

Public Document Pack



**West Midlands
Combined Authority**

Audit, Risk & Assurance Committee

Date: Tuesday 18 April 2023

Time: 10.00 am **Public meeting** Yes

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

Membership

Mark Smith (Chair)

Councillor Ram Lakha OBE (Vice-Chair)

Councillor Dave Borley

Councillor Craig Collingswood

Councillor Ken Meeson

Councillor Ram Mehmi

Councillor Yvonne Mosquito

Councillor Nick Bardsley

Councillor Mike Sutherland

Councillor Richard Baxter-Payne

Councillor Tom Baker- Price

Kate Shaw

Coventry City Council

Dudley Metropolitan Council

City of Wolverhampton Council

Solihull Metropolitan Borough Council

Walsall Metropolitan Borough Council

Birmingham City Council

Shropshire Council Non- Constituent Authorities

Staffordshire non-constituent authorities

Warwickshire Non-Constituent Authorities

Worcestershire Non- Constituent Authorities

Greater Birmingham and Solihull Local Enterprise Partnership

The quorum for this meeting shall be nine members.

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

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Telephone

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AGENDA

No.	Item	Presenting	Pages	Time
Meeting Business Items				
1.	Apologies for Absence	Chair	None	
2.	Declarations of Interest Members are reminded of the need to declare any disclosable pecuniary interests they have in an item being discussed during the course of the meeting. In addition, the receipt of any gift or hospitality should be declared where the value of it was thought to have exceeded £25 (gifts) or £40 (hospitality).	Chair	None	
3.	Chair's Remarks	Chair	None	
4.	Minutes - 24 January 2023	Chair	1 - 10	
5.	Matters Arising	Chair	None	
Business Items for Noting/Approval				
6.	Strategic Risk Register	Peter Astrella	11 - 26	
7.	Single Assurance Framework - Assurance Performance Report -October to December 2022	Joti Sharma	27 - 36	
8.	Internal Audit Update - March 2023	Peter Farrow	37 - 80	
9.	Internal Audit Plan 2023/24	Lorraine Quibell	81 - 88	
10.	WMCA Response to Audit Findings Report for the Year Ending 31 March 2022	Linda Horne	89 - 98	
11.	WMCA External Audit Plan for 2022/23	Grant Thornton/Linda Horne	99 - 158	
12.	Draft Annual Governance Statement	Helen Edwards	159 - 176	
13.	Government Response to Local Audit Framework : Technical Consultation	Louise Cowen	177 - 182	
14.	Terms of Reference - Audit, Risk and Assurance Committee	Helen Edwards	183 - 192	
15.	Exclusion of the Public and Press To pass the following resolution: That in accordance with Section 100A(4) of the	Chair	None	

	Local Government Act 1972 the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information relating to the financial or business affairs of any particular person (including the authority holding that information)			
16.	Internal Audit Report - Cyber Security	Peter Farrow	193 - 210	
Date of Next Meeting - To be advised				

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**West Midlands
Combined Authority**

Audit, Risk & Assurance Committee

Tuesday 24 January 2023 at 10.00 am

Minutes

Present

Mark Smith (Chair)

Councillor Dave Borley

Councillor Craig Collingswood

Councillor Nick Bardsley

Councillor Mike Sutherland

Councillor Richard Baxter-Payne

Lisa Ritchie

Dudley Metropolitan Council

City of Wolverhampton Council

Shropshire Council Non- Constituent
Authorities

Staffordshire non-constituent authorities

Warwickshire Non-Constituent
Authorities

Greater Birmingham and Solihull Local
Enterprise Partnership

Item Title No.

32. Inquorate meeting

It was reported that the meeting was inquorate and therefore the recommendations contained within the minutes would be submitted to the WMCA Board on 10 February 2023 for formal approval and adoption.

33. Apologies for Absence

Apologies for absence were received from Councillor Allen (Sandwell), Councillor Lakha (Coventry), Councillor Meeson (Solihull) and Kate Shaw (Greater Birmingham & Solihull Local Enterprise Partnership)

34. Nomination of Substitutes

Kate Shaw (Greater Birmingham & Solihull Local Enterprise Partnership) had nominated Lisa Ritchie to attend the meeting on her behalf.

35. Chair's Remarks

The Chair provided an update on meetings with the Mayor, the WMCA Board, the Overview and Scrutiny Committee and the Investment Board that he had attended since the last meeting of the committee on 4 October. In particular, he referred to a recent meeting of the West Midlands Audit Committee Chairs Forum that had looked at the key principles of audit committees in the public sector and their role as set in recent guidance from CIPFA (a copy of the slide presentation was included in the document pack for the meeting for information/reference).

The Chair noted that he took some reassurance that the WMCA ARAC appeared to be structured and focused on those matters consistent with this

guidance. However, it was noted that the recent guidance did recommend that audit committees should have two Independent members, and thus this would be noted for consideration by the Monitoring Officer in her Governance review.

Councillor Collingswood also took the opportunity to invite members to a free Audit Committee Forum event that the City of Wolverhampton Council are hosting in partnership with Grant Thornton on Thursday 2 March 2023 at the Art Gallery in Wolverhampton City Centre.

36. Minutes - 4 October 2022

It be recommended to the WMCA Board that :

The minutes of the meeting held on 4 October 2022 be agreed as a true record.

37. Matters Arising

21. Matters Arising- Minute No. 14 Cyber Essentials Report

The Chair asked that feedback on the WMCA's new submission against the enhanced Cyber Essentials accreditation in September 2022 be reported to the next meeting.

23. Public Sector Audit Appointments: Audit Quality Monitoring Report 2021 and Auditor Appointments for 2023-2028

The Chair reported that Grant Thornton had been re-appointed as the WMCA's external auditors for a further 5 years from 2023/24 through to 2027/28.

26. Strategic Risk Update

In relation to the update on the pension fund risk that is to be submitted to the next meeting, Grant Patterson (Grant Thornton) asked that the WMCA's Finance Team contact him on the matter if they would like Grant Thornton to have input into this item.

38. Forward Plan

The committee considered a report on agenda items to be submitted to the next meeting, currently scheduled for 18 April 2023.

The Chair identified the following additional reports:

- Value for Money Audit Findings (Grant Thornton);and
- Overview of the WMCA's budget for 2023/24

It be recommended to the WMCA Board that:

The report be noted.

39. Annual Accounts 2021/22 for West Midlands Combined Authority

The report considered a report of the Executive Director of Finance and Business Hub that had been prepared for the committee to approve the annual accounts of the West Midlands Combined Authority (WMCA) for the financial year ended 31 March 2022.

