

AGENDA

No.	Item	Presenting	Pages	Time
Meeting Business Items				
1.	Apologies for Absence	Chair	None	10:00
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.	Minutes of the meeting held on 24 September 2019	Chair	1 - 8	
4.	Chair's Remarks	Chair	None	
5.	Matters Arising <ul style="list-style-type: none"> • Whistleblowing • Brexit Contingency Planning Update 	Tim Martin	None	
6.	Forward Plan	Tanya Patel	9 - 10	
Business Items for Noting/Approval				
7.	Strategic Risk Register	Lorraine Quibell	11 - 20	10:10
8.	WMCA Assurance Overview November 2019	Hardial Phull	21 - 28	10:30
9.	Internal Audit Update	Peter Farrow	29 - 42	10:50
10.	Investment Programme Governance Audit Update	Tim Martin	43 - 54	11:10
11.	Audit Arrangements <ul style="list-style-type: none"> a) Midland Metro Limited Governance Update b) West Midlands Development Capital Limited – Audit Committee Arrangements 	Linda Horne	55 - 62	11:30
12.	The Annual Audit Letter for West Midlands Combined Authority and the West Midlands ITA Pension Fund	Grant Thornton	63 - 80	11:45
Date of Next Meeting				
13.	Monday 13 January 2020 at 10.00am	Chair	None	

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West Midlands
Combined Authority

Audit, Risk & Assurance Committee

Tuesday 24 September 2019 at 10.00 am

Minutes

Present

David Lane (Chair)	
Councillor Alan Butt	City of Wolverhampton Council
Councillor Fred Grindrod	Birmingham City Council
Councillor Ram Lakha	Coventry City Council
Councillor Andrea Layton	Staffordshire Non-Constituent Authorities
Councillor Alexander Phillips	Shropshire Council
Councillor June Tandy	Nuneaton & Bedworth Borough Council
Councillor Alan Taylor	Dudley Metropolitan Borough Council
Councillor Vera Waters	Walsall Metropolitan Borough Council

In Attendance

Tracey Beardmore	West Midlands Combined Authority
Nicola Coombe	Grant Thornton
Louise Cowen	West Midlands Combined Authority
Linda Downes	Nuneaton & Bedworth Borough Council
Peter Farrow	City of Wolverhampton Council
Julia Goldsworthy	West Midlands Combined Authority
Sandra Kalyan	City of Wolverhampton Council
Tim Martin	West Midlands Combined Authority
Hardial Phull	West Midlands Combined Authority
Gurmit Sangha	West Midlands Combined Authority
Laura Shoaf	Transport for West Midlands
Anna Sirmoglou	West Midlands Combined Authority
Lorraine Quibell	West Midlands Combined Authority
Tracy Walters	West Midlands Combined Authority

Item Title No.

165. Apologies for Absence

Apologies for absence were received from Councillor Ahmad Bostan (Sandwell Metropolitan Borough Council) and Sean Farnell (Coventry & Warwickshire LEP).

166. Declarations of Interest

The Chair reported that he was the Chair of the Midlands Metro Audit Committee and Nick Abell reported that he was a member of Investment Board.

167. Appointment of Vice Chair

Resolved:

- (1) Councillor Ram Lakha be appointed as Vice-Chair of the Audit, Risk & Assurance Committee for 2019/20.

168. Minutes - 21 June 2019

The minutes of the meeting held on 21 June 2019 were agreed as a correct record.

169. Chair's Remarks

- **Local Authority Governance and Accountability Framework Review Panel**

The Chair advised the committee of the Ministry of Housing, Communities & Local Government establishing a new Local Authority Governance & Accountability Framework Review Panel which would assess the framework to determine whether it was fit for purpose and make suggestions for its improvement at a national level.

- **Chair's Meeting**

The Chair advised the committee of his meeting with the Senior Leadership Team at their request to review the strategic risk register in light of the challenges the WMCA faced.

170. Matters Arising

- **Whistleblowing**

The Monitoring Officer advised the committee of one notification that had been received regarding whistleblowing, although following an investigation it was determined that the disclosure was not related to the WMCA. It was noted that a number of matters had been raised that were currently being considered as part of the WMCA's grievance process, at this stage they were still under investigation as part of normal processes.

- **Accessible Transport Group**

The Monitoring Officer advised the committee that further to the previous meeting, the business had been sold to National Express. Continuous work was being undertaken to ensure the service was shaped with improvements to be both successful and profitable. It was noted that the administration process was not yet complete and matters relating to property value and holdings remained unresolved.

- **Mayoral Elections Preparation**

The Monitoring Officer informed the committee of the appointment of Martin Reeves as the Combined Authority Returning Officer. In preparation for the mayoral elections taking place on 7 May 2020, the Monitoring Officer advised the committee that regular monthly meetings had been established as well as protocols being put into place on the information candidates would receive to ensure that there was a fair and consistent approach towards all mayoral candidates.

171. Forward Plan

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

Resolved:

- (1) The items of business to be reported at future meetings be noted.

172. Internal Audit Update

The committee received an update on the work completed by internal audit so far this financial year. The following four satisfactory reports were outlined to members: Performance Management & Business Planning Arrangements, Birmingham Eastside Metro Extension Project Management Arrangements, Governance Arrangements - Midland Metro Ltd and Employee Performance Management.

In regards to the Birmingham Eastside Metro Extension Project Management Arrangements internal audit, the Chair advised the committee that he sought clarification on the audit reaching a satisfactory opinion due to the number of 'amber' recommendations and target dates, however Internal Audit felt comfortable with the level of assurance they provided.

Resolved:

- (1) The contents of the latest Internal Audit update report be noted.
- (2) The committee receive an update on the recommendations for the Performance Management & Business Planning Arrangements (Devolution Deal including Financial Assumptions 2018/19) Internal Audit Report in June 2020.
- (3) The committee receive an update on the Birmingham Eastside Metro Extension Project Management Arrangements 2018/19 Internal Audit report at its next meeting.
- (4) The committee receive an update on the Governance Arrangements - Midland Metro Ltd 2018/19 Internal Audit report at the next meeting.

173. Equal Pay Audit and Gender Pay Gap Update

The committee received an update on the equal pay audit outcomes together with a breakdown of the latest gender pay gap statistics and outline of the initiatives and key areas of future focus to bridge the gap and promote inclusion.

An equal pay audit was conducted in August 2019 and concluded no areas of concerns, the vast majority of 'like' jobs were on the same grade and the grade differentials identified were related to either honorariums or employees being on a protected grade which was justified in line with the WMCA pay policy.

Councillor Alexander Phillips suggested that a more helpful comparison would be against any other mayoral / public sector organisation as the recruitment pool was drawn from those organisations, although the transport element of the WMCA should be taken into recognition.

Resolved:

- (1) The outcomes of the Gender and Race Equal Pay Audit Report be noted.
- (2) The March 2020 WMCA Gender Pay Gap data and actions to address the gender pay gap and help bridge internal diversity gaps be noted.
- (3) The committee to receive an update on Equal Pay Audit and Gender Pay Gap in April 2020.

174. Investment Programme Governance Audit Update

The committee received a report updating it on the internal audit recommendations, how the enhanced assurance framework was being updated to reflect latest government guidance and to answer questions raised by the committee on control mechanisms.

As a member of the Investment Board Nick Abell felt that effective work was being undertaken within the Senior Leadership Team to address the problems which have been highlighted as the Investment Programme had evolved.

From a monitoring perspective, the Chair requested that dates and timelines against the status of actions be included within the next update, and that the change control mechanism for projects outside the control of the Combined Authority was clearly defined.

Resolved:

- (1) The work that had been undertaken to date on the assurance framework, and the rationale behind the proposed way forward be noted.
- (2) The work being undertaken by Governance to deliver continuous improvements to the decision-making process, and how that impacted on the Investment Programme and PMO responsibilities, be noted.
- (3) Timescales and proposed activity for the resolution of outstanding actions in the Internal Audit Report dated 6 February 2018 be noted.
- (4) The current controls that were in place for programme risk and the intended changes to the controls be noted.
- (5) An update on progress against delivery on the action plan be presented at the next meeting.

175. WMCA Financial Monitoring 2019/20

The committee receive a report providing them with an update on the WMCA finances as at the end of July 2019. A summary of the revenue and capital spend against the approved budget was provided as well as a summary of the Investment Programme.

Resolved:

- (1) The financial position as at the end of July 2019 be noted.

176. WMCA Corporate Services Review

The committee received an update on the Corporate Services review which had been ongoing since January 2019. Members were informed of further decisions that had been taken by Senior Leadership Team to progress the review and move towards excellence in service area provision.

The Head of Human Resources & Organisational Development informed the committee that a gateway review of the process would be undertaken and should be concluded for an update to be presented back to this committee in January 2020.

Resolved:

- (1) The contents of the report be noted.
- (2) Committee receive an update on the Corporate Services review in January 2020.

177. Capacity and Capability - Risks and Mitigations

The committee considered a report on how the WMCA was meeting the demands on its capacity and capability through a combination of resourcing and planning processes, and a blended approach to learning and development.

Councillor Alexander Phillips commented on the turnover of staff being historically low and questioned what the organisation is doing to ensure this did not drop any lower. The Head of Human Resources & Organisational Development explained that various resourcing models were being considered as well as inward secondments.

Resolved:

- (1) The report be noted.
- (2) The actions and considerations taken including systems, planning processes and policies to manage risks in the organisation around capacity and capability be noted.

178. Strategic Risk Register

The committee received a summary on the current status of key risks within the Strategic Risk Register. A quarterly review of the register was undertaken by the Senior Leadership Team to ensure the register reflected the key risks affecting the WMCA.

Risk discussions were focused upon the current uncertainties developing from Brexit and the national political situation impacting on the delivery of WMCA objectives. Taking into account these factors, the status of risk relating to external factors was noted. Two new risks had been identified within the register and these related to the risk of achieving the desired carbon reduction by 2041 and Overall Delivery of Devolution Objectives.

In regards to HS2 being considered as a risk for the WMCA, the Director of Strategy informed the committee that consideration would be given as to whether the risks around HS2 could be included within the register more explicitly. However it needed to be clear that that this programme was not the responsibility of the WMCA.

Resolved:

- (1) The strategic risks contained within the WMCA Strategic Risk Register be noted.

179. Data Protection and Data Processing

The committee considered a report on the categories of personal data processed by the WMCA, a broad overview of the data protection assurance controls in place and an outline of the regulatory action an organisation may be subject to in the event of a breach.

The WMCA processed a wide range of personal data across a number of diverse areas of operation and some key examples were provided. The Data Protection & Information Sharing Officer explained the controls in place to ensure compliance with legal and regulatory requirements.

The Chair requested further information on the quantity of banking information held to date, to help further understand the risks for the WMCA. The Data Protection & Information Sharing Officer felt that he received sufficient management and financial support to ensure adequate compliance.

Resolved:

- (1) The response of the WMCA to the necessary measures complying with the requirements of secure personal data storage and processing be noted.
- (2) The committee receive annual updates on the confidence and compliance of data protection and data processing.

- 180. Date of Next Meeting**
Tuesday 12 November 2019 at 10.00am.

The meeting ended at 11.50 am.

