



## Audit, Risk & Assurance Committee

**Date:** Monday 13 January 2020

**Time:** 10.00 am **Public meeting** Yes

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

### Membership

David Lane (Chair)

Councillor Ram Lakha (Vice-Chair)

Councillor Ahmad Bostan

Councillor Alan Butt

Sean Farnell

Councillor Michael Gough

Councillor Fred Grindrod

Councillor Andrea Layton

Councillor Alexander Phillips

Councillor June Tandy

Councillor Alan Taylor

Councillor David Thain

Councillor Vera Waters

Coventry City Council

Sandwell Metropolitan Borough Council

City of Wolverhampton Council

Coventry & Warwickshire LEP

Solihull Metropolitan Borough Council

Birmingham City Council

Staffordshire Non-Constituent Authorities

Shropshire Council

Nuneaton & Bedworth Borough Council

Dudley Metropolitan Borough Council

Worcestershire Non-Constituent Local Authorities

Walsall Metropolitan Borough Council

Quorum for this meeting shall be nine members. Of those, at least one member must be in attendance from five different constituent councils.

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

**Contact** Tanya Patel, Governance Services Officer

**Telephone** 0121 214 7689

**Email** Tanya.Patel@wmca.org.uk

# AGENDA

No.	Item	Presenting	Pages	Time
<b>Meeting Business Items</b>				
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 12 November 2019	Chair	1 - 6	
4.	Chair's Remarks	Chair	None	
5.	Matters Arising <ul style="list-style-type: none"> <li>• Whistleblowing</li> </ul>	Tim Martin	None	
6.	Forward Plan	Tanya Patel	7 - 8	
<b>Business Items for Discussion/Understanding</b>				
7.	WMCA Assurance Overview January 2020	Hardial Phull	9 - 16	10:10
8.	Internal Audit Update	Peter Farrow	17 - 70	10:20
9.	Draft Internal Audit Plan 2020 - 2021	Peter Farrow	71 - 88	10:30
10.	External Audit Plan and Informing the Audit Risk Assessment 2019/20 for West Midlands Combined Authority (a) External Audit Plan year ending 31 March 2020  (b) Informing the audit risk assessment for West Midlands Combined Authority 2019/20	Grant Thornton	89 - 136	10:40
11.	Performance Management and Reporting	Julia Goldsworthy	137 - 144	10:55
12.	Corporate Service Review	Tracy Walters	Verbal Report	11:10
13.	Addressing the West Midlands Climate Crisis	Jacqueline Homan	Verbal Report	11:20

14.	WMCA's Investment and Commercial Activities Update	Ian Martin	Verbal Report	11:35
<b>Private Item of Business</b>				
15.	Exclusion of the Public and Press In accordance with s100(A) of the Local Government Act 1972, the public and press be excluded from the meeting for the following item of business as it is likely to involve the disclosure of exempt information relating to the financial or business affairs of any particular person (including the authority holding that information).		None	
16.	Audit Capacity	Hardial Phull	145 - 150	11:50
<b>Date of Next Meeting</b>				
17.	Tuesday 21 April 2020 at 10.00am	Chair	None	

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West Midlands  
Combined Authority

## Audit, Risk & Assurance Committee

Tuesday 12 November 2019 at 10.00 am

### Minutes

#### Present

David Lane (Chair)	
Councillor Ram Lakha (Vice-Chair)	Coventry City Council
Councillor Marje Bridle	Birmingham City Council
Councillor Ahmad Bostan	Sandwell Metropolitan Borough Council
Councillor Alan Butt	City of Wolverhampton Council
Sean Farnell	Coventry & Warwickshire LEP
Councillor Michael Gough	Solihull Metropolitan Borough Council
Councillor Alan Taylor	Dudley Metropolitan Borough Council
Councillor Vera Waters	Walsall Metropolitan Borough Council

#### In Attendance

Peter Farrow	City of Wolverhampton Council
Julia Goldsworthy	West Midlands Combined Authority
Linda Horne	West Midlands Combined Authority
Sandra Kaylan	City of Wolverhampton Council
Grant Patterson	Grant Thornton
Hardial Phull	West Midlands Combined Authority
Tim Martin	West Midlands Combined Authority
Lorraine Quibell	West Midlands Combined Authority

#### Item Title No.

#### 181. Apologies for Absence

Apologies for absence were received from Councillor Fred Grindrod (Birmingham City Council) and Councillor Alexander Phillips (Shropshire Council).

#### 182. Declarations of Interest

Councillor Alan Taylor reported that he was a member of Transport Delivery Committee.

#### 183. Minutes of the meeting held on 24 September 2019

The minutes of the meeting held on 24 September 2019 were agreed as a correct record, subject to the addition of Nick Abell (Coventry & Warwickshire LEP) in the list of those present at the meeting.

**184. Chair's Remarks**

The Chair informed the committee that he was no longer the Chair of the Midland Metro Audit Committee and it had been agreed that ARAC would have responsibility for MML audit, risk and assurance review as per item 191.

**185. 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 considered to be a whistleblowing matter but a service complaint.

- **Brexit Contingency Planning**

The Monitoring Officer advised the committee that work had been undertaken to prepare for, and mitigate risks arising from, Brexit however due to regulations relating to the pre-election period this report had not been made available to this meeting. The Chair confirmed he had noted the report and advised ARAC members he was satisfied with the arrangements in place.

- **Accessible Transport Group**

Following the previous update, the Monitoring Officer advised the committee that some administration process were outstanding however he felt that Internal Audit should now undertake a review of the processes the WMCA undertook in regards to the administration process. The terms of reference for this audit would be agreed with the statutory officers and the chair before the January ARAC meeting and that the review should be carried out in Q4 19/20.

**186. Forward Plan**

The committee considered the plan of items to be reported to future meetings of the committee. Councillor Ahmad Boston requested that the committee receive a report on climate change and the budget allocated to this. The Chair requested that the committee receive a report on performance monitoring for the WMCA and the Director of Investment & Commercial Activities be invited to attend committee to report on the changes, proposals and process being implemented to gain investment.

Resolved:

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

**187. Strategic Risk Register**

The committee were provided with an update on the current status of the strategic risk register. It was noted that there continued to be uncertainties relating to external factors, in particular Brexit, meaning risks were difficult to manage effectively. Two new risks were identified relating to HS2 and Transport for West Midlands' reputation. The register continued to be monitored by the Senior Leadership Team.

The Monitoring Officer updated the committee in relation to 5G and indicated that there were some risks associated to the programme, and regular meetings had been undertaken with himself, the Director of Finance and leading officers from the 5G Team. Assurance was provided that the team were actively working towards gaining funding streams to progress the programme. The Chair indicated that he recognised the commercial sensitivity of the programme and would be provided with detailed updates on behalf of the committee.

Resolved:

- (1) The strategic risks contained within the WMCA strategic risk register be noted.

#### **188. WMCA Assurance Overview November 2019**

The committee considered a report on the Corporate Assurance Manager's opinion on the WMCA's systems of project & programme assurance, business assurance and performance assurance for the reporting period November 2018 - October 2019.

In relation to performance assurance, the committee requested sight on the operational performance dashboard presented to the Corporate Management Team. The Chair requested that when assurance reviews had taken place and a red rating was given, these should be shared with committee. He also expressed concern that sufficient detail was not being provided to the committee relating to projects that were not Investment Programme funded and requested that more understanding was provided in terms of the risks.

Resolved:

- (1) The assurance reviews and activities that had been undertaken since the last reporting period be noted.
- (2) The committee were satisfied with the assurance activity from November 2018 to October 2019.

#### **189. Internal Audit Update**

The committee considered a report updating them on the work completed by internal audit and noted the amendments to the Internal Audit Plan 2019 - 2020 as a result of a mid-year review. The ICT Strategy audit would be deferred until 2020 - 2021 due to the external review commissioned on the WMCA's ICT arrangements, and the Investment Programme would also be deferred until 2020 - 2021. The planned audit for the West Midlands Fire Service was no longer required. The internal audits taken place during the quarter were given a substantial level of assurance.

The Audit Business Partner provided the committee with an overview of the WMCA Governance Arrangements internal audit, which was noted to be in its draft stage at the time of the meeting but had been given a substantial level of assurance

Further to Sean Farnell's request for assurance in capacity for the completion of timetabled audits, the Head of Audit confirmed that to date the finalising of reports were within the timelines and was confident that all audits scheduled for the financial year would be completed.

Resolved:

- (1) The contents of the latest Internal Audit Update Report be noted.
- (2) The amendments to the Internal Audit Plan 2019 – 2020 be noted.

**190. Investment Programme Governance Audit Update**

The committee received a report from the Monitoring Officer which provided details on the intent and proposed delivery of governance improvements to be delivered through a revised assurance framework and decision-making process. The improvements had been directed by a number of drivers, and in October the Senior Leadership Team agreed to the development of a revised decision-making process and assurance framework. It was hoped that this new process would create consistency and streamlined approach in how projects were developed and delivered.

It was noted that the assurance framework formed part of the constitution, therefore any changes require approval through the WMCA Board. However, the Monitoring Officer advised the committee that changes being made to the assurance process would not change or affect the role of the Investment Board but considered improvements to the membership and terms of reference to strength its arrangements. Further to the Chair's request, it was agreed that WMCA-wide project registers would be shared with the committee once fully implemented.

Resolved:

- (1) The work that had been undertaken to date on the assurance framework and the decision-making process, and the intent behind the proposed way forward, be noted.
- (2) The principles for delivering the revised decision-making process and assurance framework be noted.
- (3) That a progress report on delivery of these proposals be brought to committee on the 13 January 2020.

**191. Midland Metro Limited Governance Update**

The committee received a report from the Director of Finance outlining the governance arrangements for Midland Metro Ltd, who operated the Metro on behalf of Transport for West Midlands. It was noted that the Director of West Midlands Metro had departed the organisation and revised management and governance arrangements had subsequently been implemented.

In relation to the internal audit recommendations, it was noted that the Head of Governance had been appointed as the Shareholder's Representative and, further to legal advice being sought, it was agreed that the requirement for an independent Audit & Risk Committee was not required.

Resolved:

- (1) The revised management arrangements following personal changes in Transport for West Midlands be noted.
- (2) The update to the actions as a result of the Internal Audit reported presented to committee in August be noted.
- (3) It be confirmed that there was no requirement for a separate Audit & Risk Committee for Midland Metro Ltd and that this committee would carry out the function.

**192. West Midlands Development Capital Limited - Audit Committee Arrangements**

The committee received a report from the Director of Finance on the audit committee arrangements for West Midlands Development Capital Ltd and it was noted that due to the materiality to date, a separate Audit & Risk Committee was not required and any risks were to be managed through this committee.

Resolved:

- (1) It be confirmed that there were no requirements for a separate Audit & Risk Committee for West Midlands Development Capital Ltd and that this committee would undertake the function.

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

The committee considered the WMCA's Annual Audit letter for the year ended 31 March 2019 which summarised the key findings arising from the work carried out by external audit team at Grant Thornton.

The Annual Audit Letter confirmed the unqualified opinion on both the WMCA and group financial statement, as well as the accounts of the West Midlands ITA Pension Fund. However, it was not possible to certify the conclusion of the audit as it was necessary to give an opinion on the consistency of the pension fund financial statement. The conclusion of the audit will be confirmed with both the Director of Finance and the Chair, as well as confirmation of the potential audit fee variation.

Sean Farnell requested confirmation that the initial risks identified within the audit relating to developing capacity and capability were being address in the organisation. The Director of Finance confirmed that the Head of Human Resource & Organisational Development was actively bringing together resourcing and planning processes to address this risk.

Resolved:

- (1) The contents of the WMCA's Annual Audit Letter for the year ending 31 March 2019 be noted.
- (2) The WMCA's Annual Audit Letter be published on its website.

**194. Date of Next Meeting**

Monday 13 January 2020 at 10.00am.

The meeting ended at 11.25 am.

### WMCA Audit, Risk & Assurance Committee - Forward Plan

Title of Report	Description of Purpose	Date of Meeting	Lead Officer
Strategic Risk Register	To receive an update on the Strategic Risk Register.	21 April 2020	Loraine Quibell
Assurance Report Update	Corporate Assurance undertaken since the last update.	21 April 2020	Hardial Phull
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
West Midlands Pension Fund	To receive a short briefing setting out the investment strategy for the CA's pension fund.	21 April 2020	Rachel Brothwood
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

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



**West Midlands  
Combined Authority**

## Audit, Risk & Assurance Committee

<b>Date</b>	13 January 2020
<b>Report title</b>	WMCA Assurance Overview January 2020
<b>Accountable Chief Executive</b>	Deborah Cadman, OBE Chief Executive Email: <a href="mailto:Deborah.Cadman@wmca.org.uk">Deborah.Cadman@wmca.org.uk</a> Tel: (0121) 214 7200
<b>Accountable Employee</b>	Tim Martin, Head of Governance, Clerk and Monitoring Officer Email: <a href="mailto:Tim.Martin@wmca.org.uk">Tim.Martin@wmca.org.uk</a> Tel (0121) 214 7435
<b>Report has been considered by</b>	None

### Recommendation(s) for action or decision:

#### Audit, Risk & Assurance Committee is recommended to:

- (1) Note the reporting capability from a refreshed Programme Assurance toolkit and approve recommendations in the summary section relating to future trend analysis reporting of project/programme performance information.
- (2) Note the capability an Integrated Assurance and Approval Plan (IAAP) will give the WMCA in focussing assurance activities across a 3 lines of defence model, taking into consideration the spectrum of risk.
- (3) Approve the recommendation to defer a position being reported into ARAC on compliance of Arm's Length Companies with the WMCA pre-agreed checklist until April 20.

## **1. Purpose of Report**

This report follows information previously reported to ARAC in November 2019 and is intended to give members an update on specific matters relating to:

- a. Project & Programme Assurance
- b. Arm's Length Companies

## **2. Background**

- 2.1. A report tabled at ARAC in November 2019 summarised Programme Assurance activity and gave an indication on direction of travel and areas of development. This report aims to respond to the request for articulation of trend analysis and movement in the performance of projects across the WMCA.
- 2.2. A report tabled at ARAC in November 19 outlined work that has commenced with Arm's Length Companies to ensure compliance with a pre-agreed checklist. This report will outline progress and seek a deferral for a summary of that activity to April 20.

## **3. Arm's Length Companies**

- 3.1. Corporate Assurance have commenced work to check in with the Arm's Length Companies to ensure compliance with a pre-agreed checklist. This report requests a deferral of a summary of this activity until April 2020 given the limited timeframe available for Legal, Procurement and Finance colleagues to validate information that has been received and information that is awaited.
- 3.2. Progress since the last reporting period is summarised below:
  - 3.2.1 West Midlands Rail – Last compliance check dated December 18. Information awaited for internal validation of on-going compliance.
  - 3.2.2 West Midlands Development Capital Ltd – Last compliance check dated December 18. Information received and awaiting internal validation of on-going compliance.
  - 3.2.3 Midland Metro Ltd - Last compliance check dated December 18. Information awaited for internal validation of on-going compliance.
  - 3.2.4 WM5G Ltd – Last compliance check dated June 19. Information awaited for internal validation of on-going compliance.
  - 3.2.5 WMGC – Last compliance check dated June 19. Information received and awaiting internal validation of on-going compliance.

## 4. Programme Assurance

4.1 Programme Assurance have developed a toolkit to enable objective assessment of project performance throughout the project lifecycle which is generically made up of the following stages:

- a. Concept / Start-up
- b. Development / Definition
- c. Delivery / Deployment
- d. Closure / Hand-over

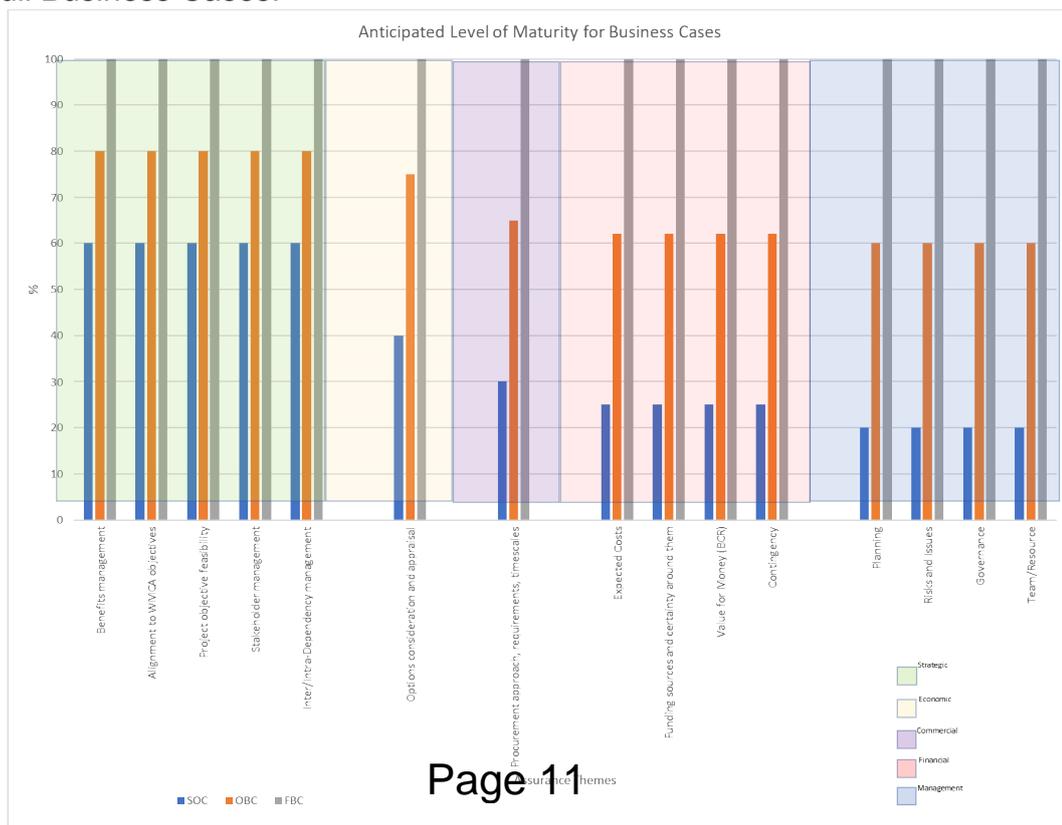
4.2 The following tools have been developed:

- a. Self-Assessment
- b. Business Case Assessment Tool (BCAT)
- c. Health Check

4.3 The Self-Assessment tool has been developed and is currently being tested by Project Managers. The intention is to ensure all WMCA Projects complete a '1<sup>st</sup> line of defence' self-assessment in order to identify areas for improvement and subsequently drive improvements across all projects.