The committee also received Grant Thornton's draft Audit Findings Report dated 2 December 2022 including the Letter of Representation.

The Chair advised that as the meeting was inquorate, the WMCA Board would be asked to approve the accounts as part of the minutes for this meeting.

It was noted that a copy of the draft accounts had been shared with the committee on 27 June 2022. The Chair also noted that there had been 2 updates to these draft accounts in relation to Pensions and the valuation of Land assets, as set out on page 3 of the report from Grant Thornton. Finally, the Chair also noted that he had reviewed the updated draft accounts and highlighted some relatively minor recommended changes, primarily reflecting that the narrative reports required updating to reflect circumstances up to January 2023.

The Head of Financial Management, Louise Cowen presented the report on behalf of the Executive Director of Finance and Business Hub and expressed her thanks to the WMCA's Finance Team for their work in producing the accounts and also thanked Grant Thornton's Finance Team for their work on the accounts, noting the resourcing difficulties they had experienced.

Grant Patterson (Grant Thornton) reported that he was looking for the accounts to be signed off on 10 February 2023, whilst with regard to the Value for Money report, he advised that the audit would be certified closed in April and the committee would receive that report at its April meeting. The Chair requested that a final copy of the Audit Findings report be provided at the time that the accounts are signed.

Grant Patterson highlighted key issues referred to in the draft Audit Findings report.

In relation to financial statements and the significant risk relating to over 78,000 journals being processed, the Chair asked that the Head of Financial Management follow-up on how the transactions are broken down.

In relation to the testing of journals which included an expense claim for the Chief Executive that was authorised by the Chief Executive, it was reported that whilst this was an isolated incident and Grant Thornton had confirmed that they were comfortable that the expense was valid, management should review their governance processes around senior management expenses so they are authorised by a different member of the management team. The committee noted that an appropriate approvals process needs to be put in place.

Councillor Bardsley noted that the matter being highlighted by Grant Thornton on page 15 of their report in relation to the complexity of audit trails,

appeared to be a matter that they had also raised in the prior year. Louise Cowen responded that management had made some progress on addressing this matter in relation to the consolidation process, but further work was required in relation to grant income.

Councillor Sutherland commented that it would be useful if the report categorised risks according to a red, amber, green rating which would make it easier to focus on issues requiring more attention.

The Chair reported that he would like a response from the WMCA for all items highlighted in the Audit Findings report.

The Chair added that, whilst he acknowledged that this was sector wide issue, he was disappointed that the 2021/22 accounts were being considered for approval in January 2023, 10 months after the year end. He asked that management and Grant Thornton report to the next meeting on the plans that they have to ensure that the 2022/23 accounts can be signed off on a more timely basis.

It be recommended to the WMCA Board that:

1. The annual accounts be approved;
2. The draft Audit Findings Report presented by Grant Thornton be noted;
3. Grant Thornton propose to issue an unqualified audit opinion for the accounts;
4. The signing of the letter of representation by the Executive Director of Finance and Business Hub as set out in Appendix F of the Audit Findings Report be approved;
5. The Chair of Audit, Risk and Assurance Committee be authorised to sign off any further changes required to the Statement of Accounts for 2021/22 prior to publication be approved and
6. Subject to no further issues being raised by Grant Thornton, that the Mayor and the Executive Director of the Finance and Business Hub be authorised to sign the accounts on behalf of the WMCA.

40. Midland Metro Limited Annual Accounts

The committee considered a report of the Executive Director of Finance and Business Hub that had been prepared to enable the Audit, Risk & Assurance Committee to retrospectively approve the annual accounts of Midland Metro Limited for the financial year ended 31 March 2022.

The Head of Financial Management, Louise Cowen, presented the report and advised that because the Committee's November 2022 meeting was cancelled, Midland Metro Limited were not able to seek the Committee's approval of the accounts prior to them being filed with Companies House in line with the statutory timetable.

The Chair asked that for future years, Midland Metro Limited's External Auditors, Williamson & Croft, submit their audit plan to the ARAC in advance

of undertaking their audit, and that they present an audit findings report prior to consideration of the MML annual accounts. He reported that this committee should have the ability to provide greater oversight of the financial matters for the company and for this to be in place for the 2022-23 financial year.

The Head of Financial Management concurred with the Chair and considered it would be good to invite Midland Metro Limited's Finance Managers and Auditors to this committee in future.

It be recommended to the WMCA Board that:

1. The annual accounts for Midland Metro Limited for the year ended 31 March 2022 be approved;
2. the independent auditors issued an unqualified audit opinion for the year ended 31 March 2022 be noted and
3. Midland Metro Limited's accounts were filed with Companies House within the statutory timetable be noted.

41. Internal Audit Report

The committee considered a report of the Director of Law and Governance that provided an update on the work completed by Internal Audit, so far this year.

The Head of Audit, Peter Farrow provided an update on an audit recently completed in respect of WM2042 Delivery Programme (Environmental Recovery) that was awarded a satisfactory level of assurance and on work going forward.

He advised the committee that an unforeseen absence within the City of Wolverhampton Council's audit team, was having an impact on the delivery of the internal audit plan in line with the original indicative workplan, but steps were being taken to recruit temporary resource to address the matter.

It was noted that an abridged internal audit plan would therefore be delivered this year, albeit the Internal Audit team still expected to be able to provide a level of assurance to the Committee in respect of the Annual Governance statement for 2022-23.

The Chair asked that he continue to be provided with feedback on a regular basis as to the status of the delivery of this year's audit plan.

It be recommended to the WMCA Board that :
The contents of the Internal Audit report be noted.

42. Draft 2023/ 24 Internal Audit Plan

The committee considered a report of the Director of Law and Governance

that set out the proposed audits contained in the draft, risk based Internal Audit plan for 2023/24.

The Head of Audit, Peter Farrow, reported that the Internal Audit Plan had been prepared by the Internal Audit Liaison Officer, Loraine Quibell that was linked to the organisation's Strategic Risk Register. He considered the Plan was strong and comprehensive and discussions were now underway as to how it would be delivered.

The Chair noted that the Plan might be supplemented by a special review in relation to the management of the transport budget.

The Chair also sought reassurance from the Head of Audit as to the skills of the Internal Auditors who would be reviewing the Treasury activities.

It be recommended to the WMCA Board that :

The proposed audits contained in the draft, risk based Internal Audit plan for 2023/24 be agreed.

