Update

West Midlands Combined Authority
West Midlands ITA Pension Fund
Year ending 31 March 2019

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15 April 2019



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Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit, Risk and Assurance Committee ('ARAC') can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk ..

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

PSAA Contract Monitoring

West Midlands Combined Authority and the West Midlands ITA Pension Fund opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Progress at April 2019

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and have issued a detailed audit plan, setting out our proposed approach to the audit of the both the Combined Authority's and the ITA Pension Fund's 2018/19 financial statements.

We have undertaken our interim fieldwork which has included:

- Updated review of the control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

Findings in these areas are reported to you on pages 6 to 10.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We have discussed our plans and timetable with officers and are well placed to meet this deadline.

The final accounts audit is due to begin on the 7 May and 20 May for the Combined Authority and ITA Pension Fund respectively, with findings reported to you in our Audit Findings Report by the deadline of July 2019.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". Note that this work applies to the authority only, and not the pension fund.

The guidance confirmed the overall criterion as: "*in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people*".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach was included in our Audit Plan. Findings to date are reported to you on pages 8 and 9.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Meetings

We met with the Interim Section 151 Officer in March as part of our ongoing liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Our Financial Reporting Workshop which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for accounts was attended by your Financial Accountant.

Publications

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	August 2018	Complete
2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's and Pension Fund's 2018-19 financial statements.	January 2019	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	This report refers
Audit Findings Report The Audit Findings Report will be reported to the June Audit Committee.	June 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	June 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

Results of Interim Audit Work – WMCA

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Authority's key financial systems to date. Under audit standards we are prevented from directing the work of internal audit and therefore cannot gain direct assurance from it; however we have not identified any significant weaknesses from our review of their work which impact upon our responsibilities.</p>	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	Our work has identified no material weaknesses which are likely to adversely impact on the Combined Authority's financial statements.
Review of information technology controls	<p>We performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding.</p>	Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements.
Group accounts	<p>The Authority is producing group accounts for the first time this year, due to it consolidating the accounts of Midland Metro Limited (MML). We have contacted the auditors of MML to explain the nature, time and extent of our involvement in their work. This has involved providing guidance on designing procedures, the type of work we expected to be performed, our timetable and expected deliverables from them, in order to give us assurance over the component's figures for the purposes of the group audit.</p>	We are expecting an acknowledgement from the component auditors of our "group instructions" by 1 April 2019.

Results of Interim Audit Work (continued)

	Work performed	Conclusions and recommendations
Understanding business processes	<p>We have completed our documentation and understanding of those areas of the Authority's financial statements which encompass significant transactions. This has included consideration of:</p> <ul style="list-style-type: none"> • General Ledger • Payroll • Treasury Management • Budgetary Control • Accounts Receivable • Accounts Payable <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Combined Authority in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>Note that we will conduct further walkthrough testing with regard to controls in place in respect of the valuation of the pension fund net liability, which we also identified to be a risk, when the actuary's report is received during our audit in May.</p>
Early substantive testing	<p>Ticketing We have undertaken sample testing of transactions of ticketing income up to month 10 (ie up to and including January 2019). We will top up this testing during our audit in May. Furthermore we are discussing the proposed accounting treatment with your finance team to ensure that the requirements of the new accounting standard, IFRS 15 Revenue from Contracts with Customers, are complied with.</p> <p>Employee Remuneration We have undertaken substantive analytical review of payroll up to month 9 (ie up to and including January 2019). We will top up this testing during our audit in May.</p> <p>Skeleton accounts We were provided with "skeleton accounts" in February, containing the proposed structure for the group accounts, on which to provide comments and feedback.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach or findings which we need to bring to your attention.</p> <p>We provided our comments on the proposed skeleton accounts in February, and will look to see that they have been addressed when we are provided with the draft unaudited accounts in May.</p>

Results of Interim Audit Work (continued)