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WMCA Audit, Risk & Assurance Committee - Forward Plan

Title of Report	Description of Purpose	Date of Meeting	Lead Officer
Assurance Report Update	Corporate Assurance undertaken since the last update.	13 January 2020	Hardial Phull
Internal Audit Update	To receive an update on the audits undertaken.	13 January 2020	Peter Farrow
Internal Audit Plan 2020/21	To receive the first draft of the 2020/21 Internal Audit Plan.	13 January 2020	Peter Farrow
External Audit Plan	To receive the External Audit Plan.	13 January 2020	Grant Thornton
Conflict of Interest Policy for Non-Elected Participants in Combined Authority Governance	To receive an update on the reviewed appointed Solihull Independent Person Panel.	13 January 2020	Tim Martin
Corporate Services Review	To receive an update on the findings of the corporate services review.	13 January 2020	Sam Webster
Birmingham Eastside Metro Extension Project Management Arrangements 2018/19 Internal Audit	To receive a n update on the recommendations.	13 January 2020	Laura Shoaf / Peter Cushing
Governance Arrangements – Midland Metro Limited 2018/19 Internal Audit	To receive a n update on the recommendations.	13 January 2020	Laura Shoaf / Peter Cushing
Strategic Risk Register	To receive an update on the Strategic Risk Register.	21 April 2020	Lorraine Quibell
Assurance Report Update	Corporate Assurance undertaken since the last update.	21 April 2020	Hardial Phull

Title of Report	Description of Purpose	Date of Meeting	Lead Officer
Internal Audit Update	To receive an update on the audits undertaken.	21 April 2020	Peter Farrow
WMCA Annual Governance Statement	To approve the Annual Governance Statement	21 April 2020	Tim Martin
Equal Pay Audit & Gender Pay Gap Update	To receive an update.	21 April 2020	Anna Sirmoglou
Assurance Report Update	Corporate Assurance undertaken since the last update.	26 June 2020	Hardial Phull
Internal Audit Update	To receive an update on the audits undertaken.	26 June 2020	Peter Farrow
WMCA Annual Accounts	To approve the WMCA Annual Accounts.	26 June 2020	Linda Horne
WMCA Audit Findings	To receive an update from external audit.	26 June 2020	Grant Patterson
WMITA Pension Fund – Audit Findings	To receive an update from external audit.	26 June 2020	Grant Patterson
Performance Management & Business Planning Arrangements Internal Audit	To receive an update on the recommendations	26 June 2020	Julia Goldsworthy
WMCA Annual Audit Letter	To note the position.	September 2020	Grant Thornton
Data Protection & Data Processing	To receive an annual update on the confidence and compliance of data protection and data processing.	September 2020	Gurmit Sangha
Health & Safety Arrangements	To note the progress and receive confidence in the arrangements.	September 2020	Pete Bond



Audit, Risk & Assurance Committee

Date	12 November 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	

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

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

1. Purpose

This report provides an update on the current status of the strategic risk register as presented as Appendix 1 to support Audit, Risk and Assurance committee (ARAC) in its function to monitor the operation of risk management at West Midlands Combined Authority.

2. Background

Senior Leadership Team continues to monitor WMCA's risk environment on a regular basis to ensure key risks are captured on the Strategic Risk register and effective mitigation measures are in place to actively reduce or eliminate the resulting effects.

The continuing uncertainties surrounding the national political situation and Brexit has resulted in a number of risks which are challenging for the WMCA to actively manage at the present time. These risks are recorded in the Strategic Risk Register and the Authority continues to monitor these matters to enable an immediate response to any future emerging impacts.

3. New Risks

3.1 HS2

Following Audit, Risk and Assurance committee's request to consider the inclusion of a risk surrounding the impact to WMCA from any future decisions of the HS2 Oakervee review, this has now been incorporated within the register, and listed as reference S16 in appendix 1.

HS2 is considered a key contributor to the achievement of WMCA's strategic aims for the West Midlands and the wider economic growth of the region. Close engagement is being maintained with all stakeholders and have contributed to the evidence base of the review.

Whilst the findings of the Oakervee review is awaited, the HS2 Connectivity Package continues to be established. In the event HS2 is stopped, it is considered schemes contained within the Package will remain an essential requirement to tackle long-term public transport and poor air quality challenges to serve the growing population of the West Midlands.

3.2 TfWM reputation

Transport for West Midlands (TfWM) has introduced a new risk to the register following the announcement of the potential for industrial action on the rail network as a result of proposals by the local rail franchisee to make changes to current operational arrangements. This would have significant impact on the rail service provision to its users and to the reputation of TfWM as the co-ordinator of public transport services within the West Midlands.

Whilst management of any industrial action is the responsibility of the rail franchisee, TfWM and West Midlands Rail Executive (WMRE) are working closely with the franchisee and other transport operators to establish a media, communication and travel demand strategy with an aim of reducing the impact on public transport users across all modes of public transport, and demonstrating TfWM as a constructive partner in its role as public transport co-ordinator.

4. Financial Implications

N/A

5. **Legal Implications**
N/A
6. **Equalities Implications**
N/A
7. **Inclusive Growth Implications**
N/A
8. **Geographical Area of Report's Implications**
N/A
9. **Other Implications**
N/A
10. **Schedule of Background Papers**
Appendix 1 - Strategic Risk register

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WMCA Strategic Risk Register - October 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
						Likeli-hood	Impact	Current Score	
S01	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.</p> <p>Consulting with Government on Business Rates Growth solutions.</p> <p>Cost review exercise reported to Investment Board in April 2019.</p> <p>Asks factored into 2019 Spending Review Submission.</p> <p>Assessing opportunities to turn grants to loans and / or maximise 3rd party contributions and land value capture.</p> <p>IP funding and Budget update given to Leaders in September. Formal decisions on managing the Investment Programme within the current funding envelope approved by Investment Board 21st Oct and to be formally endorsed by CA Board 8 November 2019. Ongoing workstream in regard to the Investment Programme to be discussed at Dec Leaders. Formal Budget report due to CA Board in January.</p>	5	5	25	<p>Update on Investment Programme to be provided 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> <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>External economic uncertainty leaves high residual risks despite further mitigating actions.</p>
S11	Senior Leadership Team	Economic	OPEN 3/5 ↔	<p>External Factors</p> <p>There is 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>Policies of the Government that affect the West Midlands may be affected by an uncertain political environment that may impact on existing WMCA plans and policies.</p> <p>There is a lot of external economic uncertainty - with the risk that instability in the external economic environment could adversely impact WMCA including Brexit and/or recession.</p> <p>There is now an increased risk that a no-deal Brexit will take place. The impact of Brexit without clarity on the final outcome and timing is still hard to predict despite planning and contingency work.</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. Established monthly monitoring process (in collaboration with CityREDI the University of Birmingham) as a recommendation of the Brexit Economic Contingency group, summarising economic conditions. Regular statistical releases are circulated to inform decision making and are kept under annual review through the publication of the yearly "State of the Region" report. Awareness is maintained of existing and new legal and environmental regulations to ensure compliance at all times.</p> <p>Innovative programme delivery mechanisms are under active exploration, 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>	5	5	25	<p>Working closely with MHCLG, HM Treasury and 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 closely monitored and the organisation remains cognisant of its developments and the emerging risks.</p> <p>Discussions are continuing with Whitehall to understand new Government priorities and to ensure the Region's views are taken into account.</p>
S04	Senior Leadership Team	Political	OPEN 4/4 ↔	<p>Stakeholder & Political Relations</p> <p>There is a 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 Combined 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, particularly in the run up to the 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.</p> <p>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 engagement to discuss both inflight and emerging opportunities for the wider benefit of the region. This has been supported by detailed stakeholder mapping and engagement activities being undertaken including protocols being established with local authorities.</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> <p>Induction process for newly elected political members of WMCA to take place.</p> <p>External political uncertainties are likely to contribute to residual risks despite mitigating actions.</p>

WMCA Strategic Risk Register - October 2019

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likeli-hood	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 and continues to monitor adherence to 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, with regular staff awareness and monitoring in place.</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> <p>Regular scenario and resilience based exercises in place to support response preparedness.</p>
S02	Senior Leadership Team	Operations Core Functions	OPEN 3/3 	<p>Capacity and Capability</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 will impinge on the organisation's ability to secure future funding opportunities.</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. Staff personal objectives and development plans are also aligned to organisational business plan requirements.</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>	4	4	16	<p>Senior Leadership Team is reviewing the structure of Corporate Services capability ensuring it continues to meet the future aspirations of the organisation.</p>
S15	Senior Leadership Team	Economic Political Financial	OPEN 4/4 	<p>Overall Delivery of Devolution Objectives</p> <p>As a result of political and economic uncertainty, there is a risk that the overall objectives underpinning the establishment of WMCA to deliver Devolution are compromised. This is both a delivery risk but also a reputational and functional risk.</p> <p>Ability to deliver on programmes that are not secured in full may be affected by funding pressures, political uncertainty and changing priorities of central government.</p>	<p>We continue to maintain close relationships with central government at both political and civil service levels.</p> <p>We make strong arguments for funding on all appropriate occasions. We are involved in regional and national review and planning exercises e.g. Brexit contingency planning, Okervee review (HS2)</p> <p>Devolution objectives are monitored and managed by Officers, thematic Boards and also WMCA Board.</p> <p>WMCA has active Overview & Scrutiny and Audit committees, monitoring progress and delivery of Devolution.</p> <p>The Annual Plan is produced based on Devolution priorities.</p>	4	4	16	<p>High residual external risks given current political and economic uncertainty</p>

WMCA Strategic Risk Register - October 2019

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likeli-hood	Impact	Current Score	Further actions required to mitigate risk
S14	Senior Leadership Team	Political & Programme Delivery	OPEN 3/5 ↔	<p>Delivering the 2041 Carbon Budget reduction</p> <p>There is a risk the WMCA members and partners will not meet the region's carbon budget reduction net-zero CO2 by 2041 (and attendant interim targets) due to a variety of structural and operational factors - including the pace of transition within key industries and sectors, and the scale of government investment and legislation.</p> <p>This is a collective regional commitment (relevant across the three LEP areas) underpinned by a number of pre-conditions and determinants that are outside of WMCA's direct control.</p> <p>There are profound implications for the region as part of a headline global risk of severe warming which evidence suggest will be costly in human and economic terms.</p>	<p>Monitoring is provided annually by Sustainability West Midlands. The latest figures, based on 2017 data demonstrates current targets have been achieved with a 21.8% reduction recorded since 2010. But the scale of the renewed commitment of WMCA (alongside that of its members and partners) requires a step change.</p> <p>Commitment has been made to support businesses including our regional response to the clean growth opportunities set out in the Local Industrial Strategy and through close working with LEPs.</p> <p>Supporting progress with sustainability partners in aligning the five-year budget cycles required under the UK Climate Change Act.</p> <p>TfWM continues work to effect a modal shift to clean and efficient public transport and active travel addresses medium term carbon reduction goals as well as shorter term concerns over clean air and congestion.</p>	3	5	15	<p>An Action Plan is in development for presentation and approval by WMCA Board in Autumn 2019. This will provide a set of actions, policies and investments required to adhere to the carbon reduction timetable which will be consulted on with the public and stakeholders.</p> <p>Proposals for additional funding for the Carbon Reduction Plan will be submitted to the Government ahead of the November 2019 Budget or Comprehensive Spending Review</p>
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>Internal Audit providing up to date assessment of current performance</p> <p>The Investment Director is establishing a commercial approach to funding opportunities.</p>	3	5	15	<p>A plan to develop and implement an enhanced Governance and Assurance Framework was endorsed by the Investment Board on 10th December 2018. Reflecting updated MHCLG guidance, the CA is developing a Single Assurance Framework.</p>
S07d	Director of Public Service Reform	Programme Delivery & Devolution Commitments	Open 3/4 ↔	<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	<p>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)</p> <p>We will continue to monitor the programme according to market realities and the profile of funding available - and adapt accordingly within the governance framework created for this purpose</p>
S07f	Director of Housing and Regeneration	Programme Delivery & Devolution Commitments	Open 3/4 ↔	<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 including both acquisitions by WMCA directly and joint ventures and investments. 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 and the Housing and Land Board are being updated on progress. 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 and wider inclusive growth ambitions in the region. The Single Commissioning Framework approved by the WMCA to guide deployment of devolved housing and land funds and its associated gateway process is used by WMCA to ensure value for money, risk management, effective due diligence and ensuring WMCA is intervening where there is demonstrable market failure to secure additionality and wider inclusive growth objectives.</p> <p>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 - October 2019

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likeli-hood	Impact	Current Score	Further actions required to mitigate risk
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, 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> <p>Statutory Officers Group has been established to moderate and review compliance of governance arrangements. Membership includes the CEO, Section 151 officer, and the Monitoring Officer.</p>	3	4	12	<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 governance review including a full review of the Constitution is currently underway.</p>
S09	Senior Leadership Team	Operations Core Functions	OPEN 3/4 ↔	<p>Capacity of 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.</p>	<p>Leadership team is fully 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 individual and Leadership Team 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.</p> <p>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>
S13	Head of Governance / Managing Director TfWM	Operations Core Functions	OPEN 3/4 ↔	<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> <p>An Access Control Policy and Procedure has been approved by CMT with implementation due on 16th September.</p>
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 messaging 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 with ongoing management and forward planning of all Communication activities.</p>	3	4	12	<p>Ensure that major Regional initiatives e.g. Commonwealth Games have clear and transparent governance arrangements in place.</p> <p>External political and economic uncertainties will contribute to residual risk.</p>