4.4 BCAT is designed to be used at Concept/Start-up and Development/Definition stages. It provides an assessment of the maturity of a project's Business Case and enables Programme Assurance to determine the level of maturity of an Investment Proposal against the expected level of maturity as defined by HM Treasury.

4.5 The diagram below illustrates the types of themes that the BCAT tool will enable on-going trend analysis and reporting for across Strategic, Outline and Full Business Cases.



4.6 The Health Check is used when a project is in its Delivery/Deployment and Closure/Handover stages. It provides an assessment of a project's performance against ten categories.

4.7 The table below illustrates the Health Check categories tested (which form the basis of criteria and lines of enquiry) that inform an overall RAG rating.

Example Project	Client & Scope	Risks & Opportunities	Planning & Scheduling	Organisation Capability & Culture	Supply Chain	Solution Chain	Finance	Social Responsibility & Sustainability	Performance	Governance	Baseline Project Current Score
1	43%	54%	67%	60%	77%	50%	60%	73%	63%	80%	63%
2	33%	58%	62%	58%	33%	72%	63%	90%	79%	61%	61%
3	50%	45%	37%	53%	62%	28%	53%	70%	53%	60%	51%
4	15%	50%	23%	33%	56%	29%	27%	20%	23%	28%	30%
5	37%	69%	40%	50%	87%	46%	57%	60%	48%	63%	56%
6	43%	54%	67%	60%	83%	50%	60%	93%	63%	80%	65%
7	59%	50%	58%	60%	67%	50%	55%	40%	58%	79%	58%
8	81%	86%	35%	63%	29%	63%	53%	100%	78%	78%	66%
9	33%	58%	70%	56%	33%	59%	57%	90%	79%	59%	59%

Category Average	44%	58%	51%	55%	59%	50%	54%	71%	60%	65%
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4.8 In addition to the overall maturity and performance rating available from each of the tools, recommendations are also identified to improve performance. These recommendations are fed into delivery structures and accountable/responsible project leads with the view that when acted upon, performance is improved.

4.9 Programme Assurance are in the process of developing mechanisms and processes for tracking and monitoring the completion of recommendations with respective Portfolios. Progress with recommendations will be reported to CMT in order to drive improvements in project performance.

4.10 There are several challenges associated with Programme Assurance activity and consistency in reporting that are important to note, as outlined below:

4.10.1 Use of the new toolkit has meant the Programme Assurance team are in a transitional phase. An implication of this transition is that prior information held on project performance is not directly translatable into new assurance reporting and cannot therefore be used reliably for the purpose of trend analysis.

4.10.2 Moving forward, use of the new toolkit will enable reliable trend analysis to be reported.

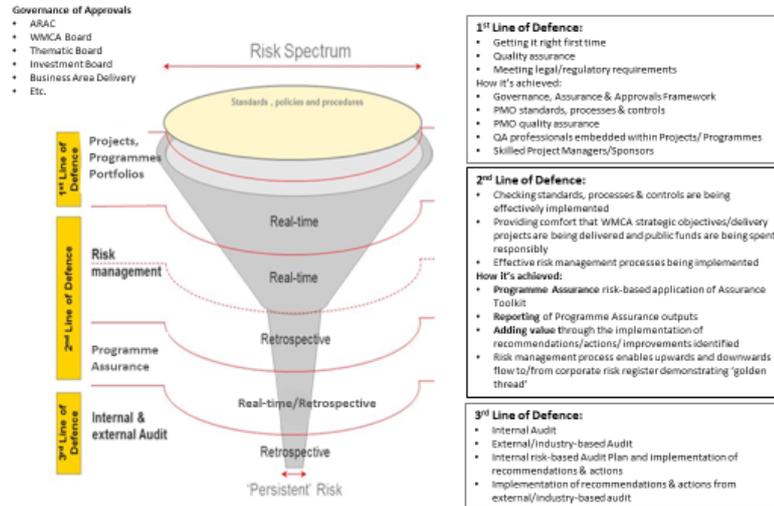
4.10.3 Programme Assurance assessments of performance do not take place at set intervals. At this time, activity is driven by specific stages of a project's lifecycle. As each project is unique in the way it moves through its lifecycle, the point at which assurance activity is undertaken is

variable. Ultimately this will impact on the availability of information for trend analysis of performance.

- 4.10.4 Programme Assurance are involved in the working group to implement the updated WMCA Governance and Approval process (inclusive of exception reporting and controls). The toolkit developed by Programme Assurance will be incorporated into the new process and enable effective performance reporting and trend analysis moving forward.
  - 4.10.5 Assessment of a project's performance is evidence driven; therefore, where evidence becomes, or is made available, this could positively or negatively impact on the overall assessment of performance. Ultimately, this could result in a moving (and not always linear) trend for performance.
  - 4.10.6 The Governance and Approval process piece of work that is progressing incorporates the need for minimum standards in the development and delivery of projects. It is anticipated that this will, to an extent, mitigate against movement of performance because the evidence and supporting information required to assess performance will be mandated by minimum standards. These minimum standards and processes will help to ensure core components for successful project delivery are embedded across all projects.
- 4.11 The Programme Assurance team are also developing a WMCA-wide Integrated Assurance and Approval Plan (IAAP). The IAAP is an industry standard promoted by the Major Projects Authority (formerly Infrastructure Projects Authority). While the IAAP is a work in progress, when fully implemented, it will provide WMCA with a strategic planning capability for assurance activity across a 3 lines of defence model.
- 4.12 The IAAP will enable WMCA to better understand and focus appropriate and proportionate assurance activity for projects and programmes in an integrated assurance environment. The diagram below illustrates the range of assurance activities across a 3 lines of defence model.

# WMCA and the 'Three Lines of Defence'

## Three Lines of Defence



## 5. Summary

- 5.1 The updated Programme Assurance toolkit will enable the WMCA to review the overall performance of projects and provide a mechanism to ensure recommendations are tracked and monitored in order to drive improvements. In addition, the toolkit will enable oversight and trend analysis across specific factors and themes.
- 5.2 This report recommends that Programme Assurance provide a quarterly update to ARAC, with the next update to be tabled in April 2020. This update will provide trend analysis in the factors used to assess performance from the BCAT and Health Check tools referenced earlier in this report, together with an update on progress in the implementation of the Self-Assessment Tool and IAAP.
- 5.3 The role and effectiveness of Programme Assurance will be solidified and enhanced through delivery of the Governance and Approval work that is being progressed.
- 5.1. Activity has commenced to check compliance of all Arm's Length Companies with the WMCA pre-agreed checklist. This work is on-going and this report seeks a deferral to April 20 when a summary of this activity is planned to be reported.

## 6. Financial Implications

N/A

- 7. Legal Implications**  
N/A
- 8. Equalities Implications**  
N/A
- 9. Inclusive Growth Implications**  
N/A
- 10. Geographical Area of Report's Implications**  
N/A
- 11. Other Implications**  
N/A
- 12. Schedule of Background Papers**  
None

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## Audit, Risk & Assurance Committee

<b>Date</b>	13 January 2020
<b>Report title</b>	Internal Audit Update
<b>Accountable Chief Executive</b>	Deborah Cadman, OBE Chief Executive Email: <a href="mailto:Deborah.Cadman@wmca.org.uk">Deborah.Cadman@wmca.org.uk</a> Tel: (0121) 214 7200
<b>Accountable Employee</b>	Tim Martin, Chief Audit Executive Email: <a href="mailto:Tim.Martin@wmca.org.uk">Tim.Martin@wmca.org.uk</a> Tel (0121) 214 7435
<b>Report has been considered by</b>	Strategic Leadership Team

**Recommendation(s) for action or decision:**

**Audit, Risk & Assurance Committee is recommended to:**

- (1) Note the contents of the latest Internal Audit Update Report.

This report is PUBLIC [NOT PROTECTIVELY MARKED]

## **1.0 Purpose**

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

## **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

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# 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

The following amendments have been made to the Internal Audit Plan 2019-2020:

### Accessible Transport Group (Ring and Ride) – additional review

As requested by ARAC, a review of the actions and decision making undertaken by the WMCA regarding Accessible Transport Group Ltd and Ring and Ride Ltd going into administration and taking account of the outcome of the External Audit review previously reported to ARAC, will be undertaken in February 2020 and reported to ARAC at its meeting in April 2020.

### Mayoral Election 2020 Preparedness – additional review

As requested by the Chair of ARAC, a review is planned of the WMCA's arrangements in preparation for the forthcoming Mayoral Election in 2020.

### Risk Management Scoring Methodology

A review of the risk management scoring methodology supporting the strategic risk register was included in the 2019-2020 Internal Audit Plan. As part of the draft 2020-2021 Internal Audit Plan, an audit of the WMCA's overall risk management arrangements has been proposed as a key corporate audit that contributes to assurance regarding the WMCA's governance, risk management and systems of internal control. Consequently, review of the scoring methodology will be covered within the proposed 2020-2021 audit.

## 3 Summary of progress – 2018-2019

The following internal audit review relating to 2018-2019 has been completed:

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
WMCA Governance Arrangements	High	-	-	6	6	6	Substantial – final report issued (Appendix 1)

## 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	
<b>2019-2020 Internal Audit Reviews already reported</b>							
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
Homelessness Taskforce	High	-	-	1	1	1	Substantial – final report issued
<b>2019-2020 Internal Audit Reviews completed in Quarter 3</b>							
Accounts Payable	High	-	1	-	1	1	Satisfactory
Accounts Receivable	High	-	-	2	2	2	Substantial
Payroll	High	-	-	-	-	-	Substantial
Budgetary Control	High	-	-	-	-	-	Substantial
General Ledger	High	-	-	-	-	-	Substantial
Treasury Management	High	-	-	1	1	1	Substantial
West Midlands Rail	High	-	5	-	5	TBC	Satisfactory - Draft issued

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Auditable area	AAN Rating	Quarter (month)	ARAC Meeting (indicative)
<b>2019-2020 Internal Audit Reviews in progress</b>			
Programme and Project Management Framework	High	Fieldwork commenced	April 2020
Single Commissioning Framework	High	Fieldwork commenced	April 2020
Construction Retraining Fund	Medium	Fieldwork complete, drafting report	April 2020

### *Summary of individual audits*

#### **Key Financial Systems Audits – Accounts Payable**

Our review sought assurance on the core controls in operation for the WMCA's Accounts Payable system. We found that the majority of core controls were operating effectively with no major issues identified. We made one amber rated recommendation regarding authorisation and processing of payment requests generated by service areas via CHAPS and cheque / BACS requisitions and the use of the sundry creditor facility for one-off or infrequently used suppliers. Finance have agreed actions that will address these issues immediately and in the short term as well as system changes to work flow such transactions through Business World and limit the use of the sundry creditor facility to exceptional instances.

#### *5 Forward plan for 2019-2020 scheduled audits*

Auditable area	AAN Rating	Quarter (month)	ARAC Meeting (indicative)
Local Industrial Strategy	High	January 2020	April 2020
West Midlands 5G Programme	High	January 2020	April 2020
Housing and Regeneration Programme and Project management arrangements	High	January 2020	April 2020

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Auditable area	AAN Rating	Quarter (month)	ARAC Meeting (indicative)
Adult Education Budget	High	January 2020	April 2020
Third Generation Tram Procurement Project	High	February 2020	April 2020
Accessible Travel Group (Ring and Ride) Ltd	High	February 2020	April 2020
Mayoral Election 2020 WMCA Arrangements	High	February 2020	April 2020
Commissioning and funding arrangements for externally led projects	High	March 2020	June 2020
Bid Management Framework	High	March 2020	June 2020
Third Generation Tram Procurement Project	High	March 2020	June 2020

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*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 have been completed:

Auditable area	Total Number of Original Recommendations			Implemented			Outstanding		
	Red	Amber	Green	Red	Amber	Green	Red	Amber	Green
National Fraud Initiative (2017-2018) – Appendix 2	-	2	4	-	1	3	-	1	1
Management of IR35 (2017-2018) - Appendix 3	-	4	3	-	2	2	-	2	1
Business Continuity (2018-2019)	-	-	3	-	-	1	-	-	2
Data Insight Service (2018-2019)	-	-	3	-	-	-	-	-	3

## **Birmingham Eastside Extension (BEE) Project Management Arrangements 2018-2019 – interim follow-up**

The outcome of an audit review of the project management arrangements for the Metro Birmingham Eastside Extension Project was reported in August 2019 and made six amber and three green rated recommendations with an overall assurance opinion of satisfactory. As requested by ARAC an interim desktop follow-up review has been undertaken in liaison with the TfWM Metro Team.

The TfWM Metro Team has stated that subsequent to the issue of the audit report a number of changes have taken place which have had a significant impact on the way the project is managed, as follows:

- Previously the Midland Metro Alliance (MMA) were involved in the delivery and management of the project. However, that involvement has been put on hold subject to obtaining approval of the Final Business Case. As a result, the project management has been undertaken by the TfWM Metro Team since September 2019, who are now managing a number of projects which are no longer being delivered by the MMA.
- The Final Business Case (with all associated documents having been updated accordingly) is now undergoing the full WMCA Investment Programme Assurance process with a view to presentation to WMCA Board in March 2020.

Project level governance arrangements have been revised for all Metro projects following a reorganisation of the TfWM Metro Team, which included the appointment of WMCA Project Sponsors for all projects.

TfWM have also advised that the current status of the Internal Audit recommendations is as follows and that it is expected embedment of revised arrangements would be achieved by 31 March 2020:

- Project appraisal and assurance arrangements (action 2.1) – A separate Metro Delivery Manual has been produced to cover all Metro projects, whether they be delivered by the MMA or by others.
- Treatment of events and changes (action 2.2 and 2.9) – The TfWM Metro Team now maintain their own change register for the BEE project which correctly reflects changes to the overall project.
- Project management documentation and processes (action 2.3 and 2.9) – Project documentation has been updated as part of the Final Business Case submission into the WMCA Investment Programme Assurance process.
- Owner / client-side project and performance management arrangements (action 2.4) – Project Sponsors are now in place for all projects to lead on delivery and management.
- Project Boards and Governance Objectives (action 2.5 and 2.7) – Project Boards are now in place for all projects, with escalation to the Metro Programme Board. The Project Boards are led by the Project Sponsors and the Metro Programme Board has a revised Terms of Reference.

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- Benefits realisation and management (action 2.6) – Related documentation has been updated for the Final Business Case and is under review by the WMCA Technical Assurance Panel as part of the WMCA Investment Programme Assurance process.
- Monitoring and Evaluation Plan (action 2.8) – A revised Monitoring and Evaluation Plan has been submitted with the Final Business Case as above.

Internal Audit will undertake a full follow-up review in due course in 2020-2021 to confirm implementation of the recommendations made in the audit report.

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		
<b>2018-2019 Internal Audit Reviews</b>							
Asset Management Arrangements (2018-2019)	Satisfactory	-	1	2	3	Quarter 4 – February 2020	April 2020
Governance Arrangements - Midland Metro Limited	Satisfactory	-	2	-	2	Quarter 1 2020–2021	June 2020
Budget Management Roles and Responsibilities	Substantial	-	-	3	3	Quarter 1 2020–2021	June 2020
Performance Management and Business Planning arrangements (Devolution Deal including Financial Assumptions)	Satisfactory	-	2	-	2	Quarter 2 2020-2021	September 2020
Birmingham Eastside Extension Project Management	Satisfactory	-	6	3	9	Quarter 2 2020-2021	September 2020
Workforce Planning Arrangements 2018 – 2019	Satisfactory	-	1	-	1	Quarter 2 2020-2021	September 2020



# **West Midlands Combined Authority**

**Final Internal Audit Report  
WMCA Governance Arrangements 2018 - 2019  
20 December 2019**

# 1. Executive Summary

## Introduction

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.

The West Midlands Combined Authority (WMCA) was established in 2016 by the seven metropolitan councils in the region (Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton). Beyond those seven constituent member authorities the WMCA has a wider membership of non-constituent local authorities and three Local Enterprise Partnerships and works with a range of other stakeholders and partners.

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. This report presents the findings of our high-level audit review of current governance arrangements against the core principles stated in the CIFPA / SOLACE "Delivering Good Governance in Local Government (2016)" Framework.

## Scope and objectives of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following objectives, and the potential risks to the achievement of those objectives:

- To seek assurance that effective governance arrangements have been established for the WMCA in accordance with the Orders and reflect the best practice public sector good governance framework.

Scope	Potential risks
<p>The scope included a high-level review of the governance arrangements in operation for the WMCA.</p> <p>As part of the above, reference was made to the systems, processes and documents established to support best practice governance as well as compliance as applicable:</p> <ul style="list-style-type: none"><li>• The West Midlands Combined Authority Orders relating to the WMCA Board, Overview and Scrutiny Committee and the</li></ul>	<ul style="list-style-type: none"><li>• Governance arrangements may not effectively support or ensure the intended outcomes for stakeholders are achieved whilst acting in the public interest.</li><li>• Without clearly defined and effective systems, processes and documents it may be difficult to demonstrate the WMCA's commitment to the principles of good governance.</li></ul>

Audit, Risk and Assurance Committee (including Standards).

- The overarching principles of the Delivering Good Governance in Local Government Framework (2016) for achieving intended outcomes whilst acting in the public interest always.

Key roles and responsibilities supporting core governance arrangements were also be reviewed.

- Compliance with Orders and Good Practice Framework requirements may not be clearly reflected within governance arrangements.

### Limitations to the scope of our audit

The review was limited to the above scope and focused on Principles A and B of the CIPFA / SOLACE “Delivering Good Governance in Local Government (2016)” Framework. It was confirmed with the Centre for Public Scrutiny that benchmarking of governance arrangements within Combined Authority had not been undertaken to date. Whilst a sample of Codes of Corporate Governance were sought for other Combined Authorities these clearly reflected and followed the format within the Framework. The Framework states that a “one-size-fits-all approach to governance” is inappropriate, and that “not all parts of the Framework will be directly applicable to all types and size of such structures, and it is therefore up to different authorities and associated organisations to put the Framework into practice in a way that reflects their structures and is proportionate to their size”. The review therefore focused on the current systems, processes and policy within the WMCA and how these compare to the examples of best practice evidence suggested by the Framework for Principles A and B.