	Work performed	Conclusions and recommendations
Value for money	<p>In our audit plan we identified the following matters, which we determined were worthy of further consideration and were there designated as 'significant risks':</p> <ul style="list-style-type: none"> Preparedness of the Combined Authority to receive the West Midlands Fire Authority within its governance structure <p>We note that the transfer of the Fire Service was originally proposed to be on 1 April 2019. Due to the delay in finalising the draft Order to put before Parliament this timing has now been moved into the 2019/10 financial year, with an exact timeline to be confirmed. This therefore removes this risk from being "significant" in respect of the impact on the VFM conclusion, as our reasoning for including it as such was to ensure that arrangements were in place to ensure that the transfer happened smoothly.</p> <p>Despite the delay, it is important to note that from our review of relevant Board and Combined Authority papers and regular discussions with management and key officers, we have identified no evidence that is indicative of inadequate arrangements being in place at the Combined Authority in relation to this risk.</p> <ul style="list-style-type: none"> Developing Capacity and Capability <p>Subsequent to our initial risk assessment being undertaken and capacity and capability being identified as a significant risk, internal audit undertook a review of the Authority's Workforce Planning Arrangements, the outcome of which was presented to ARAC in January 2019 and gave reasonable assurance.</p> <p>In terms of future needs, consideration of current workforce and achievement of deliverables is carried out as part of the business planning process. The exercise for 2019/20 was carried out just before Christmas and an implicit part of this process is to consider resources. Interestingly, a number of these business plans (particularly those within Corporate Services) identify capacity as a particular risk to delivering their objectives.</p> <p>We are satisfied from the work that we have done to date in this area that:</p> <ul style="list-style-type: none"> through the HR dashboard, measurement of performance, analysis of skills gaps, and the review of responses to the staff survey, <p>that there is no evidence of inadequate arrangements being in place at the Combined Authority in relation to this risk. However, this work is still ongoing, and we will report in further detail as part of our Audit Findings Report.</p>	<p>Based on the work done to date in relation to the two significant risks identified in our audit plan, we would anticipate providing an unqualified VFM conclusion.</p> <p>However, we note from our review of recent Board papers, and discussion with officers, that there continues to be a funding gap in the investment programme, which will crystallise in 2020 unless a way of bridging the gap is identified.</p> <p>Additionally, we are aware that an approval was granted at the March Board to approve the additional costs to the Wednesbury to Brierly Hill extension, which had increased to £449.5m (from £407m), with the extra costs to be funded through the WMCA. The largest variance between assumed costs in the Outline Business Case and the Full Business Case is £40.7m as a result of an "improved understanding of scope and quantities, ECI (early contractor involvement), and rebenchmarking of rates to reflect current market norms."</p> <p>We will be reviewing both of these matters further over the coming months to determine the impact, if any, on our VFM conclusion, and will report back to ARAC in our Audit Findings Report in June.</p>

Results of Interim Audit Work (continued)

	Work performed	Conclusions and recommendations
Value for money (continued)	<p>We continue to monitor the growth and evolution of the Authority. As part of our work we have noted recent developments:</p> <ul style="list-style-type: none"> At its meeting on 22 March the Board approved an extension of £70m to the Commercial Investment Fund (total £140 Million) targeted towards the commercial sector and approved the implementation of a new £70 Million investment fund targeted towards the residential sector. The existing CIF has delivered a net contribution to the Authority over its existence. We have not identified any significant risks through our work in relation to your financial statements or that there are significant residual VFM risk that we need to address for 2018/19. We have yet to complete our work in respect of reviewing the Authority's analysis of potential credit losses in line with the updated IFRS 9 and will keep this item under review. At the 22 March meeting the Board also approved the new governance structure for the delivery of the 5G Project, including establishing a Joint Venture through a non-statutory committee pursuant to a written memorandum of understanding between the members and a Delivery Entity will operate as a private company limited by guarantee, wholly-owned by the WMCA (WM5G Limited). We will be expecting recognition of the company within the Group Boundary for 2018/19 but no significant transactions. The operation and delivery of the project will be of greater significance in 2019/20 and will therefore be a focus of our work next year. On 21 March we were informed by management that Accessible Transport Group (ATG), who operate the Ring and Ride services and some tendered bus contracts under the iGO brand for the WMCA alongside Home to School Services for some WMCA Constituent Authorities, was experiencing significant financial difficulties. On Friday 22nd March 2019 ATG went into administration. The Authority has maintained its support through advance of the April Ring and Ride grant in order to secure the continuance of services to vulnerable service users and has entered into agreements with the Administrator to continue these in the interim until a managed transfer to a new provider can be procured. 	<p>We will be reviewing how the Authority is managing these potential risks in respect of maintaining services for vulnerable people and ensuring value for money for taxpayers.</p>