WMCA Strategic Risk Register - October 2019

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likeli-hood	Impact	Current Score	Further actions required to mitigate risk
S06	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:</p> <p>a) commercial models not being able to deliver expected benefits and commercial revenue targets and/or</p> <p>b) the structure exposes the Combined Authority to greater financial risk if the delivery model is unsuccessful.</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> <p>The Investment Director provides a commercial perspective on funding opportunities that are presented to WMCA.</p>	2	4	8	Adopting commercial models will allow the WMCA to become less dependent on government as it can diversify funding income.
S07e	Managing Director, TfWM	Programme Delivery & Devolution Commitments	OPEN 2/4 ↔	<p>Delivery - Commonwealth Games Transport Plan</p> <p>There is a risk that the cost of resources to strengthen the local and regional transport network under the extraordinary one-off demands of the Commonwealth Games cannot be met entirely from the Organising Committee operational transport budget. Progress is being made to develop a robust Funding Agreement with the Organising Committee.</p>	<p>TfWM is Chairing a multi-agency Joint Transport Group (JTG) which includes relevant Government departments, Local Authorities and the Organising Committee.</p> <p>WMCA CEO and TfWM MD are members of the Chief Executive Officers Group (CEOG) for the Games. During 2018/19, TfWM contributed to the budget setting process for the games ensuring sufficient financial provision for managing the transport requirements for the games whilst ensuring that we keep the region moving. This budget was confirmed by HM Government as part of it's Major Project Review Group and TfWM continues to work with the B2022 Organising Committee in developing the regional and spectator transport operational plan alongside. TfWM is working with the transport lead at B2022 to develop an integrated transport delivery programme and cost plan and put in place formal funding arrangements to cover TfWM delivery.</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
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. 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 continuing growth of the WMCA portfolio.</p>
S07c	Director of Productivity and Skills	Programme Delivery & Devolution Commitments	OPEN 3/4 ↔	<p>Delivery - Adult Education Budget</p> <p>Devolution of AEB represents a significant opportunity to demonstrate the impact of local control of skills funding on communities, through the ability to shift £126m p.a. of skills funding to better meet the needs of residents and businesses in line with the priorities as set out within the Regional Skills Plan. There is a risk that this opportunity will not be taken if not managed appropriately.</p>	<p>Priorities for AEB agreed as set out within the Regional Skills Plan with further local tailoring agreed with local authorities. The initial procurement process has been concluded with just over £25m awarded. Where gaps in provision against priorities have been identified further conversations are being undertaken to identify how they can be addressed - either through grant funded providers within their allocation or through additional procurement.</p> <p>Approximately £100m will continue to be Grant funded to local authorities and local colleges and delivery agreements are in place to demonstrate how funding will be used to meet regional and local priorities.</p> <p>A clear timetable has been set out to outline the requirement of corporate service teams to support the management, monitoring and deployment of AEB funding in addition to resources within the Productivity & Skills team.</p>	2	3	6	We will continue to ensure that finance, governance and assurance processes support the commitment to ensure that AEB delivers regional priorities. Review of capacity to be undertaken on a termly basis to ensure that sufficient resources are in place to successfully manage AEB.
S16	Managing Director, TfWM	Economic	New	<p>HS2 economic and programme impacts</p> <p>HS2 is expected to bring economic benefits to the region both during construction and beyond. If the Oakervee review results in HS2 being stopped, regional benefits will be lost with a detrimental impact on the anticipated regeneration of the region and WMCA's ability to meet its strategic priorities.</p>	<p>Working with partners to continue advocating of HS2 as a fundamental building block on which the regions economic growth, transport sustainable growth strategies are based.</p> <p>WMCA has contributed to the evidence base of the Oakervee review.</p> <p>HS2 connectivity plans continue to be established in the absence of a 'stop' decision including close working with the HS2 Growth Delivery Board.</p>	3	4	12	We will continue to work closely with all stakeholders, assessing the outcome of the Oakervee review to determine its effects on, and WMCA's response to achieve delivery of its strategic aims

WMCA Strategic Risk Register - October 2019

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likeli-hood	Impact	Current Score	Further actions required to mitigate risk
S17	Managing Director, TfWM	Operations Emerging	New	<p>Rail services Industrial Action</p> <p>Industrial action could arise on the rail network as a result of proposals by the local rail franchisee to make changes to current operational arrangements. This would impact on the rail service provision and the reputation of TfWM as the co-ordinator of public transport services within the West Midlands.</p>	<p>Management of industrial action is the responsibility of the rail franchisee.</p> <p>Working with WMRE, TfWM have reviewed the effects of previous industrial action on the rail infrastructure nationally and are establishing a media, communication, and travel demand strategy with an aim of reducing the impact on public transport users.</p>	4	3	12	<p>Close engagement with the rail franchisee to understand direct effects on passengers and working with other transport operators to mitigate impact on all.</p> <p>WMRE Board members are being kept fully briefed on the details of any potential industrial action in order to ensure consistent messaging across WMRE authorities.</p>



**West Midlands
Combined Authority**

Audit, Risk & Assurance Committee

Date	12 November 2019
Report title	WMCA Assurance Overview November 2019
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 assurance reviews and activities that have been undertaken since the last reporting period.
- (2) Confirm that ARAC are satisfied with the assurance activity November 18 – October 19.

1. Purpose of Report

The report provides members with the WMCA's Corporate Assurance Manager's opinion for this reporting period November 2018 - October 2019 on the Authority's systems for:

- a. Project & Programme Assurance
- b. Business Assurance (including Risk Management and Business Continuity & resilience)
- c. Performance Assurance

2. Background

2.1 The intention of the report is to summarise the assurance activity since the last reporting period and highlight any matters that are of concern that require further consideration or additional assurance activity.

2.2 Since the last update and as we move out of the transitional arrangements to WMCA, the Corporate Assurance team have continued to develop and refine appropriate assurance processes for the West Midlands Combined Authority. A brief summary of this activity is also provided in this report for note at this point in time.

Project & Programme Assurance

TfWM / Corporate Services Minor Project Assurance Summary

2.3 22 assurance reviews have taken place between November 2018 and October 2019 of minor projects. Each review is rated against criteria across 12 areas of focus (in line with industry standards of best practice) and given an overarching RAG rating.

2.4 Of the 22 reviews conducted 13 were rated as green, 6 were rated amber and 3 were rated red. These projects have followed the WMCA Gated Project Management Lifecycle and a PMO (Programme Management Office) led compliance check referred to as a Tier 1 assessment and independent and objective assessment led by Programme Assurance referred to as a Tier 2 assessment.

2.5 Following assessment by Programme Assurance, the team works with project stakeholders with the intention that recommendations are acted upon before the project seeks approval for progression at the relevant project governance forum. Whether recommendations are acted upon or not, the Independent Programme Assurance assessment accompanies the project output for visibility at decision making forums.

2.6 Of these projects, there have been examples (such as Dudley Interchange) where the overall value is in excess of £5 million (upper threshold for classification of 'minor' projects) but they are not Investment Programme

funded. This has presented challenges around the route to be taken for appraisal, assurance and approval activities. In these scenarios, key stakeholders including Programme Assurance have identified safe and appropriate routes forward to ensure the schemes continue to progress.

- 2.7 Common themes and areas of improvement arising from these reviews are as follows:
- a. Plans and schedules are not effectively defined
 - b. Objectives, project success / acceptance criteria and benefits are not adequately defined
 - c. Project costs escalate and/or budget forecasts are underestimated
 - d. As portfolios and respective programmes and projects mature, governance structures to manage and control change initiatives are evolving resulting at times in limited controls being place to effectively monitor and manage projects

WMCA Investment Programme Major Project Assurance Summary

- 2.8 16 reviews of change requests and business cases (SOCs, OBCs and FBCs) have taken place for projects within the Investment Programme during the period November 2018 to October 2019. These business cases have followed the Technical Appraisal Panel (TAP) process. Following review by TAP, recommendations are made to improve submitted business cases together with advice made to the Investment Advisory Group (IAG) whether to endorse the business cases or not.
- 2.9 Although most of the 16 projects reviewed as part of this process are funded via the Investment Programme, some are not. However, due to their estimated/confirmed budget and project stage, a decision was taken to put them through the TAP process to enable increased scrutiny and oversight and in doing so, reduce the risk of project failure. Examples of these projects include:
- a. Skills and Aspirations for All
 - b. Perry Barr Interchange Development; and
 - c. University Station.
- 2.10 Since the last reporting period, Programme Assurance have been successful in appointing a permanent Senior Assurance Specialist for Major Projects. The post holder commenced in role from June 19.
- 2.11 The newly appointed Investment and Commercial Activities Director has commissioned a piece of work relating to funding agreements for Investment Programme initiatives which is being fulfilled by a temporary resource that formerly occupied the Senior Assurance Specialist Major Projects post within Programme Assurance. This work aims to ensure formal funding agreements are in place for Investment proposals the WMCA have committed to before funding is drawn down. The scope of this work includes a total of 89 projects of which 52 are at Strategic Outline Case stage, 19 are at Outline Business Case stage and 18 are at Full Business Case stage. This work will ensure a greater

level of accountability for delivery organisations on investment proposals the WMCA has committed to pursuing.

- 2.12 Recognising the points in sections 2.3 - 2.11, ARAC should note that Programme Assurance are tied directly into work being progressed to have in place a uniform oversight and governance process for progressing all WMCA project, programme or investment initiatives. This work will ensure proportionate and appropriate assurance activity to the CA level of risk exposure from investment proposals and any reputational risks.

On-going development for Programme Assurance

- 2.13 In summarising assurance activity and specific projects, this report should recognise two key elements of work that will to a large extent be responsive to the challenges identified through Programme Assurance activity. These two pieces of work are reported on separately to ARAC members and are summarised below:
- a. Corporate Services Review – formation of a Strategic Hub (for which Corporate Assurance are in scope)
 - b. Governance of approvals process – a redesigned and improved uniformly applicable process for progressing for all WMCA project, programme or investment initiatives
- 2.14 The Programme Assurance Team are in the process of developing their assurance offering to ensure a consistent and risk-based approach is applied to 2nd line of defence assurance activity across the organisation.
- a. A Working Group has been established at the end of September 2019 to implement an Integrated Assurance & Approvals Plan (IAAP) which will incorporate assurance activity across three lines of defence and key approvals for all WMCA Projects. The Working Group is aiming to have an IAAP and associated procedures developed by the end December 19.
 - b. A more comprehensive and robust Programme Assurance Toolkit will be developed and implemented to incorporate:
 - a Business Case Assessment Tool (BCAT) ~ *applied at concept, definition, Initiation & Planning phases*
 - a Self-Assessment Tool; } ~ *To be applied across all projects in the*
 - a Health Check Tool } ~ *Delivery phase of respective life-cycles*
 - c. A recent pilot involving 13 Gearing Up to Deliver (GUTD) TfWM projects has helped to inform the development of the Health Check Tool and provide a summary of findings across 10 best practice (and industry recognised) factors for assessing project performance (reference Association for Project Management - Measures for Assuring Projects).

- d. It is intended that from November 19, Programme Assurance activity be reported into the Corporate Management Team. The intention is to raise awareness of findings, make recommendations and share areas of best practice. This approach and output is being tested for suitability with the Head of Governance and Monitoring Officer.
- e. The team has been involved in the review and development of recommendations around governance and approvals processes and the Programme Assurance Toolkit is being developed to align with proposed changes.

Business Assurance

WMCA Business Continuity & Resilience:

- 2.15 Since launch in September 18, Corporate On-Call arrangements continue to be effective. It is anticipated that a greater level of resilience will be in place for TfWM following launch of the Regional Transport Coordination Centre (the project to deliver this is on-going).
- 2.16 A Hyper Converged Infrastructure (HCI) solution has been procured and implemented by ICT to respond to the problems of ageing technology and expiring maintenance and support agreements with suppliers. The HCI solution enables a much improved back-up and recovery capability for systems across the WMCA however discussions are on-going with ICT around potential for improvement for systems accessibility in the event of a Disaster Recovery scenario (16 Summer Lane being inaccessible).
- 2.17 A follow up to an Internal Audit on Business Continuity arrangements is on-going and planned to be reported into ARAC in January 19.
- 2.18 No significant business continuity issues have arisen during this reporting period that resulted in a full incident management team being established.

Risk Management:

- 2.19 Directorate and Strategic Risk review meetings continue to take place to enable full visibility and escalation of key risks that have the potential to adversely impact on the organisation. The Strategic Risk Register is reviewed periodically at Senior Leadership team and the Chair of ARAC attended a meeting of SLT to discuss the approach to this.
- 2.20 Key Directorate level risks are reviewed monthly as part of the CMT dashboard to increase visibility and awareness stimulating discussion on adequacy of controls, progress and whether there is a need for escalation.
- 2.21 Corporate Assurance continue to liaise with PMO on Investment Programme Risk that has already been escalated to Strategic Risk register ensuring validation of progress and mitigation controls

Arm's Length Companies

- 2.22 Corporate Assurance will be commencing work with Arm's Length companies from November 19 to ensure compliance with pre-agreed checklists with a view that this is reported back into ARAC in January 20.

Performance Assurance

Corporate Management Team Dashboard reporting

- 2.23 Following establishment of the Corporate Management Team from November 18, an operational performance dashboard has been developed and plays an important role in stimulating discussion and action in relation to organisational performance. Since first being introduced in January 19, the dashboard has evolved in what it reports as the CMT has matured.
- 2.24 The dashboard features at CMT on an on-going monthly basis. The standing items included in the dashboard are as detailed below:
- a. Organisational Development data: FTE, Head count and vacancy information across all directorates offering a holistic view and opportunity for validation
 - b. Internal Audit: activity information and deadlines for follow-up to recommendations has enabled strengthening of the overall process and increased responsiveness of the organisation to audit findings
 - c. Risk: transparency of strategic risk and the associated directorate level risk has enabled strengthening of risk management process and control across the organisation
 - d. Freedom of Information: on-going reporting of this information has increased transparency and resulted in opportunities for strengthening processes such as the way in which FOI requests are recorded in turn enabling a greater level of analytical capability
 - e. Health and Safety: Information being presented in a consistent manner allowing a holistic view and greater awareness of assessments
 - f. Environmental data: based on organisational priorities around carbon reduction and single use plastics (not limited to), on-going information relating to progress against action plans is reported into CMT
 - g. Procurement: Exemptions data has been a source of discussion and has led to improvement and changes to existing reporting across the organisation. It is intended that trend analysis will be an on-going feature in reviewing procurement related information with a view that the WMCA becomes more efficient and effective in managing contracts and the associated spend

- h. Finance: financial information across all directorates is intended to be reported enabling a holistic view for heads of service driving greater organisational awareness of performance and progress in consistency of reporting
- i. Communications: internal and external facing communications summaries are intended to be reported into CMT with a view of assessing performance against other Combined Authorities through benchmarking. Communication and effectiveness is also planned to be shared across directorates as opportunity to drive effectiveness where best practice is limited to specific directorates / service areas

3. Summary

- 3.1 Programme Assurance activity and findings confirm consistent themes across portfolios where performance of change initiatives can be optimised. It is intended that a risk-based proportionality approach to assurance sought will enable Programme Assurance to focus more on the initiatives that present the greatest level of risk exposure to the WMCA.
- 3.2 In addition, it is anticipated that the role of Programme Assurance be solidified through the work to develop a consistent and uniformly applicable process for progressing for all WMCA project, programme or investment initiatives.
- 3.3 The organisation has a greater awareness of risk management practices at Strategic and Directorate risk levels and through further work around enterprise risk management, it is anticipated that this will be strengthened further.
- 3.4 Further reporting from Corporate Assurance to ARAC is planned in the coming months with the intention that further detail be provided as more is understood in light of the function of Corporate Assurance (on the back of the Corporate Services review) and the work Corporate Assurance services are embedded into that is being progressed to have in place a uniformly applicable process for progressing for all WMCA project, programme or investment initiatives

4. Financial Implications

N/A

5. Legal Implications

N/A

6. Equalities Implications

N/A

7. Inclusive Growth Implications

N/A

8. Geographical Area of Report's Implications

N/A

9. Other Implications

N/A

10. Schedule of Background Papers

None



Audit, Risk & Assurance Committee

Date	12 November 2019
Report title	Internal Audit Update
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 to/be has been considered by	Not applicable

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note the contents of the latest Internal Audit Update Report.
- (2) Note the amendments to the Internal Audit Plan 2019-2020.

1.0 Purpose

This report is PUBLIC [NOT PROTECTIVELY MARKED]

1.1 The purpose of this report is to present the Committee with an update on the work completed by internal audit so far, this financial year. In addition, this report presents amendments to the Internal Audit Plan 2019-2020 as the result of a mid-year review.

2.0 Background

2.1 In accordance with the agreed work programme for internal audit, the reports provide an independent and objective opinion on the Combined Authority's effectiveness in managing their risk management, governance and control environment.

2.2 The reports will also feed into the Annual Internal Audit Report that will be prepared at the end of the financial year. The Annual Report will provide an overall audit opinion on the adequacy and effectiveness of the governance, risk management and internal control processes, based upon the outcome of the reviews completed during the year. This opinion can then be used to feed into the Combined Authority's Annual Governance Statement that accompanies the Annual Statement of Accounts.

3.0 Wider WMCA Implications

3.1 There are no implications

4.0 Financial implications

4.1 There are no implications

5.0 Legal implications

5.1 There are no implications

6.0 Equalities implications

6.1 There are no implications

7.0 Other implications

7.1 Not applicable

8.0 Schedule of background papers

8.1 None

9.0 Appendices

9.1 None

This report is PUBLIC [NOT PROTECTIVELY MARKED]



West Midlands Combined Authority

Internal Audit Update Report Quarter 3
2019-2020

Delivered by City of Wolverhampton Council – Audit Services

1 Introduction

The purpose of this report is to bring the Audit and Risk Assurance Committee up to date with the progress made against the delivery of the 2019 - 2020 internal audit plan.

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

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

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

2 Amendments to the 2019-2020 Internal Audit Plan

Based on a mid-year review, the following amendments have been made to the Internal Audit Plan 2019-2020:

ICT Strategy

The WMCA had commissioned an external review of its ICT arrangements which included coverage of an ICT Strategy within its scope. As the review had been completed and an action plan produced in 2019-2020, it is proposed that audit coverage is undertaken once the action plan is progressed or implemented, later in 2020-2021 to provide assurance on progress with development of an ICT Strategy.

Investment Programme

As ARAC will be aware, action is currently being taken to develop a revised assurance framework and supporting arrangements that will impact on the Investment Programme. It is anticipated that the outcomes of the 2017-2018 audit review of the Investment Programme will be taken account of as part of this development. We propose that audit coverage is undertaken in 2020-2021 to provide assurance regarding revised arrangements. ARAC continues to receive progress updates from the Director of Strategy in the meantime.

West Midlands Fire Service

As the West Midlands Fire Service was not incorporated into the WMCA, an audit of these arrangements is therefore no longer required.

3 Summary of progress – 2018-2019

The following internal audit review relating to 2018-2019 is currently in progress.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
WMCA Governance Arrangements	High	-	-	7	7	TBC	Substantial – draft issued

Summary of individual audits

WMCA Governance Arrangements (draft)

An audit of the West Midlands Combined Authority's (WMCA) governance arrangements was undertaken as part of the approved internal audit plan for 2018 – 2019. A draft report was issued on 28 October 2019 and was in the process of being discussed and agreed with the Head of Governance.

The core constitution of the WMCA stems from the Statutory Orders: West Midlands Combined Authority Order 2016, West Midlands Combined Authority (Election of Mayor) Order 2016 and The West Midlands Combined Authority (Functions and Amendments). The core governance functions established in accordance with these Orders are the WMCA Board, Audit, Risk and Assurance Committee (ARAC) and the Overview and Scrutiny Committee (OSC). The WMCA Constitution as well as supporting policies, procedures and guidance define the corporate governance arrangements and standards of behaviour and values expected for the Mayor, Members and Officers (and wider stakeholders) in order to meet its strategic objectives.

At the time of review, the WMCA was undertaking a fundamental review of its governance arrangements and the Constitution since it was established in 2016. Our audit involved a high-level audit review of current governance arrangements against core principles stated in the "Delivering Good Governance in Local Government (2016)" Framework issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) (Appendix 1).

We are pleased to report that based on a high-level review of the WMCA's core governance arrangements against Principles A and B and the suggested sources of evidence stated in the Framework, these provided an overall assurance opinion of substantial.

Several examples and evidence of good governance that demonstrate achievement of Principles A and B were observed. Based on testing of meeting records for the WMCA Board, ARAC and OSC and high-level review of supporting processes and systems, governance arrangements were clearly and suitably in operation.

To further enhance current governance arrangements, we have proposed seven recommendations rated as green for discussion with the Head of Governance as part of finalising the draft audit report. In accordance with standard audit practice regarding issuing of an audit report with a substantial assurance opinion, the draft report will be finalised with the Head of Governance and once issued as final a full copy will be provided to the Chair, with a further summary based on the final report to be presented to ARAC at its next committee meeting (January 2020).

4 Summary of progress: 2019-2020

The following internal audit reviews from the 2019-2020 Internal Audit Plan have been completed or are currently underway.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
2019-2020 Internal Audit Reviews already reported							
Employment Support Pilot	Medium	-	-	1	1	1	Substantial – final report issued
Transport Operator Data and Payment Arrangements – Managed Service	Medium	-	-	-	-	-	Substantial – final report issued
Employee Performance Management	High	-	1	1	2	2	Satisfactory – final report issued
2019-2020 Internal Audit Reviews completed in Quarter 3							
Homelessness Taskforce	High	-	-	1	1	1	Substantial – final report issued

Auditable area	AAN Rating	Quarter (month)	ARAC Meeting (indicative)
2019-2020 Internal Audit Reviews in progress			
Programme and Project Management Framework	High	Fieldwork commenced	January 2020
Single Commissioning Framework	High	Fieldwork commenced	January 2020

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Auditable area	AAN Rating	Quarter (month)	ARAC Meeting (indicative)
Construction Retraining Funds	Medium	Fieldwork commenced – to be completed November 2019 as agreed with Audit Sponsor	January 2020
Key Financial Systems Audits: Accounts Payable Accounts Receivable Budgetary Control General Ledger Payroll Treasury Management	High	Fieldwork commenced – to be completed October and November 2019	January 2020
Local Industrial Strategy	High	Scoping commenced – November 2019	January 2020
West Midlands Rail	High	Scoping commenced – November 2019	January 2020

Summary of individual audits

Homelessness Taskforce

The WMCA Homeless Taskforce was launched in May 2017, comprising of senior officers from each of the constituent members of the WMCA as well as representation from non-constituent members, other public bodies, voluntary sector agencies and the business community. In addition to the Taskforce, a Members' Advisory Group (MAG), consisting of elected Members from the seven constituent Local Authorities and representation from non-constituent members was also established, with the aim to provide political support, oversight and scrutiny regarding the work of the Taskforce.

The purpose of the Taskforce is to ensure that the WMCA and its partners draw on collective resources and partnerships, working as collaboratively as possible across the region, across sectors and disciplines to tackle systemic issues which contribute to homelessness and replace with approaches and processes which prevent and design out homelessness.

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Associated priorities defined by the Taskforce were included in the WMCA Annual Plan 2019-2020 as key deliverables and support delivery of five key objectives: accessible, affordable accommodation; tackling welfare related poverty; access to good employment; information advice and guidance, and integrated prevention.

Our review of governance and partnership arrangements as operated by WMCA Public Service Reform in support of the Taskforce identified no major issues. Suitable arrangements were in place to support the work of the Taskforce and monitor and review progress regards achievement of key priorities.

5 Forward plan for 2019-2020 scheduled audits

Auditable area	AAN Rating	Quarter (month)	ARAC Meeting (indicative)
Cross Service			
Page 3 ICT Strategy	High	Deferred to 2020-2021 post outcome of external ICT review	2020-2021
Investment Programme	High	Deferred to 2020-21 due to current developmental work being undertaken regarding the Investment Programme and Assurance Framework	2020-2021
Housing and Regeneration			
Housing and Regeneration Programme and Project management arrangements	High	December 2019	April 2020
Commissioning and funding arrangements for externally led projects	High	February 2020	April 2020
Productivity and Skills			
Adult Education Budget	High	January 2020	April 2020

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Auditable area	AAN Rating	Quarter (month)	ARAC Meeting (indicative)
Public Service Reform			
West Midlands 5G Programme	High	December 2019	January 2020
Strategy			
Bid Management Framework	High	March 2020	June 2020
West Midlands Fire Service	High	No longer required	N/A
Transport for West Midlands			
Third Generation Tram Procurement Project	High	March 2020	June 2020

38

Follow-up of previous recommendations

We continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit, Risk and Assurance Committee. The following follow up reviews are scheduled for 2019-2020:

Auditable area	Level of assurance	Recommendations				Quarter (month)	ARAC Meeting (indicative)
		Red	Amber	Green	Total		
2017/18 Internal Audit Reviews							
National Fraud Initiative (2017-2018)	Satisfactory	-	2	4	6	Quarter 3 – December 2019	January 2020
Management of IR35 (2017-2018)	Satisfactory	-	4	3	7	Quarter 3 – December 2019	January 2020

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Auditable area	Level of assurance	Recommendations				Quarter (month)	ARAC Meeting (indicative)
		Red	Amber	Green	Total		
2018-2019 Internal Audit Reviews							
Corporate Business Continuity	Substantial	-	-	3	3	Quarter 3 – October 2019	January 2020
Asset Management Arrangements	Satisfactory	-	1	2	3	Quarter 3 – December 2019	January 2020
Data Insight Service	Substantial	-	-	3	3	Quarter 3 – November 2019	January 2020
Budget Management Roles and Responsibilities	Substantial	-	-	3	3	Quarter 1 – May 2020	June 2020

Appendix 1

Defining Good Governance

The International Framework: Good Governance in the Public Sector (2014) (International Framework) developed jointly by CIPFA and the Internal Federation of Accountants (IFAC) defines governance as comprising of “the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved”. It is further stated that such arrangements include but not limited to political, economic, social, environmental, administrative and legal arrangements.

Delivering Good Governance in Local Government (2016): Framework and Guidance Notes

The latest guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), entitled “Delivering Good Governance in Local Government (2016)” (the Framework) provides a framework and supporting guidance based on a set of principles that should underpin good governance arrangements within Local Government organisations including Combined Authorities.

The overall aim of the Framework is to ensure that “resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities”.

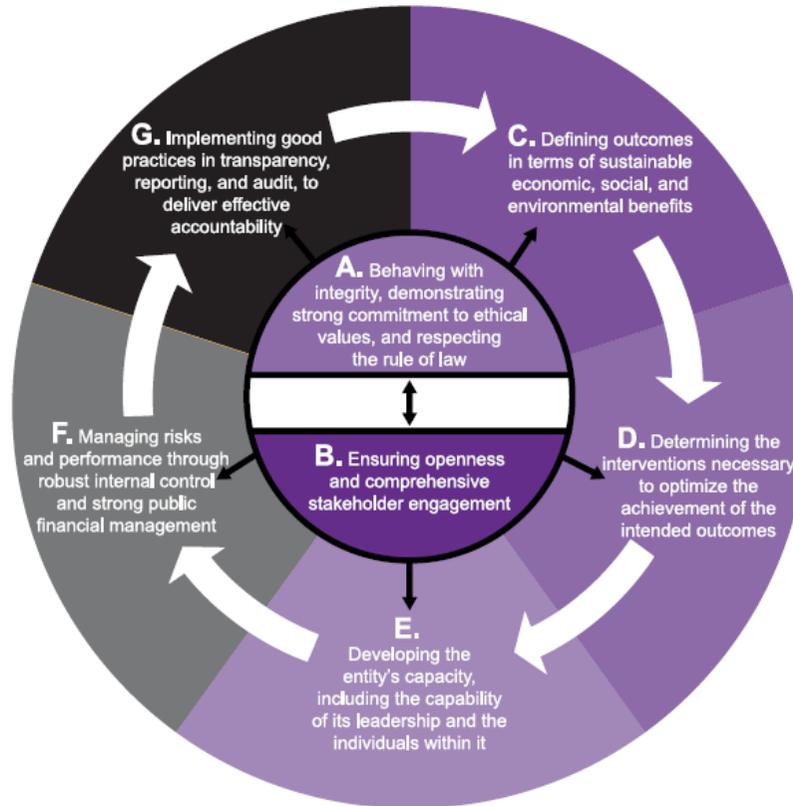
The main underpinning principle of the Framework is stated as continuing “to be that local government is developing and shaping its own approach to governance, taking account of the environment in which, it now operates” and that the Framework has been developed “to assist authorities individually in reviewing and accounting for their own unique approach to corporate governance”.

The Framework includes a set of core principles and sub principles (as stated in the International Framework: Good Governance in the Public Sector (2014) (CIPFA / IFAC)) that are expected to underpin the governance of each local government organisation, including the WMCA and provide a structure to help individual authorities with their approach to governance.

Defining the Principles of Good Governance

The diagram below as included in the Framework (originating from the International Framework) details the core principles good governance in the public sector:

Achieving the Intended Outcomes While Acting in the Public Interest at all Times



This review focused on the governance arrangements within the WMCA that demonstrate good governance as defined by the frameworks and expected to be in place per the Core Principles: Principle A and Principle B. It should be noted that the International Framework states that Principles A and B “permeate implementation of principles C to G”.

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**West Midlands
Combined Authority**

Audit, Risk & Assurance Committee

Date	12 November 2019
Report title	Investment Programme Governance Audit Update
Accountable Employee	Julia Goldsworthy, Director of Strategy Email: Julia.Goldsworthy@wmca.org.uk Tel: (0121) 214 7941
Responsible Employee	Tim Martin, Head of Governance, Clerk and Monitoring Officer Email: Tim.Martin@wmca.org.uk Tel: (0121) 214 7435
Report to be considered by	Audit, Risk & Assurance Committee

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note the work that has been undertaken to date on the assurance framework and the decision-making process and the intent behind the proposed way forward.
- (2) Note the principles for delivering the revised decision-making process and Assurance Framework as outlined in this report.
- (3) Note that a progress report on delivery of these proposals will be brought to the 13th January 2020 meeting of ARAC.

1. Purpose of Report

1.1 The purpose of this report is to:

- 1) Provide details on the intent and proposed delivery of governance improvements to be delivered through a revised assurance framework and decision-making process.
- 2) Provide an update on how the revised assurance framework is being updated to reflect latest government guidance

1.2 The report will provide an overview to ARAC of the intended delivery route for delivering the proposed revisions to the Assurance Framework and the Decision-Making process referred to in the September 2019 ARAC report and further detailed in this report.

2. Summary

2.1 In September 2019 the Investment Programme Governance Audit Update report provided ARAC with an update on work undertaken to address previously agreed audit actions and provide details of proposals agreed by SLT to enhance the Assurance Framework through delivery of a number of key governance improvements.

2.2 These governance improvements have been directed by a number of drivers which have provided the rationale for delivery, these are:

- a) **Governance Review** – The Governance Review was an internal review of governance arrangements within the WMCA for the purpose of identifying areas for improvement and providing recommendations intended to deliver those improvements. The review sought to draw a number of conclusions on the existing governance structure and made evidenced based recommendations for future improvement.
- b) **National Local Growth Guidelines** – The National Local Growth Assurance Framework sets out Government’s guidance for places that are required to develop their own Local Assurance Framework. This applies to Mayoral Combined Authorities (MCAs).
- c) **Monitoring & Evaluation Requirements** – Monitoring and Evaluation is a government requirement and considered a standard component of development and delivery best practice. There are specific Monitoring and Evaluation requirements that inform certain deals and funding from Government, additionally Monitoring and Evaluation information is required at a strategic level to help inform the political stages of the decision-making process.
- d) **Her Majesty’s Government (HMG) Criteria** - Procedures, assurances and specified criteria defined by HMG under various funding programmes (eg Transforming Cities Fund, HIF) and negotiated deals (eg Housing Deal, Skills Deal)

2.3 In October SLT agreed to the development of a revised Decision-Making Process and Assurance Framework, the intent of which was to:

- deliver consistent and proportionate processes and decision-making
- ensure compliance with a Single Assurance Framework
- deliver increased confidence in the organisations ability to make sound evidence-based decisions

- deliver a process that is supportive to Portfolios and Directorates
 - ensure earlier input to project development for Legal and Finance teams with requirement for all proposals to have legal and finance clearance on behalf of Section 151 Officer and Monitoring Officer
 - ensure clarity on project sponsorship, SROs and accountable directors for each project and/or programme
 - ensure earlier opportunities for cross portfolio developments and inclusive growth considerations
- 2.4 The work under development will also provide a response to the Governance Review observations and deliver a Decision-Making Process and Single Assurance Framework that will be compliant with the Governments National Local Growth Guidelines and Monitoring and Evaluation requirements. Additionally, this work will address the recent actions raised through ARAC around programme controls, financial management and risk management.
- 2.5 Further engagement and consultation will be undertaken with other important stakeholders including Investment Board and others involved in the existing process e.g. TAP and IAG

3. Revised Decision-Making Process

- 3.1 Work is now underway to revise the Decision-Making Process and Assurance Framework in line with the key principles that have previously been agreed by SLT, those being:
- Process becomes active once in principle funding and/or powers have been identified and secured.
 - Proposals will be consistent with WMCA Strategic Objectives, WMCA Annual Plan, Directorate approved business plans and any relevant national policy
 - Directors will get support (where appropriate and necessary) from a central resource as part of the early stage development of their projects and programmes and be able to call in expert external support to assist project review and due diligence. This replaces activity previously undertaken through TAP, and supports a transparent, proportionate and consistent approach across the organisation to project development.
 - Legal, Finance and Assurance will be engaged earlier in the process, giving Directors a clear and standardised sign off point. The intention is to provide consistent consideration of delivery and investment risks.
 - IAG will become the Investment Panel which will identify key lines of enquiry to inform the Investment Board. They will consider VfM and any recommendations made to Investment Board, assisted where necessary by specialist external expertise.
 - The Investment Panel would be advisory and would also provide clear observations and recommendations (not a transcript or decisions) to the SRO/Accountable Director on their case paper so that they can amend the paper to take account of those before submission to Investment Board. Those observations and recommendations would also be submitted to Investment Board as an appendix to the Board paper too to inform their decision making and ensure complete transparency.
 - Investment Panel meetings may be required but the ambition will be to create an on-demand service to make the process as frictionless as possible.
 - Streamlined process with Investment Board and WMCA Board engaged as per delegation levels
 - Process will be applied in a way which is proportionate to the nature of the project

- 3.2 The revised Decision-Making Process will apply to all projects and investments, not just Investment Programme to ensure that there is proper oversight of all such activity however a proportionate approach will be applied to all non-capital projects. There is a residual ability for WMCA Board to direct derogations from the process when these are considered necessary or appropriate.

Revised Project Development Process

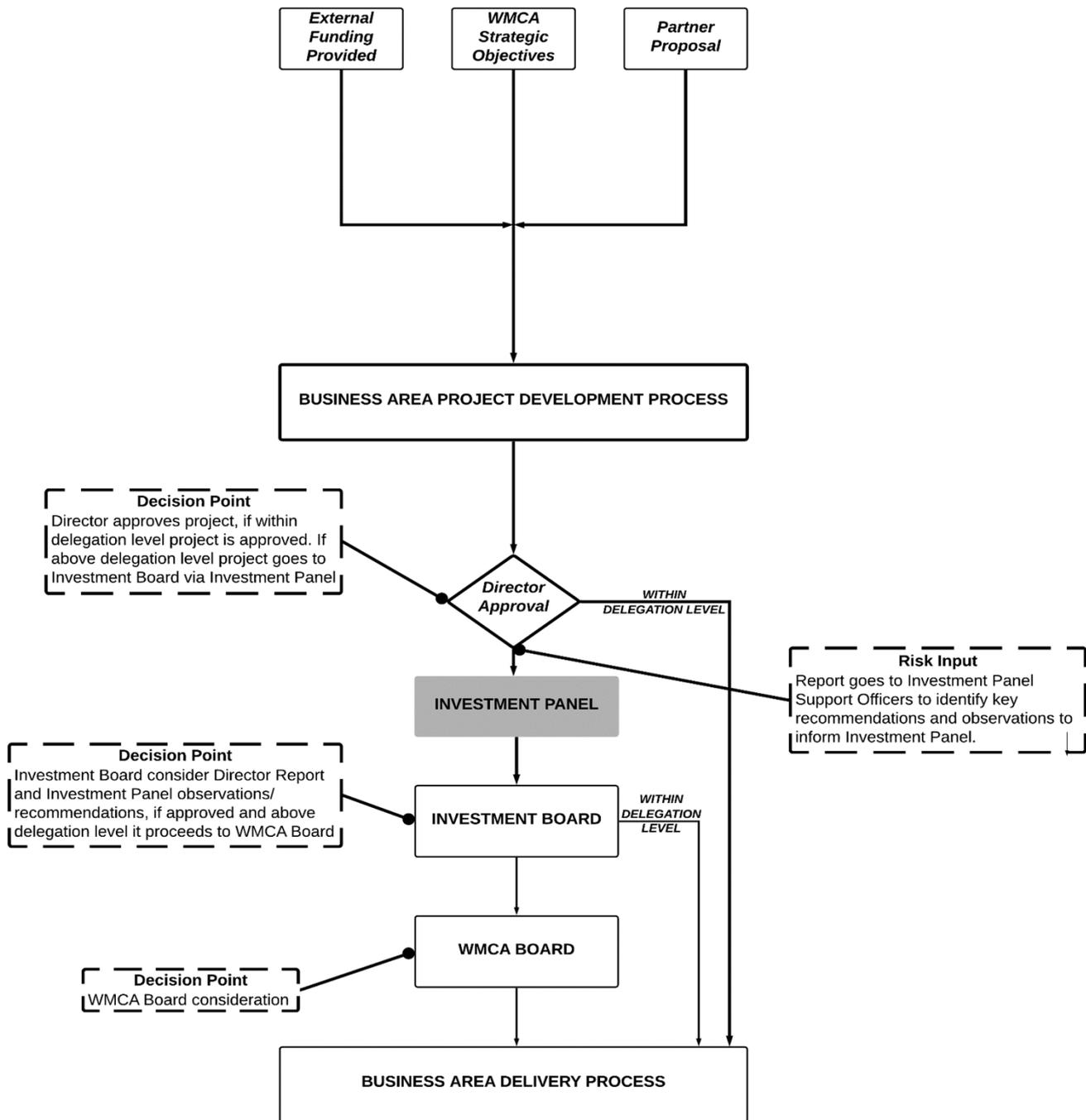
- 3.3 SLT have recommended that the project development process currently overseen through TAP can be improved by being devolved into Directorates/Portfolios so that they can control the tempo and ensure the relevant expertise is applied to project development and testing. In order for this to be delivered SLT has recommended that certain CA wide standards be applied to all projects and that an objective assurance clearance is provided at the end of development in order to allow that project to progress to the next step, that being Director approval. Further detail on the process leading to Director approval is given below however, in summary, it will require the Director to be satisfied that for a project or programme to proceed it must have met the requirements set by the decision-making process including the involvement of relevant Assurance, Finance and Legal colleagues.
- 3.4 For this process to operate effectively it is proposed that the TAP process is replaced with the following:
- A. CA wide project register that outlines project detail beginning at concept stage and updated at set points of development and delivery phase
 - B. Development routes proportionally set out what elements of relevant Government recognised Business Case standards are required to be delivered
 - C. Identified cases must be completed consistently to relevant Government guidance requirements where relevant such as HMT Green Book
 - D. CA wide Project Development standards must be adhered to by all projects being developed
 - E. Objective and independent assurance sign off required to progress project to next step
- 3.5 A key requirement of a revised project development process is applying proportionality, in practice this would be delivered by having criteria which determines which development route needs to be applied for each project. For example a complex project may require 5 elements of the relevant Business Case model to be adhered to and completed whilst a simple low complexity project may only require 2 elements of the relevant Business Case model to be adhered to and completed. The intention is to ensure that the level of assurance sought will be proportionate to the complexity of the investment proposal
- 3.6 The work underway to progress this involves identifying the process and criteria for identifying routes and applying proportionality.
- 3.7 A further key requirement to making this process work effectively is having CA wide minimum project development standards to be applied to all projects in order to guarantee weaknesses identified by the Governance Review are addressed. These minimum standards are to be developed to ensure compliance with the following agreed principles:
- Relevant Government Guidance route compliance to ensure appropriate and proportionate programme controls are applied (such as HMT Green Book)
 - Rigour applied around the Her Majesty's Treasury (HMT) Value For Money process
 - Early Legal and Finance engagement to ensure appropriate legal and finance controls are applied
 - Early Risk and Investment engagement to ensure appropriate risk management controls are applied

- CA wide engagement points to avoid projects being developed in Portfolio isolation, provide wider CA opportunities for collaboration particularly regarding Inclusive Growth and ensure wider CA implications of proposals are understood, considered and addressed
 - Monitoring and Evaluation plans become standard requirement
 - Appropriate Constituent Council engagement
 - Appropriate external challenge
 - Change control record
 - Legal and Finance sign-off
 - Objective Assurance sign-off
- 3.8 All projects would require Assurance sign-off, this involves an objective assessment and sign off by a central out of Portfolio/ Directorate Assurance function that would confirm that the relevant route has been complied with and evidenced and that the CA minimum standards had been applied and evidenced. In practice this process would flow throughout project development with the function of Assurance sign-off being provided at the point before Director Approval is required.
- 3.9 Work is underway to develop the revised project development process, and ARAC is asked to note the direction of travel in relation to the principles for this process as set out in paragraphs 3.1 - 3.10 of this report for further development.

Revised Decision Points

- 3.10 Once a project has been developed and provided with the required assurance sign off it is then required to be considered and approved by the relevant Portfolio Director(s). The purpose of this is to ensure that Directors are wholly responsible for the projects developed within their Directorates/ Portfolios, in providing approval Directors will be confirming that they accept responsibility for the quality of the project developed and for it taking it forward from this point forward.
- 3.11 Directors will be responsible for approving the final report that they then become accountable for, this report will be linked to an update within the CA project Register. Directors will then be responsible for taking this Report through the decision-making process or taking it through to delivery if within their delegation.
- 3.12 The key change to the decision-making process is the replacement of the Investment Advisory Group (IAG) with a new Investment Panel and supporting process. IAG was considered to be ineffective in highlighting investment and finance considerations within the project approvals pathway, the purpose of the proposed Investment Panel is to assist in improving proposals during the development phase as well as to support the required considerations of the funding decisions made at a political level by Investment Board.
- 3.13 Where a Director's report falls outside that Director's delegation the report will be submitted to the Investment Panel process, this will involve highlighting of the key risks and key lines of enquiry for the Investment Panel to focus upon.
- 3.14 The Panel membership is under development but from the Combined Authority, standing members will consist of the Director of Investment, S151 Officer, and the Monitoring Officer (or their representatives). The Panel will meet on demand in order to ensure that it does not delay the approvals pathway and will focus on reviewing the relevant papers and hearing from officers as appropriate for the purpose of developing advice, observations and recommendations on the proposal for the consideration of the Investment Board.

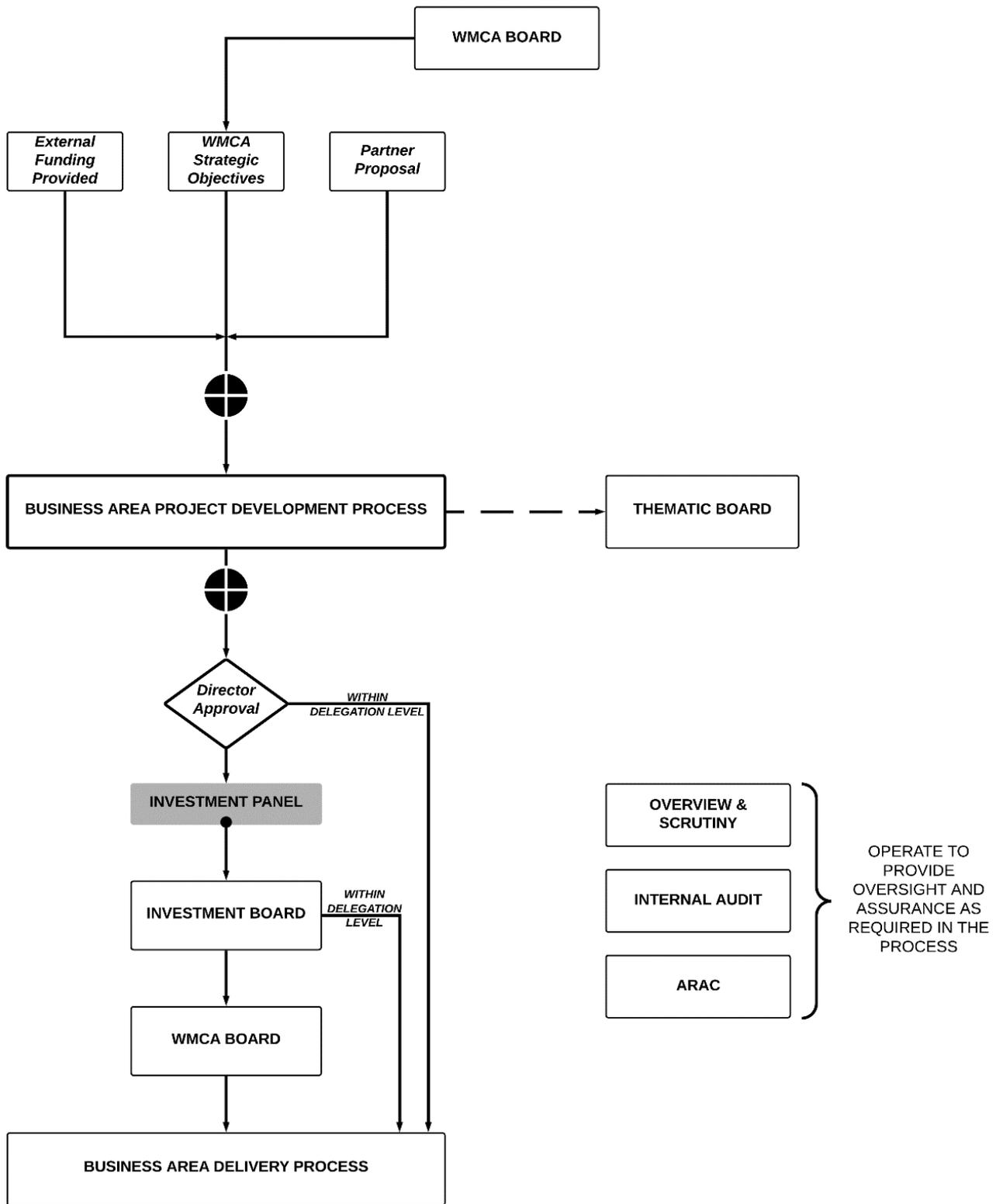
- 3.15 Investment Panel support officers will engage with those developing projects at an early stage as initial development routes for projects will highlight if that project will need to go through Investment Panel and Investment Board. This early engagement could identify the need for additional information or external challenge being needed in order to inform project/case paper development and Investment Panel and Board considerations.
- 3.16 The Investment Panel supports the Investment Board by adding an appendix to the Directors report when it is submitted to Investment Board which details their observations and any recommendations such as additional legal clauses or key areas the Board may wish to seek assurance on from the Director.
- 3.17 Investment Board will continue to meet monthly and will consider the Directors report and Investment Panel appendix, they will then question the Director and the SRO in order to determine if they wish to approve the project if it is within their delegation, or recommend to WMCA Board approval if it is above their delegation.
- 3.18 Work is underway to develop the revised processes associated with the decision points detailed in this report, ARAC is asked to note the progress in relation to the principles for this process as set out in paragraphs 3.11 - 3.20 of this report for further development.
- 3.19 These decision points are illustrated in the following diagram (which is in simplified form only and does not fully show all the steps required by the Assurance Framework):



Formal Governance Mechanisms

- 3.20 The Decision-Making Process recommended by SLT involves a number of developments that could assist the formal governance processes of the WMCA, namely the operation of Thematic Boards, WMCA Board, and the Overview & Scrutiny Committee.
- 3.21 The intent of the Decision-Making Process in regards to formal governance arrangements of the CA is to build upon existing arrangements whilst ensuring that Boards and Committees are able to successfully undertake their core roles. It is about providing the appropriate data for each Board/ Committee and ensuring that all Thematic Boards fulfil some core roles which add value to the decision-making process.

- 3.22 Through the introduction of Monitoring and Evaluation plans and consistent performance reporting the Decision-Making Process will ensure that strategic data can be captured throughout the process in order to provide the required information to assess performance and delivery.
- 3.23 Strategic performance data can then be provided to the range of formal governance Boards and Committees to assist them in delivering their core functions. Strategic performance data can be provided to the WMCA Board in order to assist the Board with assessing whether or not the CA is delivering its strategic objectives. Strategic data can also be provided to the Overview and Scrutiny Committee in order to provide it with the required information to hold the Board and the Mayor to account in delivering those strategic objectives.
- 3.24 Additionally the capture of strategic data will allow a clear picture of performance and delivery impact to be developed to be reported to Government and partners on progress in delivering the strategic objectives of the CA, as well as Monitoring and Evaluation assessments of projects and programmes which informs continuous improvement for the CA.
- 3.25 The Decision-Making Process also proposes a set of core functions to be delivered by all Thematic Boards, these core functions are as follows:
- Oversight of project development pipeline
 - Development and oversight role in Annual Portfolio Business Plan
 - Consideration of any major portfolio policy change
 - Performance management role in delivery of projects
- 3.26 The creation of a CA Project Register before project development and updated at various phases throughout development provides an opportunity for Portfolio Project Registers to exist and for oversight of these registers to be provided by the relevant Thematic Boards. This ensures political oversight of project development processes and financial control and forecasting.
- 3.27 It is proposed that Thematic Boards all play a role in performance managing project and programme delivery, ensuring political challenge and accountability to Directorates/ Portfolios on delivery and success set against project objectives and M&E plans.
- 3.28 The requirement at the end of project development for a Director Approval and Report ensures that each Director is accountable for projects and programmes that have entered delivery phases.
- 3.29 Work is underway to develop the revised processes associated with the formal governance of the WMCA as detailed in this report, ARAC is asked to approve the principles for this process as set out in paragraphs 3.21 - 3.31 of this report.
- 3.30 The formal governance element of the Approvals Pathway can be demonstrated in the following diagram (which is in simplified form only and does not show the full detail of all Assurance Framework steps):



4. Revised Assurance Framework

- 4.1 The September 2019 report to ARAC highlighted the work that has previously been undertaken to deliver an enhanced Assurance Framework. Work to develop further improvements and revisions to the Assurance Framework is developing well alongside a number of other governance improvement actions, however this work is dependent upon delivery of the Approvals Pathway outlined in this report as well as a number of significant other tasks such as establishment of the Strategic Hub.
- 4.2 In addition the Assurance Framework also requires revision in order to ensure that it is compliant with Governments National Local Growth guidelines. The National Local Growth Assurance Framework sets out Government's guidance for places that are required to develop their own Local Assurance Framework. This applies to Mayoral Combined Authorities (MCAs) with a Single Pot and Local Enterprise Partnerships (LEPs). This Framework replaces the previous LEP National Assurance Framework (November 2016) and Single Pot Assurance Framework (April 2016) and seeks to provide a common framework of understanding of the assurance required for local growth funding.
- 4.3 The National Local Growth Assurance Framework applies to all funding and investment decisions of the Combined Authority. It is a requirement of Central Government that the CA adhere to this and it will be measured against this at its 5 year gateway review.
- 4.4 It is necessary therefore to strengthen existing controls and ensure compliance with the recently updated guidance. SLT has therefore agreed that all projects and investments follow the Approvals Pathway and revised Assurance Framework and that it is applied proportionally in the case of non-capital projects. There is a residual ability for WMCA Board to direct derogations from the process when these are considered necessary or appropriate.

5. Next Steps

- 5.1 Further development work is being carried out on these proposals and the purpose of bringing them to ARAC at this stage is demonstrate the work and direction of travel that is being carried out. This work is in response to a number of factors including Internal Audit recommendations and the need to develop these processes as the WMCA grows and matures. Consultation will be needed with a range of stakeholders leading to the point in time where we can present the revised processes and Framework for approval by the WMCA Board. ARAC and Investment Board will need to be sighted on the final proposals before they go forward.

6. Financial Implications

- 6.1 The cost of implementing the changes detailed within the report are being managed within existing resources. There are no proposals to change financial delegations as a result of these proposals.

7. Legal Implications

- 7.1 The WMCA is required to maintain an assurance framework which ensures that investment and spending decisions are made in the light of relevant considerations and proper stewardship of public monies is provided. This report outlines development work which is in progress with the overall objective of ensuring this objective continues to be met.

8. Equalities Implications

- 8.1 There are no equalities implications arising from this report.

9. Inclusive Growth Implications

9.1 There are no inclusive growth implications arising from this report.

10. Geographical Area of Report's Implications

10.1 There are no geographical area implications arising from this report.

11. Other Implications

11.1 There are no other implications arising from this report.

12. Schedule of Background Papers

12.1 Not applicable.

13. Appendix

13.1 There are no appendices to this report.

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Audit, Risk & Assurance Committee

Date	12 November 2019
Report title	Midland Metro Limited Governance update
Accountable Officer	Laura Shoaf, Managing Director Transport for West Midlands Email: Laura.Shoaf@tfwm.org.uk Tel: (0121) 214 7444
Accountable Employee	Nafees Arif, Metro Finance and Commercial Director Transport for West Midlands Email: Nafees.Arif@tfwm.org.uk
Report has been considered by	n/a

Recommendation(s) for action or decision:

The Audit, Risk & Assurance Committee is recommended to:

- (1) Note the revised management arrangements following personnel changes in TfWM
- (2) Note the update to the actions as a result of the Internal Audit report presented in August 2019
- (3) Confirm that there is no requirement for a separate Audit and Risk Committee for Midland Metro Limited, and that the WMCA Audit and Risk Committee will carry out this function

1.0 Purpose

This report provides an update to the Audit and Risk Committee on the governance arrangements for the operator of the West Midlands Metro, Midland Metro Limited, with particular reference to recent changes in management and governance and the recommendations received from Internal Audit in August 2019.

2.0 Background

An Internal Audit paper was presented to the Audit and Risk Committee in August 2019 relating to the governance arrangements of Midland Metro Limited which contained several recommendations for implementation (Appendix 1).

The Director, West Midlands Metro, departed WMCA in September 2019 and revised management and governance arrangements have been put in place. These entail the TfWM Director of Customer Experience taking the role of Midland Metro Limited Chair. The new arrangements are outlined in Appendix 2. There will continue to be no independent director on the Board of MML.

In addition to these arrangements, there will be closer working between Midland Metro Limited and TfWM primarily in the area of marketing and communications in order to a) better utilise the resources available to TfWM and b) ensure a joined-up approach with wider transport initiatives e.g. region-wide ticketing enhancements, local partnerships.

3.0 Update on Internal Audit recommendations

The status of the Internal Audit recommendations are as follows:

- 2.1 Shareholder's Representative – The Head of Governance has been appointed as the Shareholder's Representative and a briefing is being arranged on the requirements of the Shareholders Agreement
- 2.2 Authority's Representative –
 - i. Under the new management structure the Authority's Representative is not a Director of MML in line with the recommendation
 - ii. Enhanced performance reporting will be developed with interim Director, West Midlands Metro
 - iii. Any conflicts will be raised as they occur

4.0 Implications of the closer relationship

Following the closer working relationship between TfWM and Midland Metro Limited, legal advice has been sought in order to ensure that there are no adverse implications for either Midland Metro Limited or WMCA.

The advice focused on potential implications for pensions and health and safety, and concluded that there were no adverse implications for either; there was no impact on employment arrangements, and the Public Services Contract between WMCA and Midland Metro Limited built in protections around health and safety requirements in regards to the Railways and Other Guided Transport Systems (Safety) Regulations 2006 (ROGS).

In addition, the legal advice noted that the rationale for the direct award to Midland Metro Limited was that as control was exercised over the entity as if it were a department of WMCA. Therefore it is questionable whether there is a requirement for an independent director on the Board or an independent Audit and Risk Committee.

5.0 Financial implications

N/A

6.0 Legal implications

Legal advice has been sought and the results outlined above.

7.0 Equalities implications

N/A

8.0 Other implications

N/A

9.0 Schedule of background papers

Appendix 1 – Internal Audit report on MML governance

Appendix 2 – revised MML governance arrangements

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Audit, Risk & Assurance Committee

Date	12 November 2019
Report title	West Midlands Development Capital Ltd – Audit Committee arrangements
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Linda Horne, Director of Finance Email: Linda.Horne@wmca.org.uk Tel: (0121) 214 7508
Report has been considered by	n/a

Recommendation(s) for action or decision:

The Audit, Risk & Assurance Committee is recommended to:

- (1) Confirm that there is no requirement for a separate Audit and Risk Committee for West Midlands Development Capital Limited, and that the WMCA Audit and Risk Committee will carry out this function.

1.0 Purpose

This report provides an update to the Audit and Risk Committee on the audit committee arrangements West Midlands Development Capital as previously discussed with the ARAC Chair.

2.0 Background

West Midlands Development Capital is a wholly owned subsidiary of WMCA and undertake the role of fund advisor for the Authority's £140m Collective Investment Fund, £70m Residential Investment Fund and £50m Brownfield Land & Property Development Fund.

WMDC is a teckal compliant company and has a contract for supply of services with Frontier Development Capital Ltd who are the Financial regulatory body. (A teckal company is one which benefits from works, services or supply from its controlling Authority without having to go through competitive tender. To be compliant, 80% of the activity must be public sector owned).

WMDC provide fund advisory services including sourcing, negotiation, due diligence and legal agreements.

All proposals for investments are reviewed through WMCA Assurance Process and endorsed or otherwise by WMCA Investment Board.

The funds are commercial and evergreen providing a market rate of return for the Authority based on value, risk and security.

WMDC has been operating since the start of the WMCA Fund in 2016. Investments are monitored through WM Finance Directors and WMCA Investment Board.

Contracts and Investments are then entered into and managed directly by WMCA.

WMDC receive a fee for this service at 0.5% of the original fund and from 1 April 2019 £600k pa for the 2 extended funds to fund resource and administration costs provided and recharged under agreement from FDC Ltd.

2 WMCA Directors, being the Authority's S151 Officer and the Director of Strategy are appointed Board Members and the Authority's Investment Director is WMCA Shareholder representative.

3.0 Audit Committee

Admin and Resource Costs and fee income simply net off and have up to 31 March 2019 stood at approximately £650k pa. WMDC manage their own finances and governance and provide an externally audited set of annual accounts to WMCA in accordance with deadlines. WMCA recognises the subsidiary in its accounts but have not to date consolidated due to materiality.

In addition, the Board Members receive monthly financial information in terms of the company costs, income, cash flow and contracts.

Given materiality to date, the relative simplicity of the company and its finances and given all contracts for investment are made through the assurance process and contracted directly with WMDC, it is recommended by the Authority's S151 Officer that a separate Audit Committee is not required to be established by the entity and that should any risks arise these will be managed through WMCA Audit Risk and Assurance Committee directly.

This position will however remain under review for if and when company activity expands.

4.0 Financial implications

N/A

5.0 Legal implications

N/A.

6.0 Equalities implications

N/A

7.0 Other implications

N/A

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Audit, Risk & Assurance Committee

Date	12 November 2019
Report title	The Annual Audit Letter for West Midlands Combined Authority and the West Midlands ITA Pension Fund
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Linda Horne, Director of Finance Email: Linda.Horne@wmca.org.uk Tel: (0121) 214 7505
Report has been considered by	

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note West Midlands Combined Authority's Annual Audit Letter and its contents for the year ending 31 March 2019; and
- (2) Approve publication of the letter on West Midlands Combined Authority's website.

1.0 Purpose

- 1.1 This report presents West Midlands Combined Authority's Annual Audit Letter for the year ended 31 March 2019, which summarises the key findings arising from the work carried out by the external audit team at Grant Thornton

2.0 Background

- 2.1 The letter attached as an Appendix summarises the key findings arising from the work that Grant Thornton have carried out at West Midlands Combined Authority and the preparation of the group and Authority's financial statements for the year ended 31 March 2019 which include those for the West Midlands ITA Pension Fund for the year ended 31 March 2019.
- 2.2 This letter is intended to provide a commentary on the results of Grant Thornton's work, to the Authority and external stakeholders.
- 2.3 In preparing this Letter, Grant Thornton have followed the National Audit Office's Code of Audit Practice and Auditor Guidance Note 07 – 'Auditor Reporting'.
- 2.4 Members will recall Grant Thornton reported the detailed findings from their audit work to the Committee as those charged with governance in their Audit Findings Reports on the Authority and Pension Fund on 21 June 2019.
- 2.5 Grant Thornton gave an unqualified opinion on both the Authority and group financial statements as well as the accounts of the West Midlands ITA Pension Fund on 31 July 2019.
- 2.6 In terms of the overall Value for Money conclusion, Grant Thornton are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.
- 2.7 Following consideration by the Committee, the Annual Audit Letter for the year ending 31 March 2019 will be published on West Midlands Combined Authority's website

3.0 Legal Implications

- 3.1 There are no legal implications arising from this report.

4.0 Equalities Implications

- 4.1 There are no equalities implications arising from this report.

5.0 Inclusive Growth Implications

- 5.1 West Midlands Combined Authority will continue to have due regard to proactively delivering inclusive growth in the West Midlands region. The Authority's financial statements reflect that commitment.

6.0 Geographical Area of Report's Implications

6.1 The Authority's financial statements encompass the West Midlands region.

7.0 Appendices

Appendix – The Annual Audit Letter for West Midlands Combined Authority and the West Midlands ITA Pension Fund

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The Annual Audit Letter for West Midlands Combined Authority and the West Midlands ITA Pension Fund

Prepared
Year ended 31 March 2019
31 August 2019



Contents



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Section

1. Executive Summary
2. Audit of the Financial Statements
3. Value for Money conclusion

Page

3
5
11

Appendices

- A Reports issued and fees

Page
68

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at West Midlands Combined Authority ('the Authority') and the preparation of the group and Authority's financial statements for the year ended 31 March 2019 which include those for the West Midlands ITA Pension Fund (the Pension Fund) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority's Audit Risk & Assurance Committee (ARAC) as those charged with governance in our Audit Findings Reports (AFR) on the Authority and Pension Fund on 21 June 2019.

Our work

Materiality

We determined materiality for the audit of the Authority's financial statements to be £4,600k, which is approximately 1.8% of the Authority's total expenditure.
We determined materiality for the audit of the Pension Fund accounts administered by the Authority to be £4.92m, which is 1% of the Pension Fund's net assets.

Financial Statements opinion

We gave an unqualified opinion on the Authority's financial statements on 31 July 2019.
We gave an unqualified opinion on the Pension Fund accounts of the West Midlands ITA Pension Fund on 31 July 2019.

Whole of Government Accounts (WGA)

We completed work on the Authority's consolidation return following guidance issued by the NAO.

Use of statutory powers

We have not exercised any of our additional statutory powers or duties.

Value for Money arrangements

We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our AFR to the Authority on 21 June 2019 and our unqualified conclusion on 31 July 2019.

Certificate

We are not able to certify the conclusion of the audit as we are required to give an opinion on the consistency of the Pension Fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Pension Fund Annual Report is not required to be published until 1 December 2019 and was not available at the time of our audit or this letter. We anticipate the Pension Fund Annual Report being available for our review in September 2019.

We are therefore yet to issue our report on the consistency of the Pension Fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the Authority's financial statements.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Working with the Authority

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

- An efficient audit – we delivered an efficient audit with you in July, delivering the financial statements before the deadline, releasing your finance team for other work.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our guide to the accounts for Audit and Risk Assurance Committee members
- Providing training – we provided your teams with training on financial statements and annual reporting
- Supporting development – we provided training for the Audit and Risk Assurance Committee on the work of external audit

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

Grant Thornton UK LLP
August 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Authority's and Pension Fund's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

Authority and group materiality

We determined materiality for the audit of the group financial statements to be £4.601m, which is 1.8% of the group's gross revenue expenditure. We determined materiality for the audit of the Authority's financial statements to be £4.60m, which is 1.8% of the Authority's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Authority's financial statements are most interested in where the group and Authority has spent its revenue in the year.

We set a lower threshold of £230,000 above which we reported errors to the Audit, Risk and Assurance Committee in our Audit Findings Report.

We also set a lower level of specific materiality for senior officer remuneration. This was £25,000 above which we reported errors to the Audit Risk & Assurance Committee in our Audit Findings Report.

Pension Fund materiality

For the audit of the West Midlands ITA Pension Fund accounts, we determined materiality to be £4.92m, which is 1% of the Fund's net assets. We used this benchmark as, in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower threshold of £246,000 above which we reported errors to the Audit, Risk and Assurance Committee in our Audit Findings Report.

We considered the need to set lower levels of materiality for sensitive balances, transactions or disclosure in the accounts, and determined not to set any lower levels.

The scope of our audit

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

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

We also read the remainder of the financial statements and the Narrative Report, Annual Governance Statement and Pension Fund Financial Statements published alongside the audited financial statements to check it is consistent with our understanding of the Authority and with the financial statements included in Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements (continued)

Authority and Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK) 240 – <i>the Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements</i> - there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority. Group and the Pension Fund, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including West Midlands Combined Authority and the Pension Fund, mean that all forms of fraud are seen as unacceptable. 	<p>We have not altered our assessment as reported in the audit plan and whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect. We therefore have no issues to report in this regard</p>
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities</p> <p>The Authority, Group and Pension Fund face external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for both the Authority, Group and the Pension Fund.</p>	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work at the Authority and the Pension Fund has not identified any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Authority Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Authority's employees are part of the West Midlands Pension Fund. The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£51.113m) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"> updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and reviewed the pensions prepayment paid by the Authority to the West Midlands Pension Fund and are satisfied it was subject to due process and has been accounted for in the financial statements correctly. 	<p>Our audit identified one issue in relation to accounting for the impact of the McCloud Court of Appeal judgement. The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The legal ruling has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits, such as the Local Government Pension Scheme (LGPS). Our Grant Thornton view was that the McCloud judgement gave rise to a past service cost and liability which should be recognised as the ruling created a new obligation.</p> <p>As a result of the ruling we have worked with the Authority to consider the implications of the judgement. As a result, during the course of the audit the Authority sought a revised report from the actuary in order to account for the impact of the recent "McCloud" judgement.</p> <p>This was provided in July and the accounts updated accordingly. It has led to the inclusion of a past service cost of £1.257m which has been taken to the Comprehensive Income and Expenditure Statement through Transport Services. There is an equal increase to the net defined liability which has increased from £49.856m to £51.113m.</p> <p>The Authority has also added some narrative into the financial statements at Note 30 to explain the adjustment made. We are satisfied that these adjustments have been reflected in the revised financial statements and confirmed that the pension liability is not materially misstated in the financial statements after these adjustments</p>

Audit of the Financial Statements

Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Level 3 Investments Valuation is incorrect The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA (UK) 315 - <i>Identifying and Assessing the risks of Material Misstatement through Understanding the Entity and its Environment</i>, significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We have identified the valuation of Level 3 investments as a risk requiring special audit consideration. The Prudential buy-in (£224.548m) is the only material, directly held, 'hard to value' investment held by WM ITA Pension Fund and this is valued by the Fund's actuary (Barnett Waddingham). We therefore identified valuation of Level 3 investments as a significant risk.</p>	<p>The Prudential buy-in is the only material, directly held, 'hard to value' investment held by WM ITA Pension Fund and this was valued by the Fund's actuary (Barnett Waddingham). We:</p> <ul style="list-style-type: none"> gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided by these types of investments. We used our in-house experts, the Grant Thornton valuation team, to assist us in doing this. We reviewed the assumptions and calculations to provide assurance that the valuation was reasonable assessed the competence, capabilities and objectivity of the actuary who carried out the valuation. 	<p>A bulk annuity insurance buy-in was put in place in 2012/13 as part of the Fund's risk strategy. This cover means that the insurer underwrites the risk of meeting the future liabilities relating to West Midlands Travel Limited pensioners on the pension payroll at 11 August 2011 in return for a one-off premium.</p> <p>This buy-in was valued on the balance sheet as at 31 March 2019 at £224.548m. The value of this buy-in has decreased by £13.8m in 2018/19 compared to 2017/18, largely due to pension payments of £16m in year and a change in demographic (mortality) assumptions of £9m. This was mitigated by an actuarial gain of £7.6m due to a reduction in the discount rate.</p> <p>We have independently estimated the value of the insurance buy-in to be £226.163m compared to the actuarial valuation of £224.548m. The valuation of this estimate is complex and the difference is within 0.72% of the actuary's result and within the expected range we set.</p> <p>From this we concluded that the valuation is reasonable and not materially misstated</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on both the Authority and Group financial statements as well as the accounts of the West Midlands ITA Pension Fund on 31 July 2019.

Preparation of the financial statements

The Authority and Pension Fund presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audits.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Authority's Audit Risk & Assurance Committee on 21 June 2019.

Annual Governance Statement and Narrative Report

We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

Whole of Government Accounts (WGA)

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

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of the West Midlands Combined Authority in accordance with the requirements of the Code of Audit Practice.

We are not able to certify the conclusion of the audit at this time as we are required to give an opinion on the consistency of the Pension Fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts.

The Pension Fund Annual Report is not required to be published until 1 December 2019 and was not available at the time of our audit or this letter. We anticipate the Pension Fund Annual Report being available for our review in September 2019. We are therefore yet to issue our report on the consistency of the Pension Fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the Authority's financial statements.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

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

Overall Value for Money conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion (continued)

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Preparedness of the Combined Authority to receive the West Midlands Fire Authority within its governance structure</p> <p>Subject to the Order being approved in Parliament, the West Midlands Fire Service could come within the governance structure of the West Midlands Combined Authority from as early as 1 April 2019.</p> <p>This represented a significant change both to the remit of the West Midlands Combined Authority as well as to its governance arrangements. There is a risk that arrangements may not appropriately reflect changing responsibilities of the Authority and heighten the risk of actual or perceived instances of inadequate governance.</p>	<ul style="list-style-type: none"> We reported to ARAC in our progress report, dated 15 April 2019, that the transfer of the Fire Service was originally proposed to be on 1 April 2019, but that due to the delay in finalising the draft Order to put before Parliament this timing has now been moved into the 2019/20 financial year, with an exact timeline to be confirmed. Our understanding is that this has now been postponed indefinitely. 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>There was no residual risk remaining to our value for money conclusion. We have seen from our review of relevant Board and Combined Authority papers and regular discussions with management and key officers that work has been underway to prepare for the proposed changes in structure. We have therefore identified no evidence that is indicative of inadequate arrangements being in place at the Combined Authority in relation to this risk.</p>
<p>Developing Capacity and Capability</p> <p>Given the evolution of the Combined Authority, as exemplified by the potential extended remit to include the Fire Authority (as well the Police and Crime Commissioner in future years), there is a risk that the Authority does not have the capacity or capability to continue to manage and absorb the increased levels of activity that are expected.</p>	<ul style="list-style-type: none"> We reviewed relevant Board and Combined Authority papers and held discussions with management and key officers to gain assurance that the Authority has an appropriate framework in place to assess its capacity and capability and ensure its establishment is fit for purpose. 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 on 14 January 2019. 	<p>See next page.</p>

Value for Money conclusion (continued)

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Developing Capacity and Capability (continued)</p> <p>Given the evolution of the Combined Authority, as exemplified by the potential extended remit to include the Fire Authority (as well the Police and Crime Commissioner in future years), there is a risk that the Authority does not have the capacity or capability to continue to manage and absorb the increased levels of activity that are expected.</p>	<ul style="list-style-type: none"> Internal audit were able to give satisfactory assurance as part of the process to mitigate risks to an acceptable level. Their scope was to seek assurance that “appropriate arrangements are in place for effective workforce planning that supports and aligns with organisational strategy and business planning to ensure appropriate skills and capacity are developed to achieve organisational success in delivering services in the future.” This resulted in one broad recommendation being made, which was to translate the work that had been undertaken into a “clearly defined strategy and operational workforce planning framework to support strategic level consideration of workforce planning implications for the achievement of the WMCA’s strategic and organisational aims and objectives.” We acknowledge that while the risk identified for the Value for Money Conclusion is not exactly the same as that covered by the scope of the internal audit review, we note that there is some overlap. For our purposes we are concerned with the capacity and capability of the Authority (i.e. does it have the right people, with the right skills in the right place doing the right things at the right time), at least some of which can be dealt with through robust workforce planning and consideration of future needs. In terms of future needs, consideration of current workforce and achievement of deliverables over the next few years are considered as part of the business planning process and when the budget is being set. Heads of Service outline their key deliverables for the year and the budget implications are tracked and monitored against by finance. However, from our review of these documents, they consider workforce requirements implicitly rather than explicitly. Work on forward planning has improved during the year, aided by a more fluent use throughout the organisation of the HR dashboard: it charts, recruitment, vacancies, and long-term sickness, which enables cohesive discussions between the business manager, finance business partner and the manager. Posts are aligned with funding sources to ensure that each post is appropriately justified and financed. To get the rights skills in place and ensure employees are performing, there has been a process in place but no policy. In June 2019, the corporate management team agreed a managing performance policy which will be ratified and then published in the coming months. 	<p>While we identified no residual risk to our value for money conclusion, we recommended that workforce considerations are made a more explicit element of business processes.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit. There were no fees for the provision of non audit services.

Reports issued

Report	Date issued
Audit Plans	14 January 2019
Audit Findings Reports	21 June 2019
Annual Audit Letter	31 August 2019

Fees for non-audit services

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

Page
79

	Planned £	Actual fees 2017/18 £	2018 fees £
Statutory audit *	35,805	46,500	46,500
Audit of Pension Fund	16,170	16,170	21,000
Total fees	51,975	46,500	67,500

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority and Pension Fund. The table above confirmed that no non-audit services have been identified.

We reported in our Audit Plan that our proposed audit fee is above the PSAA scale fee of £35,805. Our view is that because of the increased scope and associated risk, and the additional challenge that the Authority will no doubt be seeking from its external auditors, a fee reduction at this time would not be commensurate with the current risks.

Therefore a fee of £46,500 is proposed, which was consistent with the fee charged in 2017/18. This constitutes a fee variation, which is subject to approval from PSAA.



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