## 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”.

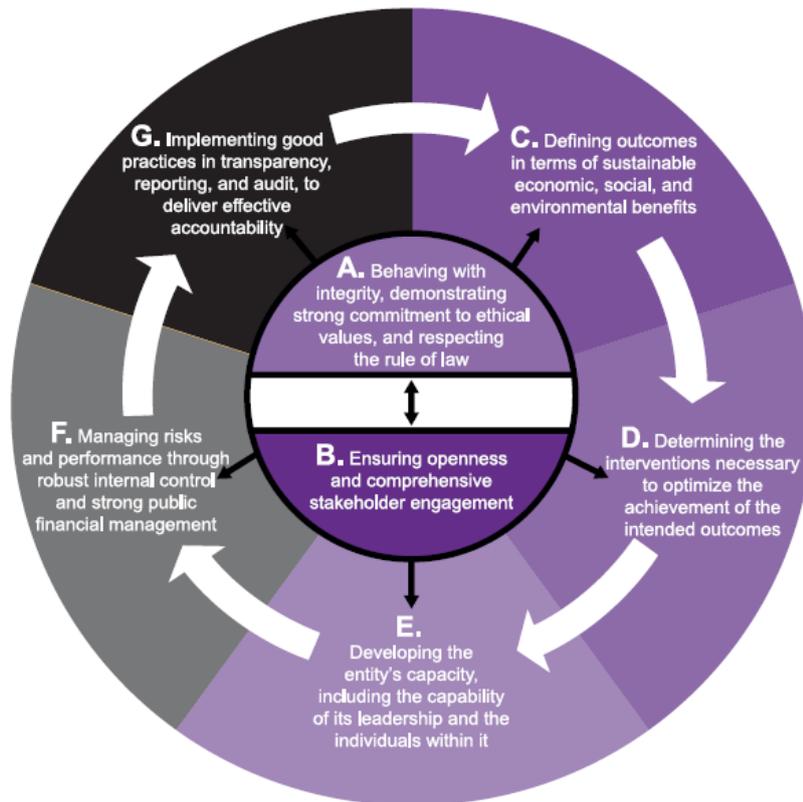
The main underpinning principle of the Framework is stated as continuing “to be that local government is developing and shaping its own approach to governance, taking account of the

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”.

## 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”.

## Overall conclusion

Taking account of the issues identified in this report, in our opinion the controls operating within the system, provide **substantial assurance** as part of the process to mitigate risks to an acceptable level.

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.

## Key issues identified

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 suggested sources of evidence stated in the Framework, we found several examples and evidence of good governance as detailed in section two of this report.

We recognise that the Constitution is currently under review and therefore some of the items of evidence may be subject to change. However, based on testing of meeting records for the WMCA, ARAC and OSC and high-level review of supporting processes and systems, governance arrangements were clearly and suitably in operation.

We have raised six issues classified as **green** which are detailed in section three of this report to further enhance and support the existing governance arrangements. A copy of this report will be presented to the Audit, Risk and Assurance Committee.

## Acknowledgement

Several employees gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned.

# 1. Examples of good practice

Principles of good governance: A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law	
Sub-principles and behaviours and actions that demonstrate good governance in practice	Examples of systems, processes, documentation and other evidence demonstrating compliance
<p><b>Behaving with integrity</b></p> <ul style="list-style-type: none"> <li>Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation.</li> <li>Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles).</li> <li>Leading by example and using the above standard operating principles or values as a framework for decision making and other actions.</li> <li>Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed</li> </ul>	<p><b>Codes of Conduct</b></p> <ul style="list-style-type: none"> <li>Codes of Conduct for officers, the Elected Mayor and Members were included within the WMCA's Constitution and stipulated the standards of behaviour (based on the Seven Principles of Public Life) that are expected when carrying out their duties, the requirement to make declarations of gifts and hospitality, and make declarations of interests including Disclosable Pecuniary Interests.</li> <li>The WMCA Travel and Subsistence Policy outlines the requirement for and reporting mechanism regarding declarations of gifts and hospitality offered to officers.</li> <li>A Conflicts of Interest Policy for Non-Elected Participants (including Co-Opted Members) in WMCA governance which covers standards of conduct expected (based on the Seven Principles of Public Life) and requirement for the registration and declaration of interests was approved by the ARAC in November 2018.</li> <li>Compliance by officers, the Elected Mayor, Members and Co-opted Members with internal policies, procedure rules and statutory provisions was clearly referenced within the WMCA Constitution.</li> </ul> <p><b>Individual sign off</b></p> <ul style="list-style-type: none"> <li>Individual sign off regarding compliance with the Code of Conduct was in place for the Elected Mayor with reliance placed on Constituent Local Authority Members undertaking individual sign off at their respective Local Authorities.</li> </ul> <p><b>Standing Orders and Statutory Provisions</b></p>

**Principles of good governance: A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

**Sub-principles and behaviours and actions that demonstrate good governance in practice**

**Examples of systems, processes, documentation and other evidence demonstrating compliance**

on a regular basis to ensure that they are operating effectively.

**Demonstrating strong commitment to ethical values**

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Seeking to establish, monitor and maintain the organisation's ethical standards and performance.

Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation.

- Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values.
- Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with ethical standards expected by the organisation.

- The Authority's Standing orders are stipulated in the Constitution and consist of the Procedure Standing Orders, Codes of Conduct, the Contractual Standing Orders, the Financial Regulations of the Authority as well as protocols, rules, policies and governance arrangements as adopted by the Authority. These demonstrate and communicate the expected standards and provide a framework of rules and principles within which to operate.
- The Standing Orders also require the Mayor, Members and Officers to act in accordance with the above, as well as compliance with appropriate legislation, conditions of service, standards of appropriate professional bodies, and any other standards, guidelines or instructions which are relevant to the particular service or activity.
- The Protocol for the Monitoring Officer clearly states within statutory responsibilities safeguarding so far as is possible the Mayor, Members and Officers whilst acting in their official capacities from legal difficulties and / or criminal sanctions, as well as observance of the Codes of Conduct. Responsibilities also include ensuring the other statutory officers are kept up to date with relevant information regarding legal, ethical standards, probity, propriety, procedural or other constitutional issues that are likely to arise.
- The Finance Director as Responsible Finance Officer certified the WMCA State of Accounts 2018-2019 as a true and fair view of the financial position of the Authority at the reporting date as part of their responsibility to ensure the proper administration of the WMCA's financial affairs.
- Board and Committee report templates suitably facilitated recording of legal advice provided by officers within the Legal Implications section of a report. The online Employee Induction facility covering governance included reference to the requirement for all reports to be presented to Legal Services for advice and review prior to submission to the relevant

**Principles of good governance: A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

**Sub-principles and behaviours and actions that demonstrate good governance in practice**

**Examples of systems, processes, documentation and other evidence demonstrating compliance**

**Respecting the rule of law**

- Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations.
- Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements.
- Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders.
- Dealing with breaches of legal and regulatory provisions effectively.
- Ensuring corruption and misuse of power are dealt with effectively.

Board / Committee. Testing for the period January 2019 to June 2019 of meeting records for the WMCA Board, ARAC and OSC found that standard templates had been used for the reports presented.

**Standards of behaviour and ethical values**

- The WMCA’s commitment to behaviours, values, conduct and high standards was clearly referenced throughout the Constitution and WMCA external website.
- The Scheme of Delegation and Protocol for the Monitoring Officer within the WMCA Constitution include the responsibility for the Monitoring Officer to contribute to the promotion and maintenance of high standards of conduct through delegation to the Monitoring Officer several powers to deal with matters of conduct and ethical standards in accordance with the requirements of the Localism Act 2011. This includes acting as the Authority Proper Officer to receive complaints regarding failure to comply with the Authority’s Code of Conduct for the Mayor / Members.
- Induction for new Members had been undertaken in 2019-2020 by the Head of Governance as Monitoring Officer supported by Governance Services. Development of a training programme was also being undertaken to identify and meet the individual training requirements of Members including financial training and one to one sessions with Directors.
- Induction for officers on standards of behaviour expected included reference to compliance with the decision-making processes within the Constitution.
- The Whistleblowing Policy within the Constitution refers to its aim to cover major concerns that fall outside the scope of other procedures which includes possible fraud and corruption and other unethical conduct.

**Principles of good governance: A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

**Sub-principles and behaviours and actions that demonstrate good governance in practice**

**Examples of systems, processes, documentation and other evidence demonstrating compliance**

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- Ethical performance measures operated by the WMCA included staff surveys, service reviews (i.e. Constitution Review, Governance Review, Corporate Services Review as well as reviews undertaken by OSC), employee exit interviews, performance appraisals, whistleblowing arrangements and the complaints process. WMCA Senior Leadership Team self-assessments were understood to be planned as part of a development programme currently being undertaken.
- Template documentation used for procurement exercises referred to the standards of behaviour expected and the requirement for participants (and subsequently appointed contractors / suppliers) to comply with the WMCA's Whistleblowing Policy. Access to the WMCA Whistleblowing Policy was suitably facilitated.

**Communication of shared values and expected behaviours**

- The WMCA external and internal website clearly communicated the WMCA's shared vision, values and expected behaviours to Members, officers and other stakeholders including the community and partners.
- A new Management of Employee Performance Policy was approved in June 2019 to support the existing Performance Development Plan process, requiring appraisals to focus on expected behaviours and values.

**Decision making practices**

- Decision making practices were clearly set out in the Constitution (standing orders, Scheme of Delegation and Codes of Conduct) stipulating how decisions should be made and by whom, as well as the standards and values expected of those making such

**Principles of good governance: A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

**Sub-principles and behaviours and actions that demonstrate good governance in practice**

**Examples of systems, processes, documentation and other evidence demonstrating compliance**

decisions to ensure the Authority operates lawfully, efficiently, effectively, and is both transparent and accountable.

- The Constitution states the principles that all decisions of the Authority should be made in accordance with as:
  - Proportionality
  - Due consultation including taking professional advice
  - Respect for human rights
  - Presumption in favour of openness and complete transparency
  - Clarity of aims and desired outcomes
  - Due consideration to be given to alternative options to guard against any form of predetermination in any decision-making process
  - The public sector equality duty.
- An Overview and Scrutiny Committee (OSC) had been established in accordance with the Orders with powers to review or scrutinise decisions made. A Call-in Procedure had been suitably established. An example of OSC exercising the Call-in Procedure was evident within the minutes of the 20 November 2018 meeting regarding the WMCA's Town Centre Programme. Minutes and meeting records also evidenced the Monitoring Officer's reiteration of the provisions within the Constitution relating to Call-in, the Committee's reasons for Call-in and the relevant officer's report covering the matter in question.
- A Scrutiny Officer as a Statutory Officer of the WMCA had been suitably appointed with responsibility for promoting the role of overview and scrutiny, providing support to the OSC, and providing advice to officers and members about OSC.
- The Constitution Scheme of Delegation to Chief Officers and Schedule of Proper Officers suitably included reference to the delegated functions and decision-making powers

**Principles of good governance: A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

**Sub-principles and behaviours and actions that demonstrate good governance in practice**

**Examples of systems, processes, documentation and other evidence demonstrating compliance**

exercisable by specific Officers of the Authority, stipulating that any decisions or actions taken, must be recorded and published in accordance with the Constitution, the Authorities Standing Orders and Financial Regulations.

- The Constitution includes a Protocol for Mayor, Member and Officer Relations to ensure that the Mayor and Members receive objective and impartial advice and that Officers are protected against accusations of bias including any suggestion of undue influence from Members, and reflect principles underlying the respective codes of conduct which apply to Members and Officers, and enhance and maintain the integrity (both real and perceived) of local government and to ensure very high standards of personal conduct.
- The Monitoring Officer as a statutory appointment under section 5 of the Local Government and Housing Act 1989 has delegated powers to undertake various functions regarding any decision, proposal or omission to ensure where this has or is likely to give rise to unlawfulness or maladministration, this will be investigated and reported.
- Testing of meeting records and the Committee section of the WMCA external website relating to the WMCA Board, OSC and the Audit, Risk and Assurance Committee (ARAC) for the period January 2019 to June 2019 identified that decisions were suitably recorded and published within meeting records, the Decisions Folder of the Committee Section on the WMCA website and decision sheets. Where meetings were inquorate, minutes recorded referral to a higher Committee / Board. Minutes also indicated that the Monitoring Officer was in attendance.

**Declarations of interests**

- The WMCA Constitution and Codes of Conduct for the Mayor, Members, Co-Opted Members and officers made clear reference to a requirement to declare interests.

**Principles of good governance: A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

**Sub-principles and behaviours and actions that demonstrate good governance in practice**

**Examples of systems, processes, documentation and other evidence demonstrating compliance**

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- Minutes and agendas of WMCA Board, OSC and ARAC meetings demonstrated and recorded that declarations of interests as well as gifts and hospitality were sought as a standing item within the Public Business section of agendas. Testing of meeting records and the WMCA website confirmed this for the period January 2019 to June 2019.
- As the only directly Elected Member of the WMCA, the Mayor had suitably completed and certified a Register of Interests form, the signed copy being held by Governance Services. An unsigned copy was accessible via the WMCA with guidance as to where the signed copy could be viewed.
- The WMCA Staff Recruitment process included the requirement for new starters to make written declarations of interest at the start of their employment. Subsequent declarations are expected to be made by officers either as part of a procurement exercise and / or directly to the Monitoring Officer.
- WMCA Finance each financial year seek certified disclosures by Directors of any material transactions with related parties so that this can be reflected in the WMCA's Statement of Accounts as per the Internal Financial Reporting Standards. Examples of certified disclosure forms completed by WMCA Directors for 2018-2019 were evident.

**Conduct at meetings**

- The Constitution clearly outlines the rules as well as guidelines for conduct at meetings regarding which meetings should be held, the function of each meeting, its membership and quorum, how such meetings should be conducted and how attendees should conduct themselves. Attendance by the Monitoring Officer and Governance Services helps ensure meetings are conducted in accordance with the Constitution. Testing of minutes for WMCA Board, OSC and ARAC meetings between January 2019 and June 2019 indicated that the

**Principles of good governance: A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

**Sub-principles and behaviours and actions that demonstrate good governance in practice**

**Examples of systems, processes, documentation and other evidence demonstrating compliance**

Monitoring Officer was in attendance. Testing also confirmed the appropriate application of the required quorums.

**Committee support**

- Governance services provide suitable committee support, guidance and advice to the WMCA Board, ARAC and OSC as well as other supporting committees of the WMCA.

**Developing and maintaining an effective standards committee**

- The Constitution stipulates that the ARAC undertakes the role of the Standards Committee and states within the standing orders that the ARAC has the responsibility to promote and maintain high standards of conduct and ethical governance by the Mayor, Members and co-opted Members of the Authority. Also, to undertake investigation and review of Monitoring Officer decisions in matters relating to a failure to comply with the Code of Conduct. The outcome of a recent Code of Conduct self-referral case was suitably published on the WMCA's external website.

**Anti-fraud and corruption policy**

- An Anti-Fraud and Corruption Policy was contained within the Constitution accessible via the WMCA external website and referred to the expectation to meet the highest standards of probity and accountability. The Policy was also available to officers as part of the induction process and within the internal Policy and Procedure depository.

**Register of gifts and hospitality**

- Declaration and recording of instances regarding gifts and hospitality was suitably facilitated within meeting agendas and minutes of meetings for the WMCA Board, OSC and ARAC as published on the WMCA's external website.

**Principles of good governance: A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

**Sub-principles and behaviours and actions that demonstrate good governance in practice**

**Examples of systems, processes, documentation and other evidence demonstrating compliance**

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- A suitable mechanism for making declarations regarding gifts and hospitality had been established for officers, automatically referring each submission to the Head of Governance (Monitoring Officer) for review and approval or non-approval as well as provision of guidance where required.

**Whistleblowing policies**

- A Whistleblowing Policy had been established within the Constitution and clearly reflected protecting individuals raising concerns. The Constitution clearly stipulates in the Scheme of Delegation and Protocol for the Monitoring Officer, the delegation of this duty to the Monitoring Officer to maintain and make the Policy available.
- The Policy stated that it applies to the Mayor, all Members and Officers of the Authority and its committees and contractors working for the Authority, as well as suppliers to the Authority.
- The Policy had been made openly accessible to all via WMCA's external website. The Policy was also available to officers as part of the induction process and within the internal Policy and Procedure depository. Reference was made within procurement documentation regarding compliance by potential contractors / suppliers.
- A mechanism had been established to facilitate submission of whistleblowing reports both externally and internally protecting the individual by allowing anonymous submission.

**Complaints policy**

- The WMCA external website suitably included public access to a Complaints Policy and Procedure which included guidance and timescales for making complaints.

<b>Principles of good governance: A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</b>	
<b>Sub-principles and behaviours and actions that demonstrate good governance in practice</b>	<b>Examples of systems, processes, documentation and other evidence demonstrating compliance</b>
	<ul style="list-style-type: none"> <li>Reference was also included to the process to be applied to complaints regarding the Code of Conduct and associated referral to the Monitoring Officer in accordance with the delegation to the Monitoring Officer of powers to deal with matters of conduct and ethical standards per the Constitution.</li> </ul>

<b>Principles of good governance: B - Ensuring openness and comprehensive stakeholder engagement</b>	
<b>Sub-principles and behaviours and actions that demonstrate good governance in practice</b>	<b>Examples of systems, processes, documentation and other evidence demonstrating compliance</b>
<b>Openness</b> <ul style="list-style-type: none"> <li>Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness.</li> <li>Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided.</li> <li>Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations</li> </ul>	<b>Annual report</b> <ul style="list-style-type: none"> <li>The WMCA Annual Plan 2019-2020 clearly sets out the WMCA's priorities, vision and strategic context to provide clarity and focus for partners and shareholders, ensure operational alignment within the organisation and enable the WMCA to articulate what is being delivered and have oversight and review of progress against priorities. The Plan was suitably published on the WMCA website, accessible to the organisation, partners, shareholders and wider community. In addition, the year-end review of the 2018-2019 Annual Plan and the mid-year review of the 2019-2020 Annual Plan were also published.</li> <li>The State of the Region report commissioned by the WMCA provided an annual review of economic performance across the West Midlands to which the WMCA contributes, detailing key trends and indicators and areas for focusing improvement against the five major outcomes (Economic Growth, Business Competitiveness and Productivity, Skills, People and Place) aligning to the WMCA Strategic Economic Plan and West Midlands Local Industrial Strategy.</li> </ul>

## Principles of good governance: B - Ensuring openness and comprehensive stakeholder engagement

### Sub-principles and behaviours and actions that demonstrate good governance in practice

used. In due course, ensuring that the impact and consequences of those decisions are clear.

- Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action.

#### Engaging comprehensively with institutional stakeholders

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Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably

- Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively
- Ensuring that partnerships are based on:
  - trust
  - a shared commitment to change
  - a culture that promotes and accepts challenge among partners

and that the added value of partnership working is explicit.

### Examples of systems, processes, documentation and other evidence demonstrating compliance

- The WMCA Annual Accounts 2018-2019 provide a view of the WMCA's financial performance and effectiveness regarding use of public resources and key activities in the achievement of the WMCA strategic objectives and key deliverables.

- Publication of spend per month was undertaken and made accessible via the WMCA external website within the Financial Disclosures section.

#### Freedom of Information Act publication scheme

- A Freedom of Information Act publication scheme and facility to request information was made accessible via the WMCA external website.