Results of Interim Audit Work – WMITA Pension Fund

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We have also considered internal audit's work on the Fund's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Overall, we considered the work of internal audit to date, to help inform our understanding of the Pension Fund control environment and inform our audit strategy for our accounts. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have reviewed the Pension Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.	Our work has not identified any weaknesses to date which impact on our audit approach.
Journal entry controls	We have reviewed the Pension Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Fund's control environment or financial statements.	Our work has not identified any weaknesses to date which impact on our audit approach.
Review of information technology controls	We are currently performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. This work will be completed in early April.	Our work in this area will be completed shortly.

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Sector Update

Local government is tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

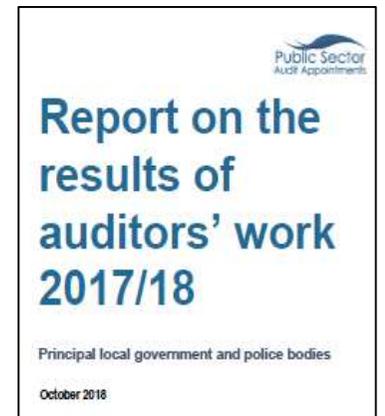
The report is available on the PSAA website:

<https://www.psa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

PSAA Report

Challenge question:

Does the PSAA report highlight any areas for improvement that the WMCA believes it needs to make to the 2018/19 financial statements audit and Value for Money Conclusion?



National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

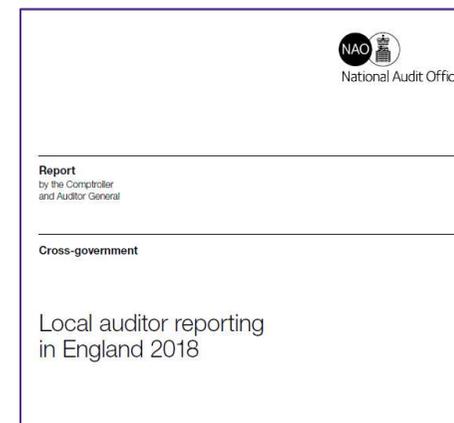
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



NAO Report

Challenge question:

Has the Authority responded appropriately to any concerns or issued raised in the External Auditor's report for 2017/18?



National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>

NAO Report

Challenge question:

Has the Authority got appropriate governance and risk management arrangements in place to address the risks and challenges identified in the NAO report?



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.



ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) has published a paper on the 'expectation gap' in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What is the problem?

- **Short-term solvency vs. Longer-term value:**
 - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

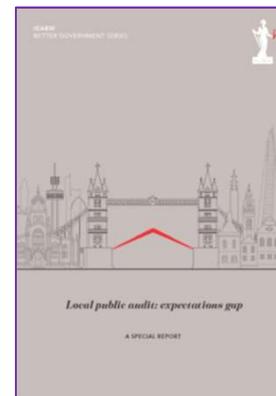
Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



The expectations gap

Challenge question:

How effectively is the audit meeting client expectations?



Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for local authorities to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies. Whatever happens over the coming weeks and months, it is important that local authorities identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

Brexit

Challenge question:

How well advanced are the Authority's plans for Brexit?