43. Strategic Risk Register

The committee considered a report of the Executive Director of Finance and Business Hub that provided an update on the Strategic Risk Register.

The Strategic Risk Manager, Peter Astrella reported on the key headlines since the last meeting on 4 October 2022 and advised the committee that attention was now focused on the cost of living crisis, inflation and global supply chain issues.

In relation to an enquiry from Councillor Collingswood as to whether the lack of funding awarded to the region as part of the recent Levelling-Up announcements had been identified as a risk, the Strategic Risk Manager advised that he not yet spoken to the WMCA's Strategic Leadership Team on the matter, but a new business plan would shortly be agreed for the new financial year and he assumed this would be captured at that point.

It be recommended to the WMCA Board that:

1. The key messages in the Strategic Risk Update be noted and
2. The revision or planned revisions to the Strategic Risk Register be noted.

44. Treasury Management Mid-Year Report

The committee considered a report of the Executive Director of Finance and Business Hub that provided an update on mid-year Treasury Management position.

The Lead Treasury Accountant, Mark Finnegan, presented the report that had been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management.

The report provided an update on WMCA borrowing and investments held at

1 April 2022 and 30 September 2022.

It be recommended to the WMCA Board that:

The report be noted.

45. 2023/ 24 Treasury Management Policy, Strategy & Practices

The committee considered a report of the Executive Director of Finance and Business Hub that set out the draft Treasury Management Policy Statement and draft Treasury Management Strategy for 2023/24 for endorsement prior to approval by the WMCA Board in February. The report also sought agreement that the Authority's Treasury Management Practices are adequately maintained.

The Lead Treasury Accountant, Mark Finnegan outlined the report and referred to section 3.3 of the report which summarised the principal changes between the current (2022/23) strategy and those for financial year 2023/24.

It be recommended to the WMCA Board that:

1. The draft 2023/24 Treasury Management Policy Statement (referred to in Section 2 of the report) be endorsed for onward approval by WMCA Board in February 2023;
2. The draft 2023/24 Treasury Management Strategy (Appendix 1) including the 2023/24 Investment Strategy and criteria for specified and non-specified investments (Appendix 2) be endorsed for onward approval by WMCA Board in February 2023 and
3. The arrangements for ensuring Treasury Management Practices are adequately maintained (Section 4 of the report) be noted and agreed.

46. Housing Investigation - Action Plan

The committee considered a joint report of the Director of Law and Governance and the Executive Director of Housing, Property and Regeneration that sought agreement to the Action Plan following a housing investigation.

It was noted that the Action Plan was produced in response to the recommendations from the independent housing investigation carried out by CBRE following a complaint received by the WMCA on 19 January 2022.

The Executive Director of Housing, Property and Regeneration, Gareth Bradford presented the report and advised the committee that the recommendations contained within the Action Plan had been taken forward and all would be implemented by June 2023.

It was noted that delivery of the agreed actions would be monitored with a further report on progress and delivery provided to committee in September.

The Chair commented that the WMCA needs to speed up its processes in responding to complaints of this nature as it had taken 12 months to complete this review.

It be recommended to the WMCA Board that:

1. The Action Plan in response to the recommendations of the independent investigation be agreed and
2. An update on progress in relation to the Action Plan be brought back to the Committee in September 2023 be agreed.

47. Investigation into Financial Breach - Metro City Centre Extension Wolverhampton

The Chair reported that the Director of Law and Governance and Monitoring Officer, Helen Edwards, was intending to provide a verbal update on this item but due to personal circumstances was unable to attend the meeting today.

However, she had prepared the following statement that the Chair read out to the committee.

'A report was taken to the WMCA Board on 16 December 2022 when it was noted that there was a breach of financial regulations in respect of the Metro, Wolverhampton City Centre Extension. The Board agreed for an investigation to be undertaken through the Chair of ARAC.

The former Monitoring Officer instructed Mazars, who have commenced an investigation. They have interviewed a number of people, but one key witness was on holiday and unavailable, so they have not yet concluded their investigations. Their current view is there are likely to be recommendations to review and strengthen procedures.

Their final report is expected shortly and will be reported to Board on 10 February.

It is recommended that that ARAC agrees that the Monitoring Officer should consult with the Chair of ARAC on the recommendations to made to the Board in respect of the final report.'

The Chair reported that he expected a report would be submitted to this committee in due course.

The course of action as outlined was noted and endorsed.

48. Exclusion of the Public and Press

Resolved:

That in accordance with Section 100A4 of the Local Government Act 1972, the press and public be excluded from the meeting during consideration of the following items of business as they involve the likely disclosure of exempt information relating to the business affairs of any particular person (including the authority holding that information).

49. Appendix to Midland Metro Limited Annual Accounts - Audit Findings Report

The board considered the Audit Findings Report for Midland Metro Limited in respect of their 2021-22 accounts, that were considered earlier on the agenda.

The Chair noted that this report was dated 21 July 2022 and therefore he expressed disappointment that it was only be brought for consideration at this meeting, six months later.

It be recommended to the WMCA Board :

That the MML Audit Findings Report be noted.

50. Track replacement works re: Corporation Street & issues with the original contractor, Balfour Beatty

The committee considered a report of the Executive Director for Transport for the West Midlands (TfWM) that informed them of the response from Balfour Beatty in relation to the Corporation Street, Birmingham track replacement works.

The West Midlands Metro Project Director, Michael Anderson, presented the report and outlined the legal position with regard to the works undertaken by Balfour Beatty and the goodwill measures that would be delivered as recognition of the need to replace part of the track.

He also advised the committee of the safeguards that have been implemented to ensure there is no reoccurrence of the problems encountered with regards to Corporation Street.

It be recommended to the WMCA Board that:

- 1.The legal position with regards to the works undertaken by Balfour Beatty in delivering the metro extension to New Street be noted;
- 2.The goodwill measures delivered by Balfour Beatty as recognition of the need to replace part of this track and the disruption on residents and businesses be noted and
3. The management assurances that have been provided be noted.

The meeting ended at 12.06 pm.

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Audit, Risk & Assurance Committee

Date	18 April 2023
Report title	WMCA Strategic Risk Update
Accountable Chief Executive	Laura Shoaf, Chief Executive Email: laura.shoaf@wmca.org.uk Tel: (0121) 214 7444
Accountable Employee	Linda Horne (Finance Director & Section 151 officer) Email: Linda.Horne@wmca.org.uk Tel: (0121) 214 7508
Report has been considered by	Linda Horne (Finance Director & Section 151 officer)

Recommendation(s) for action or decision: **For Information Only**

Audit, Risk & Assurance Committee is recommended to:

- a. Note the key messages in the Strategic Risk Update
- b. Consider and note revisions, or planned revisions, to the Strategic Risk Register.