#### Authority's goals and values

- The WMCA external and internal website clearly communicated the WMCA's shared vision, values and expected behaviours to Members, staff, the community and partners. The strategies, policy and procedure that reflect the WMCA strategic objectives, vision and values were accessible via the WMCA website.

#### Record of decision making and supporting materials

- Records of decision making and supporting materials were maintained within the Documents and Committee sections of the WMCA website for the WMCA Board, ARAC and OSC as well as other supporting committees and boards.

#### Decision making protocols

- As stated above, decision making protocols and operating procedures as well as the Scheme of Delegation were suitably established, documented and communicated via the Constitution, accessible via the WMCA website.

## Principles of good governance: B - Ensuring openness and comprehensive stakeholder engagement

### Sub-principles and behaviours and actions that demonstrate good governance in practice

### Examples of systems, processes, documentation and other evidence demonstrating compliance

#### Engaging with individual citizens and service users effectively

- Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes.
- Ensuring that communication methods are effective, and that members and officers are clear about their roles with regard to community engagement.
- Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs.
- Implementing effective feedback mechanisms in order to demonstrate how views have been taken into account.
- Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity.

#### Report pro-forma and record of professional advice in reaching decisions

- A suitable report template was utilised for presentation of reports to the WMCA Board, ARAC and OSC which included details regarding responsible Members and Officers, recommendations, decisions and discussions that constituted a record of professional advice provided to support decision making. Testing of minutes and reports presented to the meetings of the WMCA Board, ARAC and OSC during the period January 2019 to June 2019 supported this.

#### Calendar of dates for submitting, publishing and distributing timely reports

- A suitable Forward Plan was published for the WMCA Board. Forward Plans were contained within the meeting records for ARAC and OSC, clearly communicating a calendar of dates for submitting, publishing and distributing timely reports.
- Governance Services provide support to the WMCA Board, ARAC and OSC and liaise with key officers to ensure the submission, publishing and distributing timely reports in line with meeting schedules and forward plans.

#### Consultation

- Public consultations by the WMCA and largely by Transport for West Midlands were understood to be undertaken as required, making reference to relevant statutory requirements, external specialist support or the Gunning Principles as applicable to ensure meet the required standard, with outcomes of public consultation presented within reports to the WMCA Board.

#### Communication strategy

- A WMCA Communication Strategy was currently being developed for approval by Senior Leadership Team.

**Principles of good governance: B - Ensuring openness and comprehensive stakeholder engagement**

**Sub-principles and behaviours and actions that demonstrate good governance in practice**

- Taking account of the impact of decisions on future generations of tax payers and service users.

**Examples of systems, processes, documentation and other evidence demonstrating compliance**

- Several Directorate level communication plans were in place following a standard format, detailing communication objectives, audience, strategy, implementation arrangements and evaluation procedures.

**Partnership framework and protocols**

- References to partnership working across the organisation and with stakeholders were evident within various governance documentation i.e. the WMCA Annual Plan, Local Industrial Strategy and the WMCA Strategic Economic Plan.

## 2. Issues arising

Priority rating for issues identified:

### Red

Action is imperative to ensure that the objectives for the area under review are met

### Amber

Action is required to avoid exposure to significant risks in achieving objectives

### Green

Action is advised to enhance risk control or operational efficiency

Action is advised to enhance risk control or operational efficiency

**Green**

No	Issue arising	Recommendation	Agreed action including responsibility and target date
2.1 Page 45	<p><b>Local Code of Governance</b> The Framework states that to achieve good governance, each authority should develop a local code of governance setting out how it applies the principles (core and sub) to demonstrate compliance within its governance structures.</p> <p>As detailed in section two of this report, there are clear examples of evidence, processes and systems that ensure the WMCA is able to demonstrate compliance with the governance principles within the Framework.</p> <p>However, these could be more explicitly and collectively communicated in the form of a local code of governance. This would also help facilitate easier review and monitoring, inform the Annual Governance Statement</p>	<p>In accordance with the Framework, the WMCA should develop and maintain a local code of governance demonstrating compliance with the core and sub-principles set out in the Framework.</p> <p>This should include arrangements for ensuring ongoing effectiveness and reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.</p> <p>As advised by the CIPFA Audit Committee Practical Guidance (2018) the WMCA's audit committee should be consulted during the development of the local code of governance.</p>	<p>This recommendation is accepted. A Local Code of Governance will be developed and adopted as part of any changes needed to the Constitution.</p> <p><b>Responsible officer:</b> Tim Martin - Head of Governance</p> <p><b>Target date:</b> 31 March 2020</p>

No	Issue arising	Recommendation	Agreed action including responsibility and target date
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 46</p>	<p>regarding review of governance arrangements and demonstrate compliance with CIPFA Audit Committee Practical Guidance regarding an audit committee's core functions regarding governance and review of the local code of governance.</p> <p>As the WMCA was in the process of reviewing its governance arrangements at the time of review, this would also be an opportune time to develop a local code of governance.</p> <p><b>Implication:</b>                      Demonstration of compliance with Good Governance principles, facilitating review as part of the Annual Governance Statement and demonstration of the audit committee undertaking its functions relating to corporate governance may be more difficult to achieve in the absence of a local code of governance.</p>	<p>Subsequently, annual review of a local code of governance and any changes to the arrangements in the year should be undertaken by the WMCA's audit committee as advised within the CIPFA Audit Committee Practical Guidance (2018). The audit committee terms of reference should be revised to include this core function.</p> <p>Review of the local code of governance should be utilised to inform the Annual Governance Statement.</p> <p>Once developed the local code of governance should be published on the WMCA website to ensure accessible to all stakeholders and partners.</p>	

No	Issue arising	Recommendation	Agreed action including responsibility and target date
2.2	<p><b>Audit Committee Annual Report</b>                      The CIPFA Audit Committee Practical Guidance 2018 states that an audit committee should at least annually report on an assessment of their performance demonstrating how the committee has discharged its responsibilities. Currently, ARAC do not prepare an annual report.</p> <p>As an audit committee is seen as a “key component of an authority’s governance framework through provision of independent and high-level resource to support good governance” as stated in CIPFA Guidance, production of an annual report may further help demonstrate the arrangements in place for reviewing and monitoring governance as well as reflecting the role undertaken by the audit committee.</p> <p><b>Implication:</b>                      Adherence to CIPFA best practice guidance and the exercising of a key responsibility for promoting good governance may be difficult to demonstrate.</p>	<p>The WMCA’s audit committee should be supported in undertaking an annual assessment of their performance demonstrating how the committee has discharged its responsibilities. The outcome of the review should be presented in an annual report and made publicly available and accessible to all stakeholders and partners.</p>	<p>This recommendation is agreed.</p> <p><b>Responsible officer:</b> Dan Essex, Governance Services Manager with support from Peter Farrow, Head of Audit (Shared).</p> <p><b>Target date:</b> 30 June 2020 (to include report on activity in municipal year 2019-2020)</p>

No	Issue arising	Recommendation	Agreed action including responsibility and target date
2.3	<p><b>Self-assessment and assurance statements</b>                      CIPFA guidance advocates development and completion of assurance statements based on self-assessment for key officers within an authority. WMCA Senior Leadership Team self-assessments were understood to be planned as part of a development programme currently being undertaken. Such statements could also then inform reviews of governance arrangements as part of the preparation of the Annual Governance Statement.</p> <p>The Framework also cites demonstration of compliance with CIPFA’s Statement on the Role of the Chief Financial Officer in Local Governance (2015) as a key example of evidence to support Principle A: Respecting the rule of law. A self-assessment undertaken by the Chief Financial Officer may further enhance demonstration of governance review as well as evidencing best practice per the CIPFA Statement on the Role of the Chief Finance Officer.</p> <p>However, it should be noted that we found confirmation of compliance with the</p>	<p>In support of governance review and monitoring arrangements, Directors should be requested to complete and certify suitable annual controls assurance statements to help inform the Annual Governance Statement review process.</p> <p>Annual controls assurance statements should include coverage of key areas of internal control that ensure:</p> <ul style="list-style-type: none"> <li>• business is conducted in accordance with the laws, regulations, internal policies and proper standards;</li> <li>• significant risks are appropriately managed;</li> <li>• assets are safeguarded from inappropriate use or from loss and fraud;</li> <li>• public money is safeguarded and properly accounted for, and used economically, efficiently and effectively;</li> <li>• human, financial, environmental and other resources are managed efficiently and effectively;</li> <li>• records and processes are properly maintained;</li> <li>• effective arrangements are in place for timely, relevant and reliable internal and external reporting;</li> </ul>	<p>Recommendation accepted in principle. Review will be undertaken in liaison with Corporate Assurance regarding potential incorporation within existing assurance activity.</p> <p><b>Responsible officer:</b> Tim Martin, Head of Governance in liaison with Corporate Assurance</p> <p><b>Target date:</b> 31 March 2020</p>

No	Issue arising	Recommendation	Agreed action including responsibility and target date
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 49</p>	<p>Responsible Finance Officer role within the audited Statement of Accounts 2018-2019 through the WMCA Finance Director's certification and declaration.</p> <p><b>Implication:</b>                      Governance reviews may not be able to utilise assurance provided through self-assessment and declaration by key officers.</p>	<ul style="list-style-type: none"> <li>the WMCA's values and ethical standards are met.</li> </ul> <p>As further demonstration of compliance with the role and responsibilities of the Chief Finance Officer as well as good governance, the responsible officer should undertake an annual self-assessment which could be based on the framework within the CIPFA Statement on the Role of the Chief Finance Officer. This should then be used to inform the Annual Governance Statement.</p>	
	<p>2.4</p>	<p><b>Governance administration</b>                      Review of governance administration and records maintained identified the following:</p> <ul style="list-style-type: none"> <li>Statutory officer attendance at meetings of the WMCA Board, ARAC and OSC required explicit evidencing to help demonstrate governance controls in operation through their attendance.</li> <li>A register of interests for Co-Opted Members was yet to be established in support of the existing policy.</li> <li>Utilisation of website folders required review to ensure consistently and</li> </ul>	<p>Action should be taken to address the issues identified relating to:</p> <ul style="list-style-type: none"> <li>Statutory officer meeting attendance.</li> <li>Co-Opted Members (including Independent Members) register of interests.</li> <li>Utilisation of website folders for publishing decisions and declarations.</li> <li>Stating required membership within meeting quorums.</li> <li>Schedule for annual policy review.</li> </ul>

No	Issue arising	Recommendation	Agreed action including responsibility and target date
Page 50	<p>appropriately maintained relating to decisions and declarations to avoid confusion.</p> <ul style="list-style-type: none"> <li>• Quorums per meeting agendas required amendment to include type of membership alongside the stated number of members required, to be consistent with the Constitution. However, testing found meetings in the period January 2019 to June 2019 were quorate or inquorate as stated in minutes as per the Constitution stipulated quorum.</li> <li>• Several policies required review on an annual basis, noting that the Constitution was in the process of being reviewed.</li> </ul> <p><b>Implication:</b>            Minor administrative issues may lead to unnecessary confusion for stakeholders when utilising the WMCA's website.</p>		

No	Issue arising	Recommendation	Agreed action including responsibility and target date
2.5	<p><b>Induction and training</b>                      We noted that although the Employee Induction materials included a governance section, this was not specifically included for other stakeholders such as external contractors who are required to undertake online induction.</p> <p>However, a number of policies and sections of the Constitution state that the specified requirements apply to any persons, companies or organisations in relation to their dealings with the Combined Authority including partnership arrangements and developments involving ‘arm’s length’ companies or organisations, contractors, consultants, suppliers and claimants.</p> <p>In addition, the governance section for Employees although referred to decision making as defined in the Constitution, greater reference to compliance with the Code of Conduct was required.</p> <p>We further noted that the Constitution stated that the Monitoring Officer is responsible for preparing a training programme for Members on ethical standards and Code of</p>	<p>A review of the induction materials should be undertaken to ensure that appropriate reference is clearly included regarding compliance with the Constitution, associated policies and specifically the Code of Conduct, standards of behaviour and values expected as relevant to each category of stakeholder as defined within the Induction section (i.e. employees, agency, external contractors etc).</p> <p>Action should be taken to identify and provide readily available access to all relevant policies that non-employee stakeholders are required to comply with when undertaking business for or working in partnership with the WMCA and its related organisations. Member training should be further enhanced with more explicit reference to the Code of Conduct, and ethical standards and values expected by the WMCA. This should be reflected within a training programme for Members on ethical standards and Code of Conduct issues as per the Constitution.</p>	<p>This recommendation is accepted. This will require some input and resources from the Human Resources and Organisational Development Team.</p> <p><b>Responsible officer:</b> Elizabeth Tomlinson, Legal Services Manager in liaison with Human Resources and Organisational Development</p> <p><b>Target date:</b> 31 March 2020</p>

No	Issue arising	Recommendation	Agreed action including responsibility and target date
Page 59 24	<p>Conduct issues. As noted in section two a training programme was being developed to support Members, however, greater reference to ethical standards and Code of Conduct was required within the materials used.</p> <p><b>Implication:</b> Stakeholders may not fully be aware of the WMCA's requirement for compliance with various policies and the Constitution.</p>		
	<p><b>Partnership working</b> Whilst several references to the ethos of partnership working was evident within WMCA governance documents, guidance on WMCA standards and policies that should be adhered within a partnership could be made clearer to ensure partnership activity effectively contribute to achievement of the WMCA's strategic objectives and reflect good governance.</p> <p><b>Implication:</b> Expectations and standards regarding good governance arrangements within partnership working may not be clearly communicated and therefore achieved.</p>	<p>A review should be undertaken with appropriate remedial action to ensure appropriate and consistent guidance (regards relevant standards, ethical behaviours and policies as well as minimum governance arrangements that integrate with WMCA governance) is available to all WMCA officers working within partnership arrangements to help provide assurance that partnership working is effectively contributing to the achievement of the WMCA's strategic objectives and align with good governance practices.</p>	<p>This recommendation is agreed.</p> <p><b>Responsible officer:</b> Tim Martin Head of Governance</p> <p><b>Target date:</b> 31 July 2020</p>

## Limitations inherent to the internal auditor's work

This report has been prepared solely for the Combined Authority in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

### Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

### Report distribution:

Tim Martin – Head of Governance  
 Peter Farrow – Head of Audit (Shared)  
 Dan Essex – Governance Services Manager  
 Elizabeth Tomlinson – Legal Services Manager  
 Tracy Walters – Head of Human Resources and Organisational Development

### Date Issued:

20 December 2019

**Appendix 2**



**West Midlands  
Combined Authority**

Final Internal Audit Report

Follow Up Review 2019-2020

National Fraud Initiative 2017 – 2018

29 November 2019

Delivered by the City of Wolverhampton Council – Audit Services

## 1. Executive Summary

### Introduction

We have followed up the recommendations as reported in our report issued in March 2018, which was previously followed up in March 2019. This report presents the findings of our latest review.

### Findings

The original report made six recommendations (two amber and four green) to seek assurance that the National Fraud Initiative exercise was conducted in accordance with the Code of Data Matching Practice.

The table below illustrates the progress made in implementing the recommendations in the original report:

	RED	AMBER	GREEN
<b>Recommendations in original report (February 2018)</b>	-	2	4
Recommendations implemented in March 2019 Follow-up	-	0	2
Recommendations implemented per this review	-	1	1
<b>Recommendations that remain outstanding</b>	-	1	1

Based on the findings of this follow-up review it was confirmed that one amber and one green recommendation has been actioned.

The remaining amber and green recommendations are in progress and based on the assurances provided, will be implemented early 2020.

Section two of this report provides further details of progress made with implementation. Please note the two recommendations that had been identified as implemented in the previous follow-up are not included in this report.

A copy of this report will be presented to the WMCA Audit, Risk and Assurance Committee at its January 2020 meeting.

### Acknowledgement

Several employees gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned.

## 2. Progress Update November 2019

Priority rating for issues identified:

### Red

Action is imperative to ensure that the objectives for the area under review are met

### Amber

Action is required to avoid exposure to significant risks in achieving objectives

### Green

Action is advised to enhance risk control or operation efficiency

Action is required to avoid exposure to significant risks in achieving objectives  
**Amber**

No	Issue arising	Agreed action including responsibility and target date and Progress Update 2018 – 2019	Progress Update 2019 - 2020
Page 56 1	<p>The Cabinet Office requires a three-tier approach to notifying Individuals that their data will be subject to NFI matching, for the purposes of preventing and detecting fraud. This requires a Fair Processing Notice to be made available on documents where data used for the NFI exercise is obtained. This includes the Concessionary Travel Pass application forms which do not include reference to the NFI Fair Processing Notice.</p> <p><b>Implication:</b> Individuals are not made aware that their data is being used for a data matching exercise.</p>	<p>A reference to the Fair Processing Notice will be included on the Concessionary Travel Pass application form to indicate more information about the NFI exercise is available on the West Midlands Combined Authority website.</p> <p><b>Responsibility: Warren Williams</b></p> <p><b>Target date: 30/4/2018</b></p> <p><u>Progress Update 2018 – 2019</u> It is understood that the application forms are currently being redesigned and will include reference to the Fair Processing Notice / Privacy Policy and data matching. In the interim a letter being sent out with the passes refers to prevention and detection of crime and contains details of where to find the privacy</p>	<p>A Privacy Policy is published on both the WMCA website and the West Midlands Network website, these policies refer to the prevention and detection of fraud and data sharing as part of an NFI exercise.</p> <p>A review of two Concessionary Travel Pass application forms, found both included references to using the information provided, to conduct the National Fraud Initiative Data Matching Exercise for the prevention and detection of fraud and stated that further information is available on the West Midlands Network website.</p>

Action is required to avoid exposure to significant risks in achieving objectives  
**Amber**

No	Issue arising	Agreed action including responsibility and target date and Progress Update 2018 – 2019	Progress Update 2019 - 2020
		<p>policy.</p> <p><b>The previous recommendation is reiterated.</b></p> <p><b>Responsibility:</b> Warren Williams, Ticketing Services Manager</p> <p><b>Target date:</b> 12 April 2019</p>	<p><b>Implemented no further action required.</b></p>
Page 57.2	<p>The NFI Security Policy requires criminal record checks (unspent convictions only) to be completed prior to allowing users access to the NFI website. Users at the West Midlands Combined Authority have not had criminal record checks completed.</p> <p><b>Implication:</b> Users do not comply with the requirements of the NFI Security Policy.</p>	<p>All officers who have access to the NFI website will complete a criminal record check such as a Disclosure Scotland Check as a minimum.</p> <p><b>Responsibility: Rita Rais</b></p> <p><b>Target date: 31/5/2018</b></p> <p><u>Progress Update 2018 – 2019</u> Once appropriate clearance has been obtained the individuals will be granted access to the secure NFI web site</p> <p><b>The previous recommendation is reiterated.</b></p>	<p>An agreement has now been made with Coventry City Council to act as an umbrella organisation for processing WMCA DBS applications.</p> <p>A list of individuals accessing data as part of the NFI exercise has been supplied to Coventry City Council and they are now in the process of obtaining the required clearance.</p> <p><b>In progress, due for completion early 2020.</b></p>