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

National Audit Office link

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

Local Government audits 2018/19 and beyond

Grant Thornton's External Audit commitment

Audit 2018/19

Our team



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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 Pension Fund and take overall responsibility for delivering high quality audits, which meet the highest professional standards while adding value.



Nicola Coombe, Audit Manager for West Midlands Combined Authority

As the engagement manager, Nic is responsible for overseeing the delivery of our service and managing the audit process in respect of the West Midlands Combined Authority.

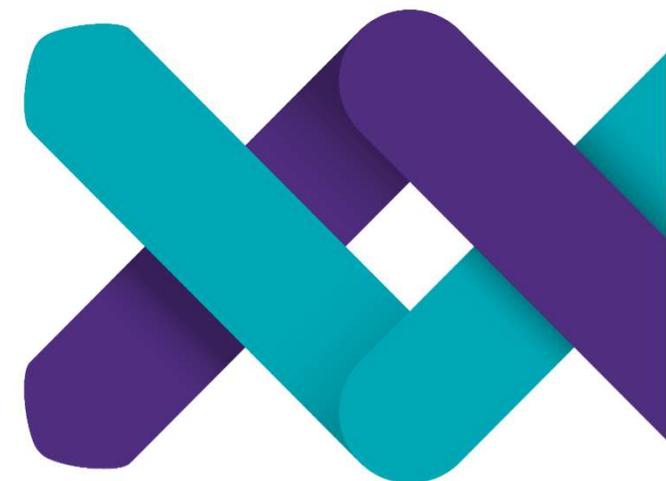


Terry Tobin, Audit Manager for West Midlands ITA Pension Fund

As the engagement manager, Terry is responsible for overseeing the delivery of our service and managing the audit process in respect of the West Midlands ITA Pension Fund.

"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".

Director of Finance, local audited body



Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council



Our relationship with our clients – why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLACE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- 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 keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.



Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions



Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants



Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT



Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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Audit, Risk & Assurance Committee

Date	15 April 2019
Report title	Constitution and Governance Review Progress and Update on PCC and Fire Governance Proposals
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Tim Martin, Head of Governance, Clerk and Monitoring Officer Email: Tim.Martin@wmca.org.uk Tel: (0121) 214 7435
Report has been considered by	None

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note the information contained in this report and the position regarding PCC and Fire Governance proposals.

1. Purpose

- 1.1 This report updates members on the progress that is being made on the review of the constitution and review of governance of the Combined Authority. The report also gives a position statement on the stage reached in regard to proposals for the transfer of PCC and Fire Authority governance following WMCA Board on 22nd March 2019.

2. Background

- 2.1 A technical review of the WMCA Constitution is now underway. The Constitution was put in place when the WMCA was established and was based upon existing constitutional provisions within Constituent Authorities. The Constitution has provided a framework for lawful decision-making and governance however there was a clear aspiration for the outset to review the Constitution and to make it more fit for purpose.
- 2.2 The pace at which the Combined Authority has developed and in particular, the work that has been carried out in contemplation of significant governance changes around the PCC and Fire functions has precluded resources being allocated to a fundamental review until this time. It is also right to say that the governance changes referenced above have a potentially significant impact on the shape of the future constitution and until recently there has been a degree of uncertainty over the direction of travel on these matters. This has now largely been resolved as detailed later in this report.

Review of the Constitution

- 2.3 The review of the Constitution is now being undertaken. The structure of the Constitution is being considered to ensure that it is clear and easy to use. The approach will be based on the modular constitution approach which is reflected in most Local Authority constitutions. This should provide a logical structure that will be clear and legible for users. One of the current criticisms of the document is that it is hard to find your way through it and there is duplication or repetition.
- 2.4 Further clarity will be gained by having a clear and logical progress through the document which will lead from overarching principles, through procedure rules to specific detailed provisions. At the same time we will be looking to resolve a number of contradictions in the existing document and checking for any best practice requirements that have so far been omitted.
- 2.5 The opportunity will also be taken to resolve any issues that have become apparent during the initial operational phase of the Combined Authority and the introduction of Mayoral governance. There are clearly some areas which need further strengthening to ensure consistency and clarity. An example is around the annual budget process which needs to be set out more clearly. There is a challenge with some of the provisions which are implied into the Constitution by the provisions of the various statutory orders. These need to be put into clear and legible language that is reflective of the legislative intention where this not currently the case.
- 2.6 None of these comments should be taken as any reflection on the work done in establishing the Constitution which was done at some speed in order to realise the aspirations of the region to create the Combined Authority. However using the experience of the initial period of operation means this is the right time to complete this work.

Review of Governance

- 2.7 In conjunction with the work on the Constitution we are undertaking a review of governance within the Combined Authority. This has also been an aspiration for some time but has been affected by the PCC and Fire proposals.
- 2.8 The Governance Review will look at the extent to which our governance structures and processes are working well or whether there are issues or problems. It will look at whether the overall structure of committees and boards is right and levels of delegation, terms of reference and whether there is any streamlining necessary.
- 2.9 Specific consideration is being given to Overview and Scrutiny where some scrutiny development work is being undertaken in conjunction with the Centre for Public Scrutiny (CfPS). This is considering ways of working, structures, forward planning and identification of a scrutiny work plan. There is also consideration of how scrutiny engages with the Mayor and Portfolio Leads and how areas such as Transport are scrutinised.
- 2.10 As outlined above the work of review is already in hand and the additional certainty provided by recent Board decisions around Fire and PCC governance enables this to proceed at some pace. It is anticipated that emerging conclusions will be able to be shared during Quarter 1 of the financial year but there will need to be a detailed process of consultation and socialisation before final proposals can be adopted. It is expected that both Overview and Scrutiny and ARAC will be key to those discussions. The decision on adopting any changes to the WMCA Constitution is one for the WMCA Board and requires a unanimous decision.

3. Update on Police and Fire Governance Proposals

- 3.1 As indicated above there has been a degree of uncertainty over how these two matters would progress in recent months. The Combined Authority Board meeting on 22/3/19 has resolved these issues and there is now more clarity.
- 3.2 In relation to the proposals for the role of PCC to transfer to the Mayor from 2020 the results of the public consultation were considered at the Board Meeting and the decision was taken not to proceed with these proposals. This effectively means that the timetable to implement the changes for the Mayoral election in 2020 cannot be met and so it looks unlikely now that these proposals will be implemented although there may be future consideration of the issue in a future Mayoral term.
- 3.3 The proposals with regard to the Fire Service were put on hold in January following receipt of the final draft Order due to concerns over the operational independence of the Chief Fire Officer. Some intensive work has been carried out with colleagues in WMFS to achieve some proposed amendments to the WMCA Constitution which would give the same effective protections to this position to the ones that we were expecting in the Order. These proposals were accepted at the Board on 22/3/19 and the Combined Authority was given the agreement to move forward with the Order. Each Constituent Authority will also need to give their consent at the appropriate time and they have also been asked to confirm their individual approval of the constitutional provisions.
- 3.4 The Home Office have indicated that all being well they should be able to lay the Order before Parliament in early June 2019. This would give a potential go live date for the transfer of October 2019.

3.5 The proposals for the discharge of ARAC and Overview and Scrutiny responsibilities in respect of the Fire Service outlined in previous reports have not been affected by this delay and remain as previously outlined. Final details will be worked up as part of the approvals of operational matters that will need to be taken through Board in the run up to implementation should final approval be given. This will be done in consultation with the relevant Committees.

4. Financial Implications

There are no specific financial implications arising from this report.

5. Legal Implications

Legal implications are identified in the body of the report as appropriate.

6. Equalities Implications

There are no specific equality implications.

7. Inclusive Growth Implications

There are no specific inclusive growth implications.

8. Geographical Area of Report's Implications

Constitutional arrangements apply across the whole of the Combined Authority area. Issues relating to PCC and Fire governance are only applicable to the Constituent Authorities.

9. Other Implications

None.

10. Schedule of Background Papers

None.

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