1. Purpose

- 1.1. Taken together, the Strategic Risk Update at appendix 1, the Strategic Risk Register (SRR) at appendix 2, and the Issues Log at appendix 3, provide the ARAC with visibility of the strategic risks currently faced by the WMCA and support its function in monitoring the operation of risk management at the WMCA.

2. Background

- 2.1 The SRR supports the identification and management of the risks faced by the organisation in achieving its organisational or strategic objectives. The SRR captures only those high-level risks which are of such significance as to require oversight by the Executive Board (Exec Brd). The Exec Brd monitors WMCA's risk environment on a regular basis to ensure key risks are captured on the SRR and measures are in place to effectively manage or mitigate their effects.

2.2 Risks

Following its review, the SRR now contains 22 risks, of which four have the highest residual score of 25:

- *Failure to deliver the opportunities and benefits of the Investment Programme*

- *External factors*
- *Inflation & global supply chain pressures*
- *TfWM Programme Cost Management*

A further nine risks are rated at High / Red:

- *Financial resilience of WMCA to absorb fiscal shocks*
- *Information assurance & security*
- *Stakeholder & political relations*
- *Capacity and capability*
- *Post pandemic sustainability of public transport network*
- *Commerciality*
- *Investment Programme Delivery*
- *Financial sustainability of the Mayoral-led CA Model*
- *Cost of Living Crisis.*

2.3 Embedding Risk Management

There has been an encouraging response to my engagement discussions with Directorates; about the need to implement Directorate / Operational risk registers. When they met in March, the Exec Brd reaffirmed their commitment to the Strategic Risk Management Framework recognising the importance of timely engagement on the strategic risk discussions and to continue to support my efforts to embed good risk management practices through my ongoing engagement with their teams and particularly their use of risk information at operational level.

To support this I plan to work with the Performance Manager to help Directors and their leadership teams to look at how they can use both performance and risk information to support their effective decision making. This will in turn lead onto improved performance and risk reporting to the Executive Board and the ARAC.

3. Financial Implications

N/A

4. Legal Implications

N/A

5. Equalities Implications

N/A

6. Inclusive Growth Implications

N/A

7. Geographical Area of Report's Implications

N/A

8. Other Implications

N/A

9. Schedule of Background Papers

Appendix 1 Strategic Risk Update

Appendix 2 WMCA Strategic Risk Register

Appendix 3 WMCA Issues Log



West Midlands
Combined Authority

ARAC Strategic Risk Update April 2023

Peter Astrella – Risk Manager
Finance & Business Hub

Contents

<u>Slide</u>	<u>Title</u>
3	WMCA Strategic Risk Heat Map
4 – 5	WMCA Strategic Risk Trend (Graph & Detail)
6	Key Messages for ARAC – New Strategic Risks
7	Key Messages for ARAC
8	Key Messages for ARAC – Risks to be Removed

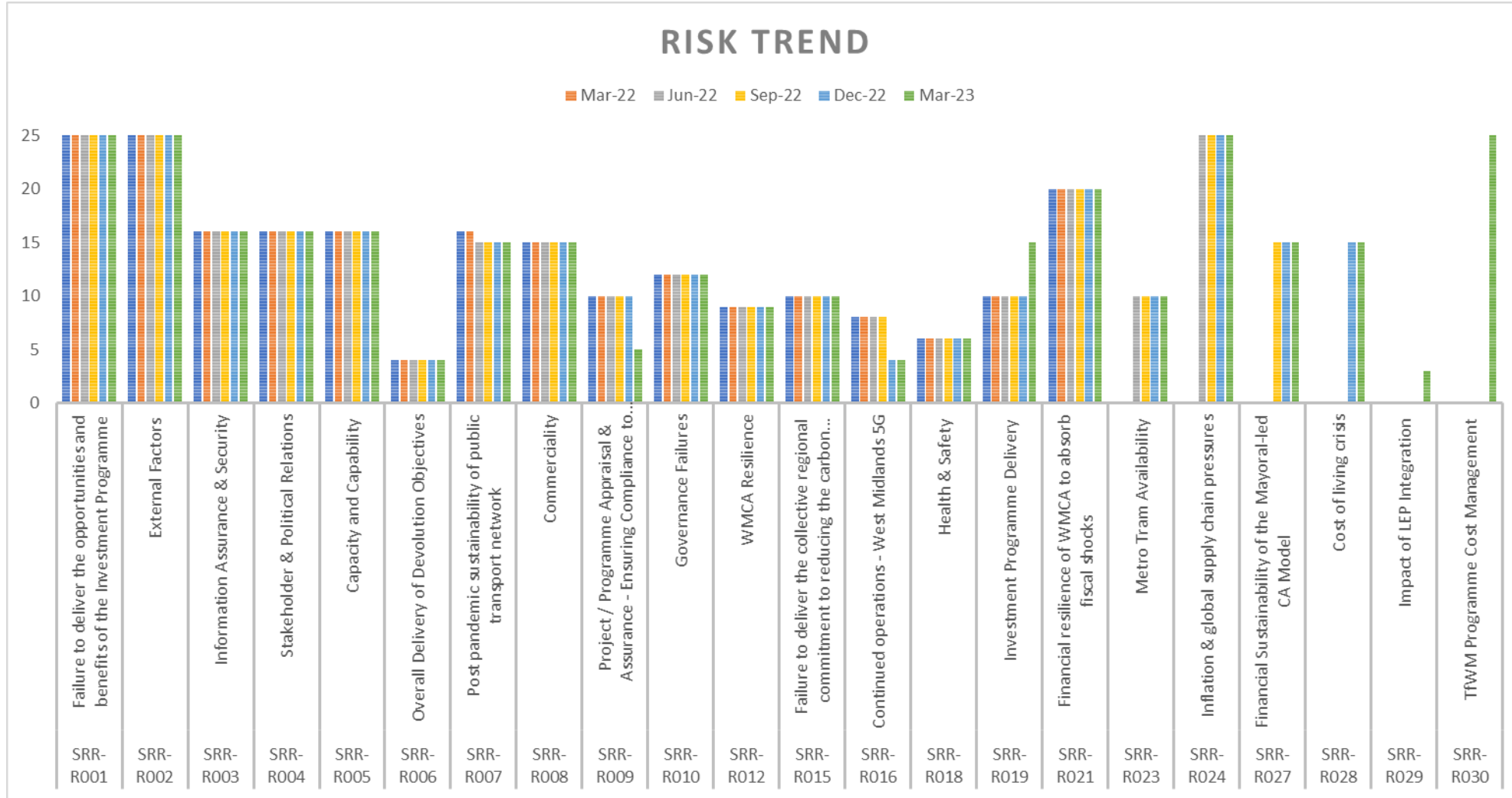
WMCA Strategic Risk Heat Map

A review of medium and low risks has resulted in the identification and assessment of two new risks, revisions to several more including the increase in one risk and reduction in one other.