Action is required to avoid exposure to significant risks in achieving objectives  
**Amber**

No	Issue arising	Agreed action including responsibility and target date and Progress Update 2018 – 2019	Progress Update 2019 - 2020
		<p><b>Responsibility:</b> Rita Rais, HR Manager and Kate Ketteringham Payroll and Pensions Manager</p> <p><b>Target date:</b> 31 July 2019</p>	

Action is advised to enhance risk control or operational efficiency  
**Green**

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No	Issue arising	Agreed action including responsibility and target date	Progress Update 2019 – 2020
2.5	<p>The outcomes of the NFI exercise are not presented to the Audit and Standards Committee. The NFI exercise not only helps to identify fraud and error but also provides assurance that systems and controls are operating effectively which is relevant to the role of the Audit and Standards Committee.</p> <p><b>Implication:</b> The Audit and Standards Committee are unaware of issues regarding fraud and error.</p>	<p>Outcomes from the NFI exercise will be periodically reported to the Audit and Standards Committee.</p> <p><b>Responsibility: Linda Horne</b></p> <p><b>Target date:30/4/2018</b></p> <p><u>Progress Update 2018 – 2019</u> Details of the 2017 / 2018 NFI exercise were not presented to the Audit, Risk and Assurance Committee. However, a process is</p>	<p>Once the 2018 / 2019 NFI exercise is complete details of the outcomes will be presented to the Audit, Risk and Assurance Committee (ARAC) on 21 April 2020.</p> <p><i>In progress, due for completion April 2020</i></p>

Action is advised to enhance risk control or operational efficiency  
Green

No	Issue arising	Agreed action including responsibility and target date	Progress Update 2019 – 2020
		<p>to be established to report details of the 2018 / 2019 exercise.</p> <p><b>The previous recommendation is reiterated</b></p> <p><b>Responsibility:</b> Linda Horne, Interim Director of Finance</p> <p><b>Target date:</b> 30 September 2019</p>	
Page 59 6	<p>Using data from the HOPS Travel Pass System a total of 123 passes were identified as having been used after the notified date of death. The value of fraud in each case was identified as £1 but depending on the number of times the pass had been used the value could be higher. If usage data is available this should be used to calculate the actual value of the fraud.</p> <p><b>Implication:</b> The actual level of fraud is understated which impacts on the overall performance figures for the NFI exercise.</p>	<p>Consideration will be given to determining whether it is possible to use Travel Pass usage data, from the HOPS system, to calculate the value of fraudulent use.</p> <p><b>Responsibility: Warren Williams</b></p> <p><b>Target date: 31/5/2018</b></p> <p><u>Progress Update 2018 – 2019</u> Discussions are currently being held with the SWIFT Team to establish how data can be used to calculate the value of fraudulent use.</p> <p><b>The previous recommendation is reiterated</b></p>	<p>Information from the HOPS system has been used to calculate the value of potential fraudulent use of passes that have continued to be used after the date of death of the passholder.</p> <p>For the 2018 / 2019 exercise 149 passes were identified as having been used after the notified date of death. Based on information from the HOPS system 48,233 journeys have been undertaken using these passes since the notified date of death, the value of these journeys was calculated at £43,409.</p> <p><b>Implemented no further action required.</b></p>

Action is advised to enhance risk control or operational efficiency  
**Green**

No	Issue arising	Agreed action including responsibility and target date	Progress Update 2019 – 2020
		<b>Responsibility:</b> Warren Williams, Ticketing Services Manager  <b>Target date:</b> 28 June 2019	

## Limitations inherent to the internal auditor's work

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### Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

**Report distribution:** Linda Horne, Finance Director

Louise Cowen, Financial Services Manager

Kate Ketteringham, Payroll and Pensions Manager

Tracy Walters, Head of Human Resources and Organisational Development

Warren Williams, Ticketing Services Manager

**Date Issued:** 29 November 2019



# West Midlands Combined Authority

Internal Audit Report  
Follow Up Review 2019-2020  
IR35 2017 - 2018  
18 November 2019

Delivered by the City of Wolverhampton Council – Audit Services

# 1. Executive Summary

## Introduction

We have followed up the recommendations as reported in our report issued in February 2018, which was previously followed up in April 2019. This report presents the findings of our review.

## Findings

The original report made seven recommendations (four amber and three green) to ensure that West Midlands Combined Authority (WMCA) has robust systems and procedures in place to manage compliance with IR35 in order to avoid the risk of financial penalties.

The table below illustrates the progress made in implementing the recommendations in the original report:

	RED	AMBER	GREEN
<b>Recommendations in original report (February 2018)</b>	-	4	3
Recommendations implemented in April 2019 follow-Up	-	1	1
Recommendations implemented per this review	-	1	1
<b>Recommendations that remain outstanding</b>	-	2	1

Based on the findings of this follow-up review it was confirmed that two amber recommendations that had not been fully actioned and therefore remain outstanding. These recommendations related to the following:

- There had been delays in sending and receiving the Off-Payroll Workers Questionnaire, due to resource issues within the team; and
- Procedures developed to identify potential IR35 cases still require enhancement to ensure the Payroll team is notified of all suppliers where there are potential IR35 implications.

Section two of this report provides further details of progress made with implementation. Please note the two recommendations that had been identified as implemented in the previous follow-up were removed from this report.

A copy of this report will be presented to the WMCA Audit, Risk and Assurance Committee at its January 2020 meeting.

## Acknowledgement

Several employees gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned.

## 2. Progress Update October 2019

Priority rating for issues identified:

<b>Red</b> Action is imperative to ensure that the objectives for the area under review are met	<b>Amber</b> Action is required to avoid exposure to significant risks in achieving objectives	<b>Green</b> Action is advised to enhance risk control or operation efficiency
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Action is required to avoid exposure to significant risks in achieving objectives  
**Amber**

No	Issue arising	Agreed action including responsibility and target date	Progress Update 2019 - 2020
p.1 Page 64	<p><b>Manager questionnaire about workers</b>            In order assess whether a contractor/interim falls under IR35, Payroll send the recruiting manager an Off-Payroll Workers Questionnaire to complete.</p> <p>At the time of the audit, testing identified:</p> <ul style="list-style-type: none"> <li>• One case where a questionnaire had been completed and returned to the Payroll Team three months after it was sent;</li> <li>• In a further case a questionnaire was sent to the worker’s manager five weeks after the start date being notified;</li> <li>• In a third case a questionnaire had not been sent to a worker’s manager as their location was unknown.</li> </ul>	<p>An escalation process will be developed for managers who have failed to promptly complete and return the Off-Payroll Workers Questionnaire, sent by Payroll Services.</p> <p><b>Responsibility:</b> Kate Ketteringham - Payroll and Pensions Manager</p> <p><b>Target date:</b> 31 March 2018</p>	<p>Based on a review of the standard email templates sent to managers within WMCA, and external suppliers there was reference to an escalation process if the required information was not returned on time.</p> <p><b>No further action required.</b></p> <p>The Payroll &amp; Pensions Manager maintains a spreadsheet entitled ‘Off-Payroll Workers Questionnaires List’, which is used for monitoring compliance with IR35 requirements. A review of this spreadsheet identified a number of cases where there was no reference to a questionnaire being sent or chased. When this was queried with the Payroll &amp; Pensions Manager it was established that</p>

No	Issue arising	Agreed action including responsibility and target date	Progress Update 2019 - 2020
	<p>Therefore, a prompt IR35 assessment was not undertaken using HMRC's Employment Status tool in respect of these cases.</p> <p><b>Implication:</b>                      WMCA are unable to evidence that they have discharged their responsibility under IR35 regulations.</p>	<p>Off-Payroll Workers Questionnaires will be promptly sent to recruiting managers at the time engagement.</p> <p><b>Responsibility:</b> Kate Ketteringham - Payroll and Pensions Manager</p> <p><b>Target date:</b> 31 March 2018</p>	<p>the person previously responsible for administering IR35 had left and a new resource started in mid-October 2019 who would bring this up to date.</p> <p><b><i>The previous recommendation is reiterated</i></b></p> <p><b>Responsibility:</b> Kate Ketteringham - Payroll and Pensions Manager</p> <p><b>Target date:</b> 31 March 2020</p>

No	Issue arising	Agreed action including responsibility and target date	Progress Update 2019 - 2020
2.2	<p><b>Designated responsible IR35 Officer</b>                      The Payroll &amp; Pensions Manager has been designated by the Head of Finance for managing the implementation of IR35.</p> <p>A report was present to the Board on 21 March 2017 entitled 'Off-payroll Working in the Public Sector' which detailed the approach WMCA were adopting in respect of the implementation of IR35. However, it was noted from this report and other enquiries that there was no evidence that clearly stated that the Payroll &amp; Pensions Manager was WMCA's nominated point of contact for ensuring implementation of IR35.</p> <p><b>Implication:</b>                      Roles and responsibilities are not clearly defined in respect of ensuring the management and implementation of IR35.</p>	<p>Policies and procedures will be updated to clearly reflect that the Payroll &amp; Pensions Manager is WMCA's nominated point of contact for the management and implementation of IR35.</p> <p>The Payroll and Pensions Manager's name will be added to the policy document which went to the Board.</p> <p><b>Responsibility:</b> Kate Ketteringham - Payroll and Pensions Manager</p> <p><b>Target date:</b> 31 March 2018</p>	<p>The document entitled 'Off Payroll Working in the Public Sector' has been updated. Under section 10 of the document it contains the following wording:</p> <p><i>The Payroll &amp; Pensions Manager is the main point of contact for the management and implementation of IR35 within West Midlands Combined Authority.</i></p> <p><b>No further action required.</b></p>

No	Issue arising	Agreed action including responsibility and target date	Progress Update 2019 - 2020
2.3	<p><b>Identification of IR35 workers</b>                      A new electronic notification form has been developed which notifies the Payroll &amp; Pensions Manager of potential individuals who may require an IR35 assessment. This notification takes place when approvals are undertaken by Human Resources for access to IT systems, provision of IT equipment, new access passes etc.</p> <p>However, this approach does not provide 100% assurance that all contractors/interims are captured. Currently no periodic checks are performed to information held on either the accounts payable or general ledger systems to identify potential payments to individuals via individual limited companies or agencies.</p> <p><b>Implication:</b>                      Failure to identify all individuals paid by WMCA who should be subject to an IR35 assessment.</p>	<p>Accounts Payable will always check at the point of engaging a new supplier and an IR35 indicator is included on the form.</p> <p>However, a review will be undertaken of further reporting possibilities, including a periodic review of transactions processed through the accounts payable and general ledger systems to identify potential payments to individuals via individual limited companies or agencies. All individuals identified as a result of these checks would be reconciled to the spreadsheet maintained by Payroll to ensure they have been captured for assessment purposes.</p> <p><b>Responsibility:</b> Kate Ketteringham - Payroll and Pensions Manager</p> <p><b>Target date:</b> 31 March 2018</p>	<p>Based on information provided by the Payroll &amp; Pensions Manager it was established that a formal process has not been developed for the identification of suppliers, and sub-contractors who have been set up with IR35 supplier codes.</p> <p><b>The previous recommendation is reiterated</b></p> <p><b>Responsibility:</b> Kate Ketteringham - Payroll and Pensions Manager in conjunction with the Accounts Payable &amp; Receivable Manager</p> <p><b>Target date:</b> 31 March 2020</p>

No	Issue arising	Agreed action including responsibility and target date	Progress Update 2019 – 2020
2.5	<p><b>Risk Register</b>                      The risks posed by IR35 have not been captured on either the Strategic Risk or Corporate Risk Register in respect of the ongoing risk of retaining highly skilled contractors and future availability of skilled contractors within the public sector following the implementation of IR35.</p> <p><b>Implication:</b>                      These is a risk that projects/programmes are not potentially delivered on time and within budget.</p>	<p>A previous decision was taken that this was not considered to be a major risk. However, reconsideration will be given to including a risk on either WMCA’s Strategic or Corporate Risk Register relating to the on-going risk posed by IR35 in terms of retaining highly skilled contractors and the future availability of skilled contractors.</p> <p><b>Responsibility:</b> Linda Horne, Head of Finance and Business Planning</p> <p><b>Target date:</b> 31 March 2018</p>	<p>Based on the feedback received from the Director of Finance there are no significant issues around retention rates that merit inclusion on the organisation’s strategic or corporate risk registers.</p> <p><b><i>No further action required.</i></b></p>

No	Issue arising	Agreed action including responsibility and target date	Progress Update 2019 – 2020
2.7	<p><b>Summary IR35 Record</b> The summary spreadsheet record, maintained by Payroll Services, identified a number of records that had not been updated. Therefore, it was not possible to confirm whether letters had been sent to intermediaries and if workers had been included on the WMCA's IR35 payroll.</p> <p><b>Implication:</b> The uncompleted summary record would not facilitate demonstrating compliance in the event of an HMRC inspection.</p>	<p>The summary spreadsheet record will be independently reviewed to ensure it is kept up to date and any missing documentation will be requested from the relevant parties.</p> <p><b>Responsibility:</b> Kate Ketteringham - Payroll and Pensions Manager</p> <p><b>Target date:</b> 31 March 2018</p>	<p>A review of the summary spreadsheet record confirmed that it is was being kept up to date and there was no evidence of it being independently reviewed.</p> <p>Since the previous review a resource had been recruited within the Payroll Team to oversee this area. At the time of this review the individual had left and a new appointment had been made. The Payroll and Pensions Manager stated that the new resource would administer IR35 via the spreadsheet and she would oversee its completion. Thus, providing an independent review process.</p> <p><b><i>The previous recommendation is reiterated</i></b></p> <p><b>Responsibility:</b> Kate Ketteringham - Payroll and Pensions Manager</p> <p><b>Target date:</b> 31 March 2020</p>

## Limitations inherent to the internal auditor's work

This report has been prepared solely for the Combined Authority in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

### Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

**Report distribution:** Linda Horne, Finance Director  
Kate Ketteringham, Payroll and Pensions Manager  
Louise Cowen, Financial Services Manager

**Date Issued:** 18 November 2019



## Audit, Risk & Assurance Committee

<b>Date</b>	13 January 2020
<b>Report title</b>	Draft Internal Audit Plan 2020 - 2021
<b>Accountable Chief Executive</b>	Deborah Cadman, OBE Chief Executive Email: <a href="mailto:Deborah.Cadman@wmca.org.uk">Deborah.Cadman@wmca.org.uk</a> Tel: (0121) 214 7200
<b>Accountable Employee</b>	Tim Martin, Chief Audit Executive Email: <a href="mailto:Tim.Martin@wmca.org.uk">Tim.Martin@wmca.org.uk</a> Tel (0121) 214 7435
<b>Report has been considered by</b>	WMCA Strategic Leadership Team

**Recommendation(s) for action or decision:**

**Audit, Risk & Assurance Committee is recommended to:**

- (1) Review the draft Internal Audit Plan for 2020-2021 prior to approval at the Audit, Risk and Assurance Committee meeting in April 2020.

## **1.0 Purpose**

- 1.1 The purpose of internal audit is to provide the WMCA with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the WMCA's agreed objectives.
- 1.2 The purpose of this document is to provide the WMCA with a draft risk-based internal audit plan, incorporating a strategic statement for internal audit, and based upon an assessment of assurance needs. The assessment of assurance needs exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will be used to direct internal audit resources to those aspects of the WMCA which are assessed as generating the greatest risk to the achievement of its objectives.
- 1.3 In addition, all Directors of the WMCA have been consulted as part of development of the draft risk-based internal audit plan. The draft plan was presented to the WMCA Senior Leadership Team for review prior to presentation to the Audit, Risk and Assurance Committee.

## **2.0 Background**

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

## **3.0 Wider WMCA Implications**

- 3.1 There are no implications

## **4.0 Financial implications**

- 4.1 There are no implications.

## **5.0 Legal implications**

- 5.1 There are no implications.

## **6.0 Equalities implications**

- 6.1 There are no implications.

## **7.0 Other implications**

- 7.1 Not applicable.

## **8.0 Schedule of background papers**

- 8.1 None.

## **9.0 Appendices**

None



# **West Midlands Combined Authority**

## **Draft Internal Audit Plan 2020-2021**

Delivered by City of Wolverhampton Council - Audit Services

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## A quick guide to the audit and assurance planning process

### Step 1- Audit universe/auditable areas

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

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



### Step 2 – Ranking

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



### Step 3 - Next Year's Plan

List the themes and where appropriate the types of work that will be undertaken in the 2020-21 internal audit plan.

## A glossary of terms

### Definition of internal auditing

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

### Governance

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

### Control environment

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

- establishing and monitoring the achievement of the WMCA's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement
- the financial management of the WMCA and the reporting of financial management
- the performance management of the WMCA and the reporting of performance management.

### **System of internal control**

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

### **Risk Management**

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

### **Risk based audit and assurance reviews**

A review that:

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

### **Audit, Risk and Assurance Committee**

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

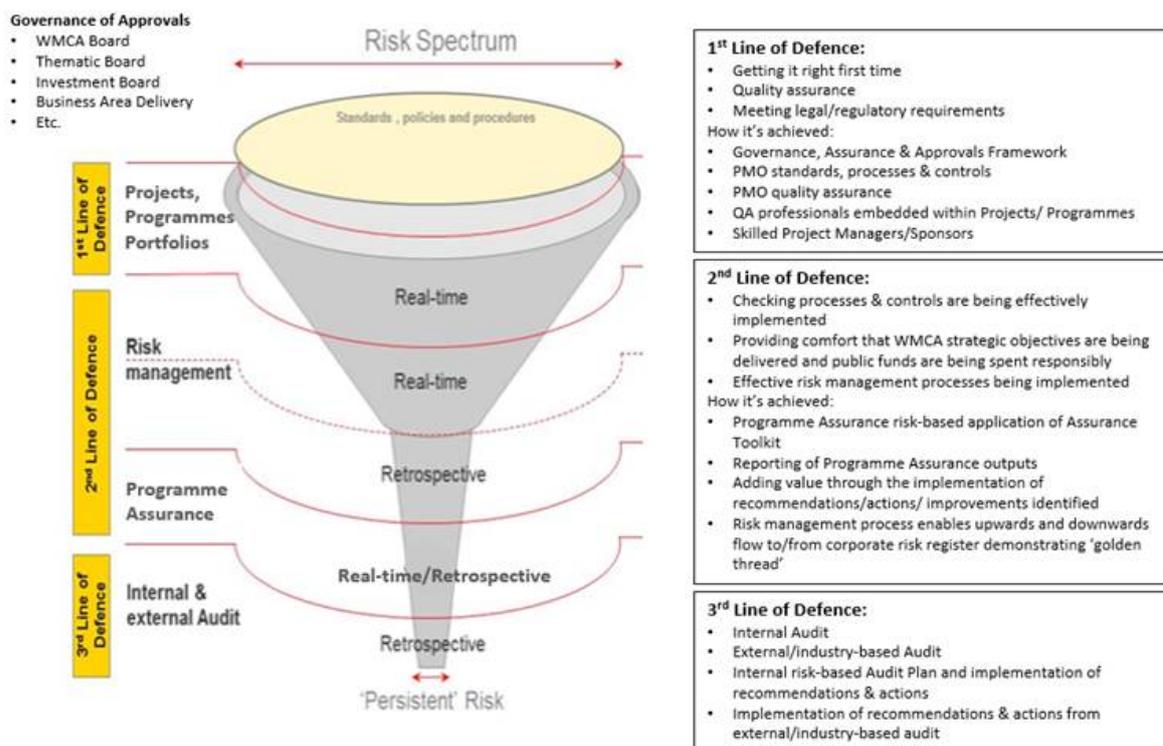
### **Assurance**

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

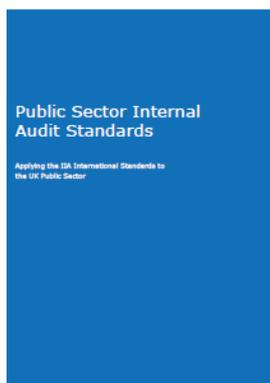
Other sources of assurance on which the WMCA may rely, could include:

- The work of the external auditors;
- Statutory policies and plans;
- Compliance reviews;
- The results of any quality accreditations;
- Other pieces of consultancy or work designed to alert the WMCA to areas of improvement; and
- Other external review agencies.

Another source of assurance which the WMCA relies on is the WMCA Programme Assurance Team as a "2nd line of defence" assurance activity specifically relating to Projects and Programmes through its delivery of an Integrated Assurance and Approval Plan (IAAP) that captures and helps prioritise planned assurance activity across the three lines of defence. The diagram below illustrates the three lines of defence model in relation to assurance activities for Projects and Programmes.



## Internal Audit standards



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

## Introduction

- The purpose of internal audit is to provide the Chief Executive, Director of Finance and Audit, Risk and Assurance Committee with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the WMCA's agreed objectives. To provide this opinion, we are required to review annually the risk management and governance processes within the WMCA.
- We also need to review on a cyclical basis, the operation of the internal control systems. It should be pointed out that internal audit is not a substitute for effective internal control. The true role of internal audit is to contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness.
- There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. The WMCA has an Internal Audit Charter which was last reviewed and approved by the Audit, Risk and Assurance Committee in November 2017 and defines the activity,

purpose, authority and responsibility of internal audit, and establishes its position within the WMCA. This document sits alongside the charter and helps determine how the internal audit service will be developed.

- The purpose of this document is to provide the WMCA with an internal audit plan, based upon an assessment of its assurance needs. The assessment of assurance needs exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will be used to direct internal audit resources to those aspects of the WMCA which are assessed as generating the greatest risk to the achievement of its objectives.

## Assessing the effectiveness of risk management and governance

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

## Assessing the effectiveness of the system of control

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

- Internal audit should encompass the whole internal control system and not be limited only to financial control systems. The scope of internal audit work should reflect the core objectives of the WMCA and the key risks that it faces. As such, each audit cycle starts with a comprehensive analysis of the whole system of internal control that ensures the achievements of the WMCA's objectives.
- Activities that contribute significantly to the WMCA's internal control system, and to the risks it faces, may not have an intrinsic financial value necessarily. Therefore, our approach seeks to assign a relative assurance need value. The purpose of this approach is to enable the delivery of assurance to the WMCA over the reliability of its system of control in an effective and efficient manner.
- We have undertaken our assessment using the following process:
  - We identified the core objectives of the WMCA and, where available, the specific key risks associated with the achievement of those objectives.
  - 
  - We then identified auditable themes and areas that impact significantly on the achievement of the control objectives.
  - 
  - We assigned assurance need values to the auditable themes and areas, based on the evidence we obtained
- The audit plan is drawn out of the assessment of assurance need. The proposed plan covers the 2020-2021 financial year and is detailed at the end of this document.

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

- The WMCA's vision centres on building a West Midlands that is:
  - Healthier
  - Happier
  - Better Connected; and
  - More Prosperous
- The following are the WMCA's key priority portfolios for delivering its vision:
  - **Transport** – delivering an effective transport system that meets economic and environmental needs of the West Midlands
  - **Housing and Land** – delivering 215,000 new homes by 2031, significantly increasing the proportion of affordable housing and driving new quality and design benchmarks.
  - **Skills and Productivity** – supporting more people moving into employment and higher skilled jobs so all communities benefit from the region's economic growth and businesses can access the skills needed to grow.
  - **Economy and Innovation** – creating conditions to support inclusive economic growth that helps sustain the economic renaissance of the region and make the West Midlands the best place to grow up, live and work.

- **Environment, Energy and High-Speed Rail 2** – making a significant positive impact on our environment and deliver clean growth that improves the quality of life for everyone in the region.
  - **Public Service Reform and Social Economy** – delivering on the promise of more inclusive growth, with the confidence to more deliberately shape investment, infrastructure and services around social as well as economic goals
  - **Culture and Digital** – providing focus on digital transformation opportunities for the economy, public services and wider society, and developing a more strategic approach to culture across the region.
  - **Wellbeing** – creating a region in which positive, proactive and preventative approaches to citizen wellbeing are normalised, with better chances of thriving in life and work for a young and diverse population.
  - **Inclusive Communities** – enabling and supporting growth measurable by the social and environmental outcomes realised for people within the most vulnerable and marginalised communities.
- Supported by the WMCA’s values:
    - Be collaborative
    - Be innovative
    - Be driven
    - Be inclusive
  - The WMCA has identified the following strategic risks as potentially impacting upon its ability to achieve its key priorities:
    - Financial assumptions for Investment Programme
    - External factors include economic and political uncertainty
    - Stakeholder and political relations
    - Data Protection and Information Security
    - Capacity and Capability
    - Overall delivery of devolution objectives and key commitments
    - Delivering the 2041 Carbon Budget reduction
    - Project and programme appraisal and assurance
    - Financial pressures including funding security and affordability regarding delivery of strategic objectives

### Identifying the “audit universe”

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

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

## Assessing the risk of auditable areas within the assurance framework

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

Source: Economist Intelligence Unit - Executive Briefing.

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

## Developing an internal audit plan

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

- This exercise builds on and supersedes previous internal audit plans.
- Included within the plan, in addition to audit days for field assignments are:
  - a contingency allocation, which will be utilised when the need arises, for example, special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.
  - a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to key recommendations agreed by management during the prior year.
  - an audit management allocation, which is used for management, quality control, client and external audit liaison and for preparation for, and attendance at various member meetings and Audit, Risk and Assurance Committee etc.

## Considerations required of the Audit, Risk and Assurance Committee and the WMCA's Strategic Leadership Team

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

## How the internal audit service will be delivered

### **Staffing**

The audit team follow the City of Wolverhampton Council's core behaviours. They are recruited, trained and provided with opportunities for continuing professional development. Employees are also sponsored to undertake relevant professional qualifications. All our internal audit staff are professionally qualified as they either hold a Consultative Committee of Accountancy Bodies (CCAB) or Certified Member Institute of Internal Auditors (CMIIA) qualification. Our designated Counter Fraud Team are trained to carry out investigations.

All employees are subject to the Council's appraisal scheme, which leads to an identification of training needs. In this way, we ensure that employees are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills and experience.

### **Resources required**

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

### **Quality assurance**

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

## WMCA Internal Audit Plan 2020-2021

Auditable area	Purpose	Rating	Quarter / Month	ARAC Meeting (indicative)
<b>Cross Service</b>				
Investment Programme Monitoring and Evaluation Arrangements	A review of the monitoring and evaluation arrangements in operation for programmes and projects funded by the Investment Programme, and integration with wider WMCA monitoring and evaluation arrangements.	High	Quarter 3 (October 2020)	January 2021
ICT Strategy	A review to seek assurance that a clearly defined ICT strategic plan has been developed for the WMCA. The outcome of the 2019-2020 external review will be used to determine the focus of any in-year audit review regarding the development of an ICT Strategy.	High	Quarter 2 (August 2020)	November 2020
Risk Management	A review of the risk management arrangements in operation within the WMCA regarding the effective identification, assessment and management of risks as part of good corporate governance, statutory compliance and effective decision making.	High	Quarter 1 (April 2020)	June 2020
Corporate Complaints Process	A review of the corporate complaints process to ensure operating effectively and in accordance with the WMCA Complaints Policy and relevant Local Government good practice.	High	Quarter 2 (August 2020)	November 2020
Employee Establishment Management Information	A review of the processes in operation to maintain, monitor and report on establishment management information ensuring accuracy, completeness and timeliness to support decision making and human resource management.	High	Quarter 2 (July 2020)	September 2020

## WMCA Internal Audit Plan 2020-2021

Auditable area	Purpose	Rating	Quarter / Month	ARAC Meeting (indicative)
Key Financial Systems	<p>To provide assurance that the key financial processes are operating, including:</p> <ul style="list-style-type: none"> <li>• Payroll</li> <li>• Accounts payable</li> <li>• Accounts receivable</li> <li>• General ledger</li> <li>• Budgetary control</li> <li>• Treasury Management</li> </ul>	High	Quarter 3 (October 2020)	January 2021
Procurement	<p>Procurement policy and processes support the efficient and effective management of corporate spending through a structured approach to procurement with the potential to significantly improve financial performance and reduce operating costs. As this contributes to the achievement of strategic objectives and associated strategic risks within limited resources, in-year audit coverage will be determined through high level review of procurement activity undertaken by the WMCA.</p>	High	Quarter 3 (November 2020)	January 2021
<b>Transport</b>				
Dudley Interchange Project Management Arrangements	<p>A review of the governance, project management, risk management and control systems in operation for the Dudley Interchange Project.</p>	High	Quarter 1 (May 2020)	September 2020
Longbridge Park and Ride Income Management and Charging Arrangements	<p>A review of the proposed income management and charging arrangements developed for the Longbridge Park and Ride charging pilot.</p>	High	Quarter 1 (June 2020)	September 2020

**WMCA Internal Audit Plan 2020-2021**

Auditable area	Purpose	Rating	Quarter / Month	ARAC Meeting (indicative)
Sprint Programme Management Arrangements	A review of the governance, programme management, risk management and control systems in operation for the Sprint Programme.	High	Quarter 2 (July 2020)	September 2020
<b>Housing and Land</b>				
Single Commissioning Framework - Land Fund	A review of the systems and controls established for the administration of the Land Fund within the Single Commissioning Framework to ensure the fund effectively supports achievement of the strategic objectives of the WMCA.	High	Quarter 2 (September 2020)	November 2020
Friars Park Project Management Arrangements	A review of the governance, project management, risk management and control systems in operation for the Friars Park Project.	High	Quarter 2 (June 2020)	September 2020
Affordable Housing Delivery Vehicle	A high-level review of the governance, risk management and partnership arrangements proposed within the pilot Affordable Housing Delivery Vehicle as a core contributor to the WMCA's strategic objectives regarding housing and specifically for additional affordable housing.	High	Quarter 2 (December 2020)	April 2021

## WMCA Internal Audit Plan 2020-2021

Auditable area	Purpose	Rating	Quarter / Month	ARAC Meeting (indicative)
<b>Productivity and Skills</b>				
Digital Retraining Fund	A review of the strategy, governance, management, funding and operational arrangements for delivery of the strategic objectives and outcomes of the Digital Retraining Fund.	Medium	Quarter 3 (November 2020)	January 2021
Adult Education Budget	The Adult Education Budget is a major funding mechanism underpinning the strategic aims and objective of the WMCA and specifically the Regional Skills Plan. In-year review will be determined on the basis of any policy, management or delivery developments as well as the outcome of any internal and external reviews where undertaken.	High	Quarter 4 (January 2021)	April 2021
<b>Environment and Energy</b>				
Environment Action Plan	A high-level review of the proposed governance, monitoring and reporting arrangements developed in support of the Environment Action Plan including carbon reduction.	High	Quarter 4 (February 2021)	April 2021
<b>Public Service Reform and Social Economy</b>				
Inclusive Growth Investment Toolkit	A review of the governance, management, monitoring and reporting arrangements developed to support the effective implementation and utilisation of the Toolkit as part of evaluating the contribution of schemes to inclusive growth in the West Midlands.	High	Quarter 4 (March 2021)	June 2021

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

Auditable Area	Purpose
Consultancy and advice	Special projects, advice and assistance, unplanned and ad-hoc work as and when requested.
Counter Fraud	<p>Where required:</p> <ul style="list-style-type: none"> <li>• the carrying out of investigations into areas of suspected or reported fraudulent activity across the WMCA.</li> <li>• Undertaking a series of pro-active fraud activities, including the targeted testing of areas open to the potential of fraudulent activity</li> <li>• The development of a fraud risk register</li> <li>• Organising raising fraud awareness seminars fraud surgeries.</li> <li>• Assisting in the Cabinet Offices NFI data matching exercise.</li> <li>• Representing WMCA at national and local fraud related events.</li> </ul>
Recommendation follow up	The follow up of key internal audit recommendations made in 2019/20 including continued oversight of limited opinion audit reports.
Audit Management	Day to day management of the internal audit service, quality control, client and external audit liaison and preparation for, and attendance at various meetings. Preparation and presentation of papers for the Audit, Risk and Assurance Committee, and providing advice and training to committee members as and when required.

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## Audit, Risk & Assurance Committee

<b>Date</b>	13 January 2020
<b>Report title</b>	External Audit Plan and Informing the Audit Risk Assessment 2019/20 for West Midlands Combined Authority
<b>Accountable Chief Executive</b>	Deborah Cadman, OBE Chief Executive Email: <a href="mailto:Deborah.Cadman@wmca.org.uk">Deborah.Cadman@wmca.org.uk</a> Tel: (0121) 214 7200
<b>Accountable Employee</b>	Linda Horne, Finance Director & S151 Officer to the WMCA Email: <a href="mailto:Linda.Horne@wmca.org.uk">Linda.Horne@wmca.org.uk</a> Tel: (0121) 214 7508
<b>Report to be considered by</b>	Audit, Risk & Assurance Committee

**Recommendation(s) for action or decision:**

**Audit, Risk & Assurance Committee is recommended to:**

- (1) Note the External Audit Plan for the year ending 31 March 2020 presented by Grant Thornton.
- (2) Note the Informing the audit risk assessment 2019/20 report presented by Grant Thornton and consider whether the responses provided by management are consistent with its understanding and whether there are any further comments it wishes to make.

## 1. Purpose

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

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

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

The purpose of the Informing the audit risk assessment report is to contribute towards the effective two-way communication between the West Midlands Combined Authority's (the Authority) external auditors and the Authority's Audit, Risk & Assurance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where the auditor is required to make inquiries of the Audit, Risk & Assurance Committee under auditing standards.

## 2. Financial Implications

There are no financial implications arising from this report.

## 3. Legal Implications

There are no legal implications arising from this report.

## 4. Equalities Implications

There are no equalities implications arising from this report.

## 5. Inclusive Growth Implications

There are no inclusive growth implications arising from this report.

## 6. Geographical Area of Report's Implications

There are no geographical area implications arising from this report.

## 7. Other Implications

There are no other implications arising from this report.

## 8. Schedule of Background Papers

8.1 External Audit Plan year ending 31 March 2020

8.2 Informing the audit risk assessment for West Midlands Combined Authority 2019/20



# External Audit Plan

*Year ending 31 March 2020*

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated 2/1/2020

West Midlands Combined Authority  
13 January 2020

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A. Audit quality – national context	

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

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# 1. Introduction & headlines

## Purpose

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

## Respective responsibilities

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

## Scope of our audit

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

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

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

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

## Group Accounts

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

## Significant risks

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

- Management Override of Controls
- Valuation of net pension fund liability

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

## Materiality

We have determined planning materiality to be £4.7m (PY £4.601m) for the group and £4.6m (PY £4.6m) for the Authority, which equates to approximately 1.8% of your prior year budgeted gross expenditure for the year (including the anticipated expenditure in respect of the new Adult Education Service) and adjustments expected on consolidation. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £230k (PY £230k).

## Value for Money arrangements

Our risk assessment in this area remains ongoing, however to date we have identified the following potential VFM significant risks:

- Investment Programme Delivery
- Governance of WM5G
- Delivery of Adult Education workstream.

## Audit logistics

Our interim visit will take place in February and March and our final visit will take place in May and June. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Section 8 - Audit Logistics & Team.

Our proposed fee for the audit will be £46,500 (PY: £46,500) for the Authority, subject to the Authority meeting our requirements set out on page 13.

## Independence

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

## 2. Key matters impacting our audit

### Factors

#### The wider economy and political uncertainty

The scale of change at the Authority continues to be significant, however we note that the senior leadership team has stabilised over the last 12 months.

Mayoral elections are due to take place in May 2020, however the planning and preparation for this has been delayed as a result of the general election.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of an impact on contracts, on service delivery and on its support for local people and businesses.

#### Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, pensions needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

In addition, the Authority will also need to make sure that it is making the necessary preparations for the introduction of IRFS 16, which will impact on the financial statements for the 2020/21 year.

#### Changes to the scope of the group

For the purposes of the audit plan, we are assuming that Midland Metro Limited will continue to be consolidated into the group accounts, based on anticipated levels of expenditure.

Based upon the Authority's group boundary consideration and the anticipated out-turn of WM5G Limited we are anticipating its consolidation into the 2019/20 financial statements.

The 2019/20 accounts will for the first year show the impact of the change in arrangements for the funding of Adult Education, which has now been devolved to the Authority.

#### WM ITA Pension Fund

On 8 November 2019 regulations came into force retrospectively merging the WMITA PF with the West Midlands Pension Fund.

As a result the WM ITA PF will no longer form part of the Authority's Statement of Accounts or be subject to audit.

### Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, is set out further in our Audit Plan and is subject to agreement with officers and PSAA.
- We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020

- Our proposed approach to the audit of the components Midland Metro Limited and WM5G Limited are set out on page 6.
- We will maintain a watching brief and continue to liaise with the finance team to ensure that if further changes to the group boundary are identified that the consolidation is extended to include further entities as necessary.
- We will consider the impact on the financial statements of the addition of the Adult Education responsibilities and develop an appropriate testing strategy.

- We will review the disclosures within the Authority's Statement of Accounts, Narrative Report, Annual Governance Statement and the Statement of Responsibilities to ensure they reflect the year end position appropriately.

## 3. Group audit scope and risk assessment

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

### At planning, our understanding of the group structure is as follows:

- There are 9 components considered within the group boundary associated with the West Midlands Combined Authority.

### Wholly-owned subsidiaries

- Midland Metro Limited is a company limited by shares and runs the Metro operations. The subsidiary was consolidated into the financial statements of the Authority for the first time for the year ended 31 March 2019.
- West Midlands Development Capital Limited is a company limited by shares and is the manager of the Land Fund and the Collective Investment Fund.
- WM5G Limited is new this year and is set up to deliver 5G on behalf of the Authority. It is a company limited by guarantee.

The risk assessment of these subsidiaries as they pertain to the group audit are set out overleaf.

### Associates

- West Midlands Rail Limited is a company limited by guarantee and is the manager of the West Midlands rail franchise. The Authority has only 50% of the voting rights. The Authority has determined it does not have control but does have significant influence.

The risk assessment of the company as it pertains to the group audit is set out overleaf.

### Investment

- The Authority has a 5.3% stake in West Midlands Growth Company Limited. This is accounted for under the equity method and as such does not form part of the consolidation considerations.

### Currently dormant interests

- Midland Metro (TWO) Limited, Network West Midlands Limited and Midlands Development Capital Limited are wholly-owned subsidiaries of the Authority but are all currently dormant (i.e. not trading and therefore will not be consolidated). Midland Metro (TWO) Limited is currently in the process of being closed and removed from the Companies House register.

### Discontinued interests

- Centro Properties Limited was dissolved on 3 April 2018 – there is no impact upon 2019/20 but noted here in respect of 2018/19 for comparative information purposes.

### 3. Group audit scope and risk assessment continued

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
West Midlands Combined Authority	Yes	Full	<ul style="list-style-type: none"> <li>See pages 7 to 8 where the identified risks pertaining to the Authority are detailed.</li> </ul>	Full scope UK statutory audit performed by Grant Thornton UK LLP.
Midland Metro Limited	No	Transactions, account balances or disclosure relating to significant risks	<ul style="list-style-type: none"> <li>See pages 7 to 8 where the identified risks pertaining to the Authority are detailed.</li> </ul>	<p>It is anticipated that the accounts for the year ended March 2020 of Midland Metro will be consolidated within the Authority's group accounts.</p> <p>The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor audit documentation and meeting with appropriate members of management.</p>
WM5G Limited	No	Transactions, account balances or disclosure relating to significant risks	<ul style="list-style-type: none"> <li>See pages 7 to 8 where the identified risks pertaining to the Authority are detailed.</li> </ul>	<p>It is anticipated that the accounts for the year ended March 2020 of WM5G Limited will be consolidated within the Authority's group accounts. However, in discussions with management the scale of activity of WM5G might be reduced in 2019/20 and potentially the component may become material but not significant and consolidation reconsidered. We will therefore keep this under review.</p> <p>The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor audit documentation and meeting with appropriate members of management.</p>
West Midlands Development Capital Limited	No	AP	None	Consolidation of these components are unlikely on the grounds of materiality. We will perform analytical review procedures to ensure this continues to be appropriate.
West Midlands Rail Limited	No	AP	None	

#### Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements

- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

## 4. Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions (rebutted)</b>	<b>Group and Authority</b>	<p>Under ISA (UK) 240 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 consider the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the Group and the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• There is little incentive to manipulate revenue recognition</li> <li>• Opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including the West Midlands Combined Authority (the Authority), mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk for the Authority.</p> <p>In terms of this risk and how it relates to the Group we have also determined that the risk of fraud arising from revenue recognition can be rebutted because we do not consider there to be a risk of material misstatement in the accounts of Midland Metro Limited or WM5G Limited due to fraud in revenue recognition. We also believe, that the above bullet points also apply from a group perspective.</p>	Response not required as the risk is rebutted.

## 4. Significant risks identified continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Management over-ride of controls</b>	Group and Authority	<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 Group and Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as one of the most significant assessed risks of material misstatement for both the Group and the Authority</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design effectiveness of management controls over journals</li> <li>• Analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• Gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence, and</li> <li>• Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
<b>Valuation of the pension fund net liability</b>	Group and Authority	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net pension 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 million at 31 March 2019) in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls</li> <li>• Evaluate the instructions issued by management to their management expert for this estimate and the scope of the actuary's work.</li> <li>• Assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation</li> <li>• Assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability</li> <li>• Test the consistency of the pension fund asset and liability disclosures in the notes to the core financial statements with the actuarial report</li> <li>• Undertake procedures to confirm the reasonableness of the actuarial assumption made by reviewing the report of the consulting actuary (as an auditor's expert) and performing any additional procedures suggested with the report, and</li> <li>• Obtain assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>

## 5. Other matters

### Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
  - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

### Other material balances and transactions

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

### Going concern

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

## 6. Materiality

### The concept of materiality

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

### Materiality for planning purposes

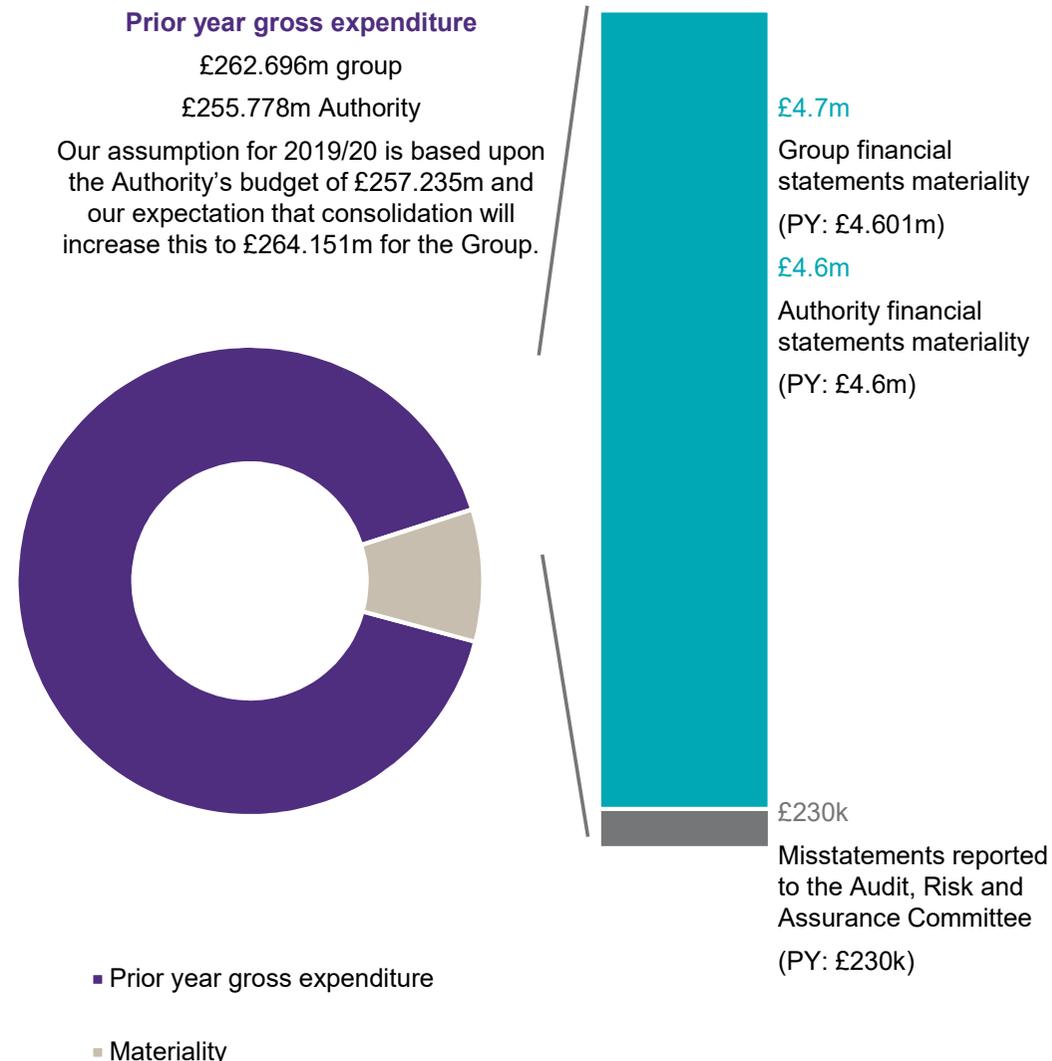
We have determined financial statement materiality assessed against the benchmark of a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £4.7m (PY £4.601m) for the Group and £4.6m (PY £4.6m) for the Authority. The materiality equates to approximately 1.8% of the budgeted gross expenditure for 2019/20 for the Authority adjusted for assumptions on the impact of the consolidation of MM and WM5G for the Group. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25k for Senior officer remuneration.

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

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

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

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



# 7. Value for Money arrangements

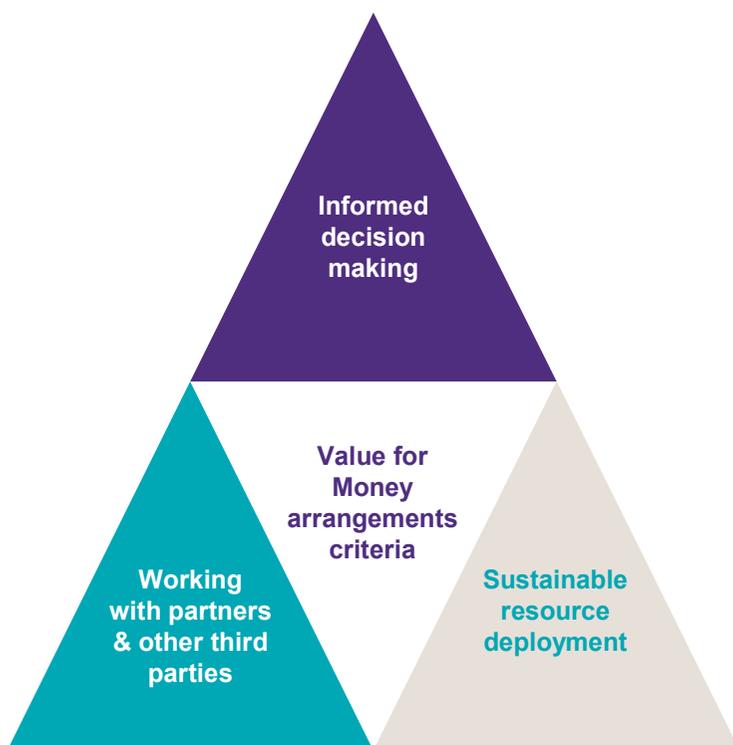
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

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

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



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## Significant VFM risks

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



### Investment Programme Delivery

The Authority has identified the financial assumptions for the investment programme as a risk. This is being mitigated by a review of the governance and appraisal process associated with the investment programme. The spend to date remains behind forecast, and a cap has been placed on the programme at £801m to keep it within the current affordable limit based on income secured to date.

We will review the Authority's arrangements for managing the Investment programme.



### Governance of WM5G

WM5G has been set up as subsidiary company of the Authority to deploy 5G and fibre networks to areas with poor coverage. 5G is new technology and a new funding stream for the Authority. Our initial risk assessment has demonstrated that funding from central government is lagged, and therefore alternative sources of start up funding is also needed.

We will review the outcomes of the internal audit work that is planned in this area, and then consider if any further work is needed against the identified risk.



### Delivery of Adult Education workstream

On significant new workstream for 2019-20 is the Adult Education Budget. The budget has £84m in relation to this, but the actual allocation is in the region of £120m. Given the introduction of this in the year we are keen to understand the arrangements in place for the delivery of this service.

We will review the outcomes of the internal audit work that is planned in this area, and then consider if any further work is needed against the identified risk.

## 8. Audit logistics & team



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### Grant Patterson, Key Audit Partner

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



### Helen Lillington, Audit Manager

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



### Ellena Grant-Pearce, Audit Incharge

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

### Client responsibilities

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

### Our requirements

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

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

## 9. Audit fees

### Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, is subject to PSAA agreement.

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	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Authority Group Audit	£46,500	£46,500	£46,500
<b>Total audit fees (excluding VAT)</b>	<b>£46,500</b>	<b>£46,500</b>	<b>£46,500</b>

### Assumptions:

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

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

### Relevant professional standards:

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

# Audit fee variations – Further analysis

## Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
<b>Scale fee</b>	35,805	
<b>Raising the bar and the evolution of the Authority and Group</b>	8,000	<p>The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.</p> <p>Additionally, as we have discussed previously with the Audit, Risk and Assurance Committee the size and complexity of the Authority, and the associated audit, continues to grow, i.e.</p> <ul style="list-style-type: none"> <li>audit of group accounts, which involves liaison with the component auditors (including review of their workpapers and other outputs), and review of the consolidation itself</li> <li>increase in level of overall audit testing as the result of increase in size of the organisation</li> <li>greater liaison with staff and the Audit, Risk and Assurance Committee compared to ITA/PTE days</li> <li>a higher VFM risk, given the more complex and broad activities being undertaken by the Authority, ie large investment programme and associated capital spend alongside the need to have the necessary skills and capacity within the Authority to enable delivery of strategic outcomes</li> </ul>
<b>Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19</b>	1,750	Similarly to the above the Financial Reporting Council (FRC) has highlighted that the levels of challenge and explanation sought by auditors in respect of IAS 19 needs to improve. Specifically, we have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
<b>PPE Valuation – work of experts</b>	250	Similarly to the above the Financial Reporting Council (FRC) has highlighted that the levels of challenge and explanation sought by auditors in respect of PPE needs to improve. The Authority only has one asset which is subject to valuation but there will be heightened levels of documentation and reporting required.
<b>IFRS 16 - Leases</b>	695	IFRS 16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset and corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements.
<b>Revised scale fee (to be approved by PSAA)</b>	<b>£46,500</b>	

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## 10. Independence & non-audit services

### Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

### Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No other services were identified.

## Appendices

**A. Audit Quality – national context**

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# Appendix A: Audit Quality – national context

## What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

## Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

## What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

## What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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# Informing the audit risk assessment for West Midlands Combined Authority 2019/20

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January 2020



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

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between the West Midlands Combined Authority's (the Authority) external auditors and the Authority's Audit, Risk & Assurance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit, Risk & Assurance Committee under auditing standards.

## Background

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

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

## Communication

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

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

This report includes a series of questions on each of these areas and the response we have received from the Authority's management. **The Audit, Risk & Assurance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.**

# General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?</p>	<p>The key events are:</p> <ul style="list-style-type: none"> <li>i) Adult Education Budget</li> <li>ii) Land Fund</li> </ul>
<p>2. Have you considered the appropriateness of the accounting policies adopted by the Authority?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Yes, and there have not been any events or transactions that may cause WMCA to change or adopt new accounting policies in 2019/20.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>Yes, the financial instruments will consist of investments, cash and cash equivalents, short-term debtors and creditors, borrowings and transferred debt.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>No, we are not aware of any significant transaction outside the normal course of business.</p>
<p>5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?</p>	<p>No, we are not aware of any changes in circumstances that would lead to impairment of non-current assets.</p>

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# General Enquiries of Management

Question	Management response
6. Are you aware of any guarantee contracts?	Yes. WMCA has guarantees with Sandwell and Birmingham City Council lodged with the bank in connection with works undertaken at various car parks.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No, we are not aware of any.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>They are as follows:</p> <ul style="list-style-type: none"> <li>i) Trowers and Hamlin are representing us in relation to a procurement challenge arising from the Adult Education Budget tender. The advice at this stage is that any outcome is unlikely to be material.</li> <li>ii) Evershed Sutherland is dealing with an employment tribunal case.</li> <li>iii) Solicitors on behalf of our insurers are dealing with personal injury cases. Please also refer to our response to question 4 on the impact of laws and regulations.</li> </ul> <p>We are in dispute with a bus company over the calculation of concessionary fares. However, no proceedings have been issued.</p>
9. Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None has been reported. However, one of our service providers has reported a suspected irregularity with one of its sub-contractors and an investigation have been instructed by the service provider. We expect this to have either no impact or minimal impact to our financial statements.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	WMCA consults a wide range of advisors in many areas of its business. None of these are likely to have a material impact on the financial statements.

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# Fraud

## Issue

### Matters in relation to fraud

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

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

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

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

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

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

# Fraud risk assessment

Question	Management response
<p>1. Have the Authority assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>Yes, the risk is considered to be low.</p> <p>This is undertaken via the Anti-Fraud &amp; Corruption Policy and the Whistleblowing Policy.</p> <p>Key financial systems audit are undertaken annually by Wolverhampton Audit Services and their findings are reported in their internal audit reports which are presented to the Audit, Risk &amp; Assurance Committee. Additionally, their recommendations and observations are acted upon.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Treasury-related transactions.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Authority as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No.</p> <p>Risk issues including fraud feature as a standing item in the Audit, Risk &amp; Assurance Committee agenda.</p>

# Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Authority where fraud is more likely to occur?</p>	<p>No.</p> <p>No.</p> <p>No.</p>
<p>5. What processes do the Authority have in place to identify and respond to risks of fraud?</p>	<p>Policies and procedures are published on the Intranet covering theft and fraud and the process staff should follow if they suspect anything. These procedures also state the escalation procedure if required.</p> <p>If a potential fraud is reported, the Corporate Assurance Manager would be contacted who will then commission Wolverhampton Audit Services to conduct an investigation.</p>
<p>How would you assess the overall control environment for the Authority, including:</p> <ul style="list-style-type: none"> <li>• the process for reviewing the effectiveness the system of internal control;</li> <li>• internal controls, including segregation of duties;</li> <li>• exist and work effectively?</li> </ul> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The overall control environment is assessed as robust.</p> <p>N/A.</p> <p>Monthly financial reporting including account reconciliation which is a robust process.</p> <p>No.</p>

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# Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	There is potential for misreporting but this is mitigated by processes and controls in place.
<p>8. How do the Authority communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>This is communicated through the policies and procedures published on the Intranet.</p> <p>Inductions are provided to new staff where they are given an overview of business practices and ethical behaviours and their role in identifying or responding to fraud.</p> <p>Regular team briefing sessions are held where staff can raise any concerns and business practice and ethical behaviour can be reinforced.</p> <p>No significant issues have been reported.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Treasury team.</p> <p>These risks are identified, assessed and managed through Treasury Management Group, clear segregation of duties and segregated approval limits.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No.</p> <p>These risks are mitigated by robust procurement procedures.</p>

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## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit, Risk &amp; Assurance Committee?</p> <p>How does the Audit, Risk &amp; Assurance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Policies and procedures are published on the Intranet and these procedures also state the escalation procedure if required. Additionally, there is a standing agenda item for risks issues including fraud in the Audit, Risk &amp; Assurance Committee meetings.</p> <p>The internal audit function delivered by Wolverhampton Audit Services presents audit reports to the Audit, Risk &amp; Assurance Committee. The Client Manager from Wolverhampton has access to both the Chief Audit Executive and the Chair and Vice-Chair of the Audit, Risk &amp; Assurance Committee.</p>
<p>12. Are you aware of any whistle blowing potential complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The WMCA has a Whistleblowing policy and a number of means by which referrals can be made. Any referrals are considered and investigated as appropriate. Some of the referrals do not relate to the WMCA activities but those of constituent authorities and have been passed on to the appropriate authorities.</p> <p>During the year, one matter was raised which resulted in further investigation and some remedial action and advice was given by the Monitoring Officer to strengthen processes.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No.</p>

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# Law and regulations

## Issue

### Matters in relation to laws and regulations

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

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

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

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

# Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>Responsibility for ensuring compliance with relevant laws and regulations lies with the Head of Governance (Monitoring Officer) who advises the WMCA.</p> <p>The Constitution and governance arrangements within the WMCA have been reviewed and confirmed that they are appropriate and robust. All governance arrangements are monitored to ensure that they comply with relevant legislation and are fit for purpose.</p> <p>Individual experts also take responsibility within their own areas of expertise and where relevant appoint external advisors.</p> <p>No, we are not aware of any changes to WMCA's regulatory environment that may have a significant impact on the financial statements.</p>
<p>2. How is the Audit, Risk &amp; Assurance Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Chief Audit Executive is the Head of Governance and a qualified solicitor, as well as Monitoring Officer. It is the duty of care of all these roles to ensure laws and regulations have been adhered to. The WMCA legal team reports to the Head of Governance and are also the custodians of the WMCA Constitution. The Chief Audit Executive would flag to the committee if any breaches to the Constitution had been made. Where the Chief Audit Executive is not present at an Audit, Risk &amp; Assurance Committee, it is advised that a legal representative is present at the committee.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>None.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Cover is in place through Municipal Mutual Insurance which is currently administered via Zurich on behalf of Municipal Mutual with an excess of £25k. Finance are kept up-to-date with any claims and potential claims. Whilst the WMCA have a number of potential claims at investigation stage, there are no significant litigation claims at this time.</p>

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## Impact of laws and regulations

Question	Management response
5. What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	All claims are controlled by the legal team in conjunction with our insurers. Where appropriate, these are taken to the WMCA Board for approval.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

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# Going Concern

## Issue

### Matters in relation to going concern

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

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

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

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## Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Authority? What was the outcome of that assessment?</p>	<p>Yes. A detailed business plan is approved each year. Regular management reporting is produced for the WMCA indicating positive trading performance of the business, which is report to the Senior Leadership Team, Transport Delivery Committee, Programme Board, Audit, Risk &amp; Assurance Committee and the WMCA Board.</p> <p>In section 10.2 of the draft budget report for 2020/21, the S151 officer has stated her opinion that the budget currently provides for the financial implications of the WMCA's policies to the extent that these are known or can reasonably be assessed.</p>
<p>Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Authority's Business Plan and the financial information provided to the Authority throughout the year?</p>	<p>Yes, they are. Appendices 1 and 2 to the draft budget report clearly establish the link between business plan deliverables and proposed budgets for each directorate and portfolio.</p>

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## Going concern considerations

Question	Management response
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes, with the exception of a new accounting standard, IFRS 16 Leases, which becomes effective from 1 April 2020. We do not consider the impact of IFRS 16 to be material or significant.
4. Have there been any significant issues raised with the Audit, Risk & Assurance Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code?  If so, what action is being taken to improve financial performance?	No.

30/09/2025

## Going concern considerations

Question	Management response
<p>6. Does the Authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Combined Authority’s objectives?</p> <p>If not, what action is being taken to obtain those skills?</p>	<p>Yes, with ongoing monitoring to ensure we have the necessary skills and experience to deliver the WMCA’s objectives.</p>
<p>7. Does the Authority have procedures in place to assess their ability to continue as a going concern?</p>	<p>Yes – continued medium-term financial planning.</p>
<p>8. Is management aware of the existence of events or conditions that may cast doubt on the Authority’s ability to continue as a going concern?</p>	<p>No.</p>
<p>9. Are arrangements in place to report the going concern assessment to the Audit, Risk &amp; Assurance Committee ?</p> <p>How has the Audit, Risk &amp; Assurance Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>Yes. Financial monitoring takes place on a monthly basis to the Senior Leadership Team and bi-monthly to the WMCA Board and Audit, Risk &amp; Assurance Committee.</p>

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# Related Parties

## Issue

### Matters in relation to Related Parties

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

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

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

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

## Relating Parties

Question	Management response
1. What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships ?	Key officers complete a disclosure form detailing their interests. These are reviewed annually. Robust procurement procedures are in place to provide assurance that all expenditure is carried out on a commercial basis.

# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

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

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

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

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

We would ask the Audit, Risk & Assurance Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates

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

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## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations  Page 131	Fair value for land/buildings defined as 'existing use' by The Code.	Valuations are performed annually to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. For land and buildings all material assets will be considered in 2019/20.	Bruton Knowles	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion.	No
Estimated remaining useful lives of PPE	Each part of an item of property, plant and equipment with a significant cost in relation to the total cost is depreciated separately. Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	See left box	Discussion with internal asset team and where applicable Bruton Knowles as the valuer.	Depreciation is calculated on a straight line basis as this reflects consumption of assets and is a reasonable assumption.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	See above	See above	See above	See above	No
Impairments	Review of all assets undertaken annually in line with the code.	See left.	Discussion with internal asset team as appropriate.	N/A.	No.
Measurement of Financial Instruments	Financial instruments consist of investments (Collective Investment Fund (CIF)). Measured initially at cost and subsequently at amortised cost using the effective interest method.	Knowledge by the Investment team who manages the CIF portfolio in assessing the potential risk in credit losses.	Fund advisers – West Midlands Development Capital Limited	The CIF portfolio is assessed on an individual borrower for its expected credit losses using: i) Probability of default ii) Loss of given default	No

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## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are identified through detailed monthly management accounts which flags any potential issues to management.	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No.
Bad Debt Provision	Debts are reviewed monthly and any debts that are deemed to be irrecoverable are written off to the CIES.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. Finance Director signs off the write off.	N/A	N/A	No.

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## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	We use standard accruals accounting –accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year	N/A.	N/A.	No.
Non-adjusting events – events after the Balance Sheet date	Monthly management accounts prepared would flag any adjusting/non-adjusting events.	See left.	N/A.	N/A.	No.

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## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Fund (LGPS) Actuarial gains/losses	The actuarial gains and losses figures are calculated by the actuarial expert Barnett Waddingham. These figures are based on making % adjustments to the closing values of assets/liabilities.	The Authority responds to queries raised by the administering body, Wolverhampton Council.	The Authority are provided with an actuarial report by Barnett Waddingham (LGPS).	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No.

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## Audit, Risk & Assurance Committee

<b>Date</b>	13 January 2020
<b>Report title</b>	Performance Management and Reporting
<b>Accountable Chief Executive</b>	Deborah Cadman, OBE Chief Executive Email: <a href="mailto:Deborah.Cadman@wmca.org.uk">Deborah.Cadman@wmca.org.uk</a> Tel: (0121) 214 7200
<b>Accountable Employee</b>	Julia Goldsworthy, Director of Strategy Email: <a href="mailto:JuliaGoldsworthy@wmca.org.uk">JuliaGoldsworthy@wmca.org.uk</a> Tel (0121) 214 7941
<b>Report has been considered by</b>	WMCA Strategic Leadership Team

**Recommendation(s) for action or decision:**

**Audit, Risk & Assurance Committee is recommended to:**

- (1) Note the content of the report.
- (2) Note the proposed developments and improvements planned.

## 1. Purpose

- 1.1. The purpose of the report is to provide an overview of the various elements of the performance management and reporting arrangements at the WMCA. It follows a request from the Chair and Committee to learn more about current practice and planned improvements, to inform consideration about the effectiveness, consistency and oversight of performance monitoring across the WMCA.

## 2. Introduction: the current performance monitoring and reporting framework

- 2.1. As a Corporate Body, the WMCA is accountable for the performance of its role and responsibilities. There is an array of reporting and communication about both the organisation's performance (financial and delivery) and the regional economic context within which the organisation operates and is trying to influence and impact on.

- 2.2. Performance reporting occurs on annual, six monthly, quarterly and monthly cycles. The main components of the current performance monitoring and reporting framework are:

- **Annual Plan and Annual Plan Review:** The Plan is published annually at the WMCA Board annual general meeting and sets out the priorities of the WMCA, provides a strategic context for the WMCA as an organisation, and articulates what is being delivered and planned across each of the agreed portfolios. A six-monthly review of the Plan is reported to the WMCA Board and provides a summary of delivery progress including updates against delivery milestones/indicators. The WMCA Strategic Leadership Team (SLT) reviews delivery against the Plan twice a year (to be increased to quarterly), with relevant portfolio sections used as part of individual WMCA Directors performance appraisals and regular 1-1s with the Chief Executive.
- **State of the Region Report:** An annual analysis produced by the Black Country Consortium's Economic Intelligence Unit (EIU) to provide a contextual overview of the WMCA's economic performance during the year. It is based on a range of outcome indicators, including those that feature in the Strategic Economic Plan (SEP). This effectively sets the context within which the WMCA is developing and delivering its plans. There is a deliberate read across and synergy to the Annual Plan as many of the indicators feature in the Annual Plan as the outcomes which the WMCA delivery, influence and support is aimed influencing or impacting on (but for which the WMCA is not solely accountable or responsible).
- **Strategic Risk Register:** The register of the key risks to the organisation and its ability to perform and deliver against its plans is regularly monitored, re-assessed and updated by both the WMCA Strategic Leadership Team (SLT) and this committee (quarterly). The Annual Plan references the key risks within the Register that have the biggest potential to impact the performance of the WMCA in terms of disrupting or delaying planned delivery.
- **Financial Monitoring:** The WMCA Strategic Leadership Team (SLT) consider a monthly monitoring report and dashboard summarising performance against

revenue budget and capital programme. A detailed financial monitoring report is also presented to each WMCA Board meeting providing an update on performance against the budget and capital programme, highlighting variances and mitigating actions and providing the basis for debate, discussion and decision-making. The reports also provides information about the investment programme, treasury management and administered funds.

- **Investment Programme Monthly Monitoring Report and Dashboard:** A standing item on the agenda of the Investment Board, the report and dashboard provides members with an Investment Programme status report. It provides the information for the Board to assess the progress being made across the Programme as a whole, with information on projects forecast start and completion vs approvals, funding, and expenditure, to support its decision-making process. The dashboard has been reviewed and refreshed to a new clearer format with approval to instigate its use from January 2020.
- **Programme and portfolio performance monitoring:** Delivery against specific individual portfolio priorities is monitored by the relevant Board or Committees:

Portfolio	Monitoring and Reporting arrangements
Transport	The Transport Delivery Committee (TDC) considers regular Financial Monitoring Reports as well as quarterly Capital Programme updates which provide the Committee with a progress monitoring update on the approved TfWM led 2019/2020 programmes and projects.
Housing and Land	The Housing and Land Delivery Board considers a quarterly update on the various work streams and deliverables which have been agreed by the Housing & Land Delivery Board and contained within the 2019 WMCA Annual Plan. It also receives updates on progress in investing housing and regeneration funding. The monitoring and evaluation is also reported to HMG as part of monitoring commitments under the 2018 Housing Deal.
Productivity and Skills	The Skills Advisory Board receives updates on progress against the Regional Skills Plan. There is also a comprehensive reporting framework in place to ensure effective delivery of the Adult Education Budget (AEB) in line with regional and local priorities. This includes the application of risk-based performance management principles applied to all AEB providers, including those funded through grant.
Economy and Innovation	The Strategic Economic Delivery Board oversees performance against delivery plans of the Local Industry Strategy. Summary delivery and economic performance dashboards are reviewed at every Board. The CA Board will receive an overview report of delivery twice yearly, with the next report due on 17 <sup>th</sup> January.

Environment & Energy, HS2	The Energy Capital Board reviews progress against the action plan at every meeting. This plan is based on the regional energy strategy and WMCA objectives. The Environment Board meets quarterly and will oversee delivery of the #2041 action plan. The performance regime is under development alongside the plan, which ARAC is being briefed on as a separate agenda item.
Public Service Reform and Social Economy	The Public Service Reform Board considers at each meeting an update on activities across the PSR workstreams with key items of note as well as an update on the business improvement programme supporting People, Process and Culture.
Culture and Digital	WM5G Ltd has a Board and meets monthly. It is funded by DCMS, WMCA and LEPs who all have representation at the Board. Updates on activity are presented to SED Board and can the project can be considered at Investment Board as it is part funded by the Investment Programme.
Well Being	The Wellbeing Board considers at each meeting an update on activities across workstreams with key items of note, as well as an update on WM on the move, the Thrive action plan and broader health inequality contextual analysis.
Inclusive Communities	The main (directly funded) activity currently relate to the implementation of the Leadership Commission recommendations, including the Inclusive Leaders Pledge initiative and Young Combined Authority (YCA) which are monitored at an officer level with regular updates to the Portfolio Lead Member and performance review meetings with the organisation commissioned to support the YCA.

- **Performance reporting to Government:** The WMCA also provides regular updates on progress with delivery to government departments, in line with the expectations of grant-funded activity, pilot activity, housing and skills deals, and devolution agreements.
- **Organisational Health/Performance Dashboard:** The WMCA Corporate Management Team (CMT) considers a dashboard of internal/operational metrics covering HR (absence, turnover and diversity), finance and procurement, environmental performance, communications, health & safety, and FOI requests. The dashboard is supplemented by more detailed information on staffing and health and safety. It is designed to enable the CMT (Heads of Service) to monitor the organisation’s corporate health, and determine whether there are areas requiring a more detailed review or investigation.
- **Monthly ‘Snapshot’ Brief:** A recently launched monthly bulletin for WMCA Board and Programme Board members containing the latest facts, figures and news, designed to support them when engaging with and/or representing the Combined Authority. Whilst predominantly intended as a communications tool, the Brief does report performance in terms of delivery highlights and achievements.

- **Monthly economic monitor:** qualitative and quantitative economic analysis is provided on a monthly basis by City REDI. This report was originally developed for the Brexit Economic Contingency Group and support the real time statistical analysis provided as new releases are made available. The latest available report can be found here: <https://blog.bham.ac.uk/cityredi/west-midlands-economic-monitor-november-2019/>

2.3. The reporting set out above are the key facets of the overall performance management framework and approach. The diagram at **Appendix 1** illustrates the various reporting and communication, including frequency of reporting and the audience it is aimed at and/or available to. Some elements have only recently been introduced, not yet fully rolled out or are in development (see section 3 below).

### 3. **Planned improvement and potential developments**

3.1. While there is a comprehensive range of reporting, it is recognised the current framework needs to develop and evolve further to facilitate a more integrated and rounded view of organisational wide performance and delivery on a regular basis. This was highlighted by the Internal Audit review of Performance Management and Business Planning arrangements earlier undertaken in 2019.

3.2. Since then work has been done to develop new practice and reporting to both strengthen and consolidate performance information. Some of this is reflected in paragraph 2.1 above. Other current and planned developments include:

- A 'Monthly Summary Scorecard' is being developed to provide a more integrated report that will include metrics and narrative on economic, financial and delivery (including the annual plan deliverables that were due for delivery that month). The Scorecard will be presented to both the SLT and CA Board.
- A 'Quarterly Portfolio Report' to SLT will provide a dashboard and narrative on delivery and impact in each of the priority portfolios. This will ensure a more consistent format for reporting progress and performance in respect of each portfolio – including annual plan delivery milestones, and key programme updates.
- 'In My Place' webpages on the WMCA website will help to provide a focus on delivery in a place (rather than by portfolio) and will be introduced during January 2020. They will be regularly refreshed regularly.
- A specific Overview and Scrutiny Committee session that focusses on performance and delivery. This could focus on the annual plan delivery and be undertaken to coincide with the half year or annual review process.
- Analysis of the most salient statistical releases is cascaded as updated data becomes available. A weekly review / preview of the week's key releases is being piloted, and the distribution list is being reviewed.

#### **4. Supporting infrastructure and capacity**

- 4.1 There are other related frameworks and activity that provide elements of performance management, including a Single Assurance Framework (the Committee received a report on this at their meeting on 24th September 2019 as part of the item on Investment Programme Governance Audit Update), and the monitoring and evaluation activity that measures benefits and impact across programmes.
- 4.2 The Constitution sets out the key responsibilities and accountabilities, with the Protocol for Mayor/member and officer relations stating: 'Both the Mayor and members are responsible to the electorate and/or their appointing Constituent Councils or Non-Constituent Councils and for their office. Officers are responsible to the Authority, its committees and joint committees. Their job is to give advice to the Mayor, Members and the Authority and to carry out work under the direction and control of the Authority, its committees and joint committees and to support the Authority in the exercise of its functions and duties.'
- 4.3 There are specific committees within the WMCA governance arrangements that provide oversight, challenge and assurance – not least this Committee. The Overview and Scrutiny Committee also plays an active role in holding the Mayor, portfolio lead members and WMCA Directors to account for delivery and performance.
- 4.4 As reported to the Committee in September 2019, a 'Strategic Hub' is being established following the Corporate Services Review. This will develop the organisation's capacity and expertise to develop, manage and support a more comprehensive and integrated performance management framework.

#### **5. Financial implications**

There are no specific financial implications arising from this report. All the developments described are already budgeted for.

#### **6. Legal implications**

There are no specific legal implications arising from this report.

#### **7. Equalities implications**

There are no equalities implications arising from this report.

#### **8. Other implications**

None

**APPENDIX 1: PERFORMANCE REPORTING AND COMMUNICATION**

Frequency	Performance Reporting	Communications	Stakeholders/Audience
Annual		Annual Plan / Review SOTR	CA Board / Public CA Board / Public
6 monthly		Annual Plan Review	CA Board / Public
Quarterly		Quarterly Portfolio Report Strategic Risk register Individual portfolio reporting*	ARAC / Public Boards and Committees
Monthly	Org health dashboard Financial monitoring report Investment Prog Dashboard		CMT SLT Investment Board
		Monthly summary scorecard (economic, financial and delivery (annual plan delivery milestones and impact?))	
Weekly		Snapshot brief Citi Redi monthly economic monitor Statistical release Weekly review / preview	CA Board Members and Programme Board Public (website) Internal

\*as set out in the table in section 2.2 of the report, the exact frequency and rhythm of reporting for individual portfolios varies.

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

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