Current Threats							
Likelihood	5	Very high		SRR-R023 ⇄	SRR-R028 ⇄	SRR-R001 ⇄ SRR-R002 ⇄ SRR-R024 ⇄ SRR-R030 NEW	
	4	High				SRR-R003 ⇄ SRR-R004 ⇄ SRR-R005 ⇄ SRR-R021 ⇄	
	3	Medium			SRR-R012 ⇄	SRR-R010 ⇄ SRR-R007 ⇄ SRR-R008 ⇄ SRR-R019 ↑ SRR-R027 ⇄	
	2	Low			SRR-R018 ⇄	SRR-R015 ⇄	
	1	Very low			SRR-R029 NEW	SRR-R006 ⇄ SRR-R016 ⇄ SRR-R009 ↓	
			1	2	3	4	5
			Minimal	Minor	Significant	Major	Critical
			Impact				

Threat Rating	Score Range	Count
Limited	1-5	4
Medium	6-12	5
Very High	15-25	13
Total		22

WMCA Strategic Risk Trend



WMCA Strategic Risk Trend

Following the latest review, there are now 13 strategic risks rated High / Red; one of which has seen its assessment increase. There are four risks with the highest residual rating:

SRR-R001	Failure to deliver the opportunities and benefits of the Investment Programme	25
SRR-R002	External Factors	25
SRR-R024	Inflation & global supply chain pressures	25
SRR-R030	TfWM Programme Cost Management	25
SRR-R021	Financial resilience of WMCA to absorb fiscal shocks	20
SRR-R003	Information Assurance & Security	16
SRR-R004	Stakeholder & Political Relations	16
SRR-R005	Capacity and Capability	16
SRR-R007	Post pandemic sustainability of public transport network	15
SRR-R008	Commerciality	15
SRR-R019	Investment Programme Delivery	15
SRR-R027	Financial Sustainability of the MCA Model	15
SRR-R028	Cost of Living Crisis	15



Key Messages for ARAC - New Strategic Risks

Impact of LEP Integration - Following the SLT's request in December 2022 for a new risk to be developed, the Risk Manager agreed a risk that reflected the position as at early March, with risk control activity focussed on negotiations with the LEPs, and specifically issues of resourcing and ongoing business support. However, in a fast-moving area of activity the risk is now considered to be largely under control, with outstanding areas of concern being managed at operational level. This is reflected in the latest revision to the strategic risk entry, where the risk is assessed as low. It is likely that the risk will be removed from the next iteration of the risk register.

TfWM Programme Cost Management - TfWM have identified a new strategic risk relating to the effective cost management of their programmes. A lot of activity has been recognised to bring the risk under control and we will continue to monitor this.



Key Messages for ARAC

Inflation & global supply chain pressures - We continue to see evidence of this risk affecting WMCA activity and we are actively looking at what we can do to mitigate the effects. The two main areas we have focussed on in respect of the impact of this risk are in HPR, where we are discussing priority pipelines with Local Authority colleagues and focussing on unblocking bottlenecks in projects coming up in the next 6 months; and TfWM, where we continue to make the case to Government for further funding for bus services.

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Financial resilience of WMCA to absorb fiscal shocks and Financial Sustainability of the Mayoral-led CA Model - As with several strategic risks, these are inextricably linked. The approved 23/24 budget is once again supported by reserves, and with a further 3 months of bus funding announced the immediate risk has been reduced, but these are not practical long-term solutions.

Many of our strategic risks interact with each other and there is an understandable and significant focus on the Deeper Devolution Deal as a means of providing long term fiscal security to mitigate them. Following the announcement on 15th March, we are considering the detail of the Deal and will develop mobilisation plans and review the impact of the £1.5bn secured under the CA umbrella, this will include re-evaluating these risks to reflect the impact of the Deal.



Key Messages for ARAC – Risk to be removed

Project / Programme Appraisal & Assurance - Ensuring Compliance to National Devolution Commitments – All Directorates have now transitioned to the SAF process. Accordingly, the Executive Board agreed that the risk is now reduced to a level where it can be managed through the ongoing implementation of the SAF process and can be removed from the risk register.

Continued operations West Midlands 5G – As discussed at the last risk review, controls now in place mean the risk has greatly reduced and the Executive Board have agreed that this can be removed from the risk register.

Risk ID	Risk Owner	Title	Cause	Effect	Controls measures in place	Likelihood	Impact	Score	Target	Trend	Further actions required to mitigate risk
SRR-R001	Exec Dir Finance Business Hub	Failure to deliver the opportunities and benefits of the Investment Programme	Decisions taken about the supplementary or alternative income streams; Business Rates Growth, Business Rates Supplement, and Precept, raise the risk around the delivery of the opportunities and benefits of the Investment Programme. In addition, interest rate rises are eroding the purchasing power of the grants / funding we have secured to date.	This could have a significant impact on the long term health of the CA and our ability to deliver for the West Midlands through: • Opportunities for growth being compromised • Damage to our political relationships with central Government, which could result in Government claw back of funds • Reputational damage with our constituent members • Stakeholder relationships compromised	<ul style="list-style-type: none"> WMCA Board have capped the investment within an affordable limit which also includes a hedge against future interest rate rises. Met Leaders have consistently stated that IP Projects are of the highest regional priority, and they support the principle that where new funds are provided they should be first applied to meet the shortfall of funding of IP projects where the funding allows. Senior Finance team members undertake regular review of the forces on the IP model. Work closely with Government to understand the ongoing financial position and help unlock additional income streams. Assessing opportunities to turn grants to loans and / or maximise 3rd party contributions and land value capture. Identify opportunities to fund Investment Programme schemes through other means (i.e. Levelling Up Fund, CRSTS, etc). WMCA continues to work with Central Government on financial issues arising from this situation, ensuring the voice of WMCA is heard by Government as part of discussions around financial and economic support for the region. We have built on existing good relationships with central Government to successfully bid for new streams of money e.g. Get Britain Building Fund. Opportunities arising from the recent Spending Review 	5	5	25	20	→	We are actively engaging with Government through our Trailblazer Devotion Deal discussions to look at how we: (1) Unblock Business Rate growth, and (2) Build support to enable a Supplementary Business rate Finally, we may want to explore future (post current Mayoral Term) precept options
SRR-R002	Exec Dir Strategy, Integration & Net Zero	External Factors	External uncertainties such as changes in Government policy, challenges following the pandemic or Brexit, may not be adequately factored into WMCA plans.	Fail to achieve our delivery ambitions, resulting in reputational damage to the CA. Structural economic change may change the nature, cause and solutions to regional social and economic challenges, meaning that our solutions and programmes need to be reviewed.	<ul style="list-style-type: none"> Economic Impact Group has been established on a multi agency basis across the public and private sector to track and plan for the impact of Covid on the economy and bring forward proposals to mitigate the effects. It is also playing a role in considering Brexit impacts and responses in the region. Feb 21 the WMCA Board endorsed five strategic challenges to shape the region's response and recovery planning. Fortnightly monitoring process (in collaboration with WM-REDI the University of Birmingham) summarising economic conditions, in addition to monthly reporting to SED Board. Regular statistical releases are circulated to inform decision making and are kept under annual review through the publication of the yearly 'State of the Region' report. 	5	5	25	TBC	→	Maintain measures already in place. Where vulnerabilities are exposed, undertake specific work with partners to explore solutions (e.g. supported Cabinet Office project about impact of introduction of border import controls / the Chambers/LEPs led work about issues to trade disruption). Continued development and delivery of appropriate responses as the situation develops as advised by Government, including the development of a strategy to support the recovery of the economy within the region, supporting HM Treasury's wider "Plan for Growth"
SRR-R003	SLT	Information Assurance & Security	Data protection requirements and/or proper protective security of all WMCA assets, information systems, premises and people, are not reasonably and proportionately maintained could lead to: Protective security of all WMCA assets, information systems, premises and people, are not reasonably and proportionately maintained leading to: • Organised and Opportunistic Crime • Authorised user failures • 3rd Party Services failures	<ul style="list-style-type: none"> Loss of information / access to information by unauthorised persons. Loss of access to information and information systems, resulting in the organisation's inability to function effectively. 	<ul style="list-style-type: none"> The SLT has approved an Information Assurance (IA) Framework supported by a suite of Protective Security and Data Protection policies. The CA has adopted and monitors adherence to all standards, warnings, advice, guidance and best practice as indicated by the relevant National Technical Authorities and other external experts. The IA Framework requires risk owners to consider and manage Data Protection risk at strategic and operational levels. All staff required to complete Information Security training, including GDPR, with regular staff awareness and monitoring in place. 	4	4	16	tbc	→	The CA has approved the WMCA Digital & Data (D&D) Strategy, which the first aim is to: Provide information assurance and risk management aligned to the confidentiality, integrity and availability of information systems and assets as set out in the HMG Security Policy Framework (SPF) and the Government Functional Standard (GovS) We need now to: • Deliver the D&D Strategy • Work with SLT and CMT to maintain organisational buy-in and commitment • Work with the Finance Team to embed the Strategy's requirements within the MIFP process to maintain the necessary financial support.
SRR-R004	Exec Dir Strategy, Integration & Net Zero	Stakeholder & Political Relations	Changing national politics have the potential to significantly impact the devolution agenda, funding and powers of WMCA	Positive stakeholder and political relations are needed to deliver the ambitions of the organisation and as the WMCA continues to expand and absorb new remits and accountabilities these relations may become more pressured. The Government's 'levelling up' proposals may give rise to new powers and budgets for the CA and, with continued uncertainty on when and how these are delivered, increased pressures on financial, operational, governance and scrutiny functions may result in further challenges in maintaining the relationships across the Region. Failure to manage these political relations and expectations could result in gaps in delivery and increased budgetary pressures.	<ul style="list-style-type: none"> Ongoing close working and regular communication with LEPs, constituent and non-constituent members. Collaborative working to be maintained and extended where opportunities allow. Establishment of a Devolution Strategy Group to ensure stakeholders are kept informed & involved with any Devolution discussions. The expectations of all members is to be clearly understood and shared with ongoing engagement with all partners and businesses at all stages of the Portfolio delivery. WMCA are developing more regular stakeholder and political engagement to discuss both inflight and emerging opportunities. Detailed stakeholder mapping and engagement activities undertaken with protocols established with local authorities. Arrangements that support engagement between Mayor and Portfolio Lead Members are being refreshed to create more time for policy development discussion. 	4	4	16	TBC	→	New opportunities being identified by Leadership Team to maintain and improve relations. Induction process for newly elected political members of WMCA in place. External political uncertainties are likely to contribute to residual risks despite mitigating actions. A review of engagement and involvement in decision-making and policy development
SRR-R005	Head of HR	Capacity and Capability	Possibility of challenges in recruitment, retention and skill gaps, including those arising from the post pandemic environment we are operating in and the values shift that we are seeking.	There is the risk that the capacity and skills amongst managers and officers may not be sufficient to fully deliver the ambitions of our services, respond to changing priorities, or to meet the continuing focus for delivery of new and challenging initiatives within WMCA While increased demands and pressures on staff could impact wellbeing and attendance levels. Post-Pandemic, there is a new threat as employees consider their work / life aspirations. Hybrid working has opened opportunities for people that might not have existed before. This also reflects an opportunity for the CA as we may no longer be tied to recruiting from a relatively small geographical pool, as hybrid opens up opportunities for recruits not necessarily located in the West Midlands.	<ul style="list-style-type: none"> General - Development and delivery of the organisation wide Transformation Programme Reset: Rebuild has been fully reviewed to support the review of the CA's systems, processes, structure, and culture. We have successfully embedded an HR Service Centre. Recruitment - SLT have considered an approach to capacity planning and recruitment in a volatile market, and we will be looking at the tools and routes to market we taken to use. Retention - A review of Reward processes and tools has taken place with a new system to review the size and benchmarking for all of our positions. An approach to talent and succession is being progressed including a skills audit to support a more planned approach. We will continue to ensure there are plenty of learning and development opportunities, including Learning Week. Hybrid - Regular communications in place with all staff to maintain engagement across all levels of the organisation. An all-staff survey on WMCA's management of its Covid response demonstrated most staff welcomed working from home and productivity has increased. The results have been reviewed in detail to inform the approach to future hybrid working arrangements. Well-being - HR and Wellbeing team are focussing on the mental health of all staff. A suite of wellbeing initiatives has been implemented to support the continued health of all staff, including the introduction of mental health first aiders and focus on promoting the benefits of the employee assistance programme 	4	4	16	12	→	General - Development and delivery of a cohesive People Strategy is ongoing and will respond to this risk. This work is underway and nearing completion. It will align the strategies of the component functions underneath 3 core principles – • Creating an agile, curious and learning organisation • Providing the environment to help everyone to bring their best energy and thrive • Thinking and acting as 'One Team WMCA' aligned to the overall purpose, values and strategy We will be relaunching our vision and values, raising their visibility and improving their understanding with all staff, supported by #BetterConnected where we will be looking to improve staff interface and engagement. Well-being – We will continue to look at new well-being initiatives, engaging staff through well-being forums and promoting well-being webinars.
SRR-R006	Exec Dir Strategy, Integration & Net Zero	Overall Delivery of Devolution Objectives	Political uncertainty and changing political priorities of central government.	The case for Mayoral Combined Authorities (MCA) and devolution is undermined. This could mean a re-centralisation of MCA functions or new HMG programmes that cut across our delivery plans or undermine our role. This could limit our ability to deliver our devolution deals, causing broad reputational damage and the possibility of detrimental impact to the local economy.	<ul style="list-style-type: none"> We continue to maintain close relationships with central government at both political and civil service levels to enable us to both inform and respond to the emerging policy response to the "levelling up" agenda. We make strong arguments for funding on all appropriate occasions. We are involved in regional and national review and planning exercises e.g. Brexit contingency planning. Organisational objectives are monitored and managed by Officers, thematic Boards and also WMCA Board. 	1	4	4	4	→	Low perceived residual external risk given current government positioning on the devolution agenda.
SRR-R007	Exec Dir TIWM	Post pandemic sustainability of public transport network	The pandemic changed customer behaviour and working habits and we continue to see reduced patronage levels across public transport networks (albeit this trend is gradually reversing and increases in bus customer numbers are going up). Added to this, Government funding is currently due to end in June 2023 across England, though clarity on the future of bus funding is being sought by the industry and transport authorities alike. The industry is also seeing unprecedented increases in the cost of fuel, cost inflation, and wages which is also being passed on to TIWM for contracted services placing pressure on what we are able to do to mitigate the risk. Other major causes of problems with service viability are issues with driver shortages. This is exacerbated by examples of poor passenger information about which services and journeys are missing, concerns with the level of customer support from operators, and an ongoing lack of centralised and coordinated data to provide clear leadership and direction in addressing the problem. All of which had led to questions about the commercial viability of many services. TIWM have some influence through partnership and joint working, but do not control the commercial decisions of a bus business. The influence that TIWM have had in this area has substantially reduced during covid due to the increased commercial pressures on operators which have driven different behaviours and responses to those pre-pandemic, exposing the limitations of decision making of a deregulated bus market. Longer term economic impact are also affecting both the Metro and Rail operations, there is a risk that both industries don't recover to pre pandemic levels due to a change in working habits/customer behaviour and uncertainty over longer term government funding support. Both rail and Metro are also impacted by additional energy, fuel and labour cost pressures.	<ul style="list-style-type: none"> Bus - Some impacts have already been felt with 10% of the bus network being lost between 2020 and 2023, which has resulted in higher costs for existing contracts, higher budget requirements for tendered bus services, reduced commercial miles and network, and a worsening of service through impacts on evenings, Sundays and lower frequency services. There is a potential risk for further contraction in commercial bus provision in the regional and nationwide, that is why it is critical clarity on the future of bus funding in England is provided. Any further reductions would place additional pressure on TIWM to financially support more tendered services which would, in turn, lead to increased budgetary pressures for TIWM and the wider WMCA. The delivery of contracted bus services by the WMCA is determined by Access Standards, a regional policy which have a criteria on Value for Money. The increased cost of delivering services has led to a significant number of TIWM contracts falling outside of the VFM criteria. Added to this, the lack of bus drivers is impacting most operators' ability to deliver the timetables that they have registered. Metro & Rail - Longer term economic impact on both the Metro and Rail operations, there is a risk that both industries don't recover to pre pandemic levels due to a change in working habits/customer behaviour and uncertainty over longer term government funding support; DfT provided financial support for Metro to maintain services but this funding ends in October. Tram - Difficult for MML to hit operating budgets, which has a knock-on impact on operations and elements of Metro expansion where borrowing against future revenue is involved. Rail - Increased pressure to reduce the Rail industry cost base by reducing services, changes to working practices and these could be harmful to the strategic objectives of TIWM & WMCA. 	<ul style="list-style-type: none"> Working with bus operators to better understand the likely implications of any reduction or withdrawal of government funding support and assessing this at different levels of patronage. Proactive engagement with Government and DfT around devolution of funding to enable us to better work through and manage any required changes on the network. Working with bus operators to increase service performance, to encourage patronage growth as service performance has failed to meet expected standards and targets. Working with industry, Government and partners through the West Midlands Bus Alliance to attract new and additional bus drivers to the industry in light of recent driver shortages and the impacts to services. Work with operators to provide customers with improved measures to advise passengers of which services are actually running through a series of communication channels to provide improved customer awareness of bus service cancellations. Some measures should now be in place in March 2023. VFM criteria has been reviewed to allow a greater number of bus contracts to be supported by the subsidised bus budget. This decision was taken by TDC at its meeting in Oct-22. There remains a number of services which will fall out outside the VFM criteria and will therefore be withdrawn. Engaging with Central government regarding the proposed recovery partnerships and seeking to influence the level of available funding - Light rail settlement combined with bus settlement, WMCA region allocation to be confirmed in due course. Review of funding models and access standards to support uplift and commercial operators making significant changes. Early identification of financial risk to inform the budget setting process and identifying options for reducing expenditure - Operational efficiency ongoing, all elements investigated i.e power, staffing, MML completing full re-visit of forecast for the financial year. Work with DfT, Rail industry partners to help inform decisions about future service offering within the West Midlands. 	3	5	15	9	→	<ul style="list-style-type: none"> Bus Make the case to Government for further funding for bus services to be ongoing and to value response to this risk in supporting the Local Transport Plan against alternative investments in transport. Work with operators to identify opportunities to reduce overprovision on corridors where there is commercial competition, to be delivered on the 1st January 2023. This work is behind schedule and ongoing. Agreeing with operators timelines for undertaking network review process including setting review principles, engagement and consultation, marketing and promotion etc. Liaise with DfT regarding funding and expectations as to when the Network Review needs to be complete. Implement comingling of passengers / explore options for expanding West Midlands Demand services to help meet gaps in the fixed route bus network. Leaders have agreed to commission a review of supported policies to take place over 22/23 Negotiate with operators to get the best package from the BSIP funding, including securing best coverage of the network. Communication of amended product range to help customers return to buying longer duration Metro tickets upon the Tram network (Placed on hold during service disruption, activities due to re-commence over Summer 2022). Supporting national and local marketing campaigns to increase demand and targeting new markets. Through the bus alliance board and working nationally with DfT and CPT we are collectively exploring opportunities to address the driver shortage issues.

Risk ID	Risk Owner	Title	Cause	Effect	Controls measures in place	Likelihood	Impact	Score	Target	Trend	Further actions required to mitigate risk
SRR-R008	Exec Dir Finance Business Hub	Commerciality	Having chosen to use commercial company delivery models in some areas, challenging economic conditions and / or material loss of revenue from investments may result in these commercial models being unable to deliver expected benefits and commercial revenue targets. While the issues associated with Covid 19 have largely passed, a new issue of high inflation and the cost of living crisis is likely to have a significant effect on the economy.	The Combined Authority may be exposed to greater financial risk, as well as reputational and delivery impacts. Examples being: Underperformance of the Commercial Regeneration Fund and a drop in commercial revenue and future Fairbox revenues, which could effect the WBH extension	Formal governance structures in place between WMCA and commercial bodies. CA directors appointed to companies providing regular interface between parties. Compliance of all financial accounting arrangements. Assurance & Governance checklist in place to review and confirm satisfactory arrangements are in place for all 'Arms Length companies'. Companies generally set up on a limited basis and therefore without a legal obligation to input more capital, however a reputational obligation may exist. Sources of capital input are generally sums that would otherwise have been input as grant i.e. they are from income streams to the WMCA that will not require repayment if losses occur. The Investment Director provides a commercial perspective on funding opportunities that are presented to WMCA. Adequate expertise brought into the Finance Team to ensure an appropriate amount of rigor and precision exists within all WMCA commercial financing models, reducing the risk of error. The statutory officers of WMCA are involved in the review of all commercial decisions and contracts/legal agreements to ensure that Covid risks/viability and costs have been assessed and where possible, controlled at the present time.	3	5	15	10	↔	For new commercial models sensitivity analysis will determine the probability of meeting any borrowing commitments and an appropriate mix of grant and borrowing will be applied having first obtained relevant approvals for any investment. For existing models we will continue to monitor our risk exposure and where recommended and appropriate we will seek to add additional grant money or exit in part or whole subject to our ability to do so.
SRR-R009	Exec Dir Finance Business Hub	Project / Programme Appraisal & Assurance - Ensuring Compliance to National Devolution Commitments	<ul style="list-style-type: none"> There is a potential risk that new project and programme proposals are not effectively appraised or assured in line with the Devolution commitments made to Central Government. The introduction of enhanced control requirements increasing resource requirements. Business Transformation has resulted in changes in support structures for SAF implementation. In the short term this may have an impact on the capacity to implement and embed the SAF across all WMCA project portfolios 	<ul style="list-style-type: none"> Potential for investment decisions being made without adequate appraisal having taken place beforehand. Leading to poor investment decisions and failure to realise anticipated benefits or value for money, thereby having an adverse financial and reputational impact. Non-compliance with Government requirements. Impact the ability of the WMCA to secure future funding. 	<ul style="list-style-type: none"> Single Assurance Framework (SAF) approved by WMCA Board in July 2020. SLT endorsed a phased implementation for transitioning projects to the new SAF in September 2020. Started with the Investment Programme and expanded to include a number of portfolios. Target date to transition existing portfolios was Spring 2022. SAF Implementation group meets monthly and reports progress/ issues to SLT. A revised and enhanced tool kit was developed to support SAF implementation. Assurance and Appraisal processes implemented in line with SAF requirements. SAF guidance is available on the Intranet. 7 additional posts have been approved and recruited to. Roll out of SAF requirements has been delivered to all Directorates and support teams. Almost all Directorates have now transitioned to the SAF - next update is October 2022. Directors are committed to submitting project pipeline information for each Portfolio and have worked to achieve transition. The Investment Director has established a commercial approach to funding opportunities. In addition an Integrated Risk, Assurance and Internal Audit network has been established to share information and intelligence. SAF annual refresh will be initiated in April with the aim of WMCA Board approvals by September 2022. Evidence from engagement with Government suggests they are satisfied with progress we are making, with positive feedback from DfT when the City Regional Sustainable Transport Settlement (CRSTS) bid was being developed. DfT were confident in WMCA's assurance arrangements and only retained 2 schemes for their review (other CA's had a greater number retained by DfT). 	1	5	5	10	▼	With a draft Programme Business Case (PBC) and a Project Business Case both having both now been submitted by HPR to the PAA Team for progression through the SAF process. All Directorates have now transitioned to the SAF. Quarterly reporting to SLT and ARAC continues, detailing Programme Assurance & Appraisal team activity and insights regarding common themes, progress to date and any recommendations for improvement. Training modules have been rolled out regarding the SAF, providing an overview of processes, roles and responsibilities and some of these modules are dedicated to Project leadteams. This is helping to improve awareness of and drive compliance with SAF requirements
SRR-R010	Head of Governance	Governance Failures	Failure to adopt and embed adequate formal governance arrangements.	As the WMCA is going through a period of growth with absorption of new and emerging priorities there is a risk that existing governance arrangements do not support the delivery of the organisation's objectives. With new devolved budgets, different government departments have specified different assurance requirements which are adding to pressures to develop bespoke governance arrangements. Inadequate governance could result in: <ul style="list-style-type: none"> Ineffective decision-making arrangements Unsuccessful delivery of WMCA objectives, Legal challenge, Negative Financial impact WMCA being unable to meet its obligations and future aspirations. Reputational damage 	<ul style="list-style-type: none"> Comprehensive governance arrangements are in place, regularly reviewed and contained in the WMCA constitution, approved by the Board. The Director of Law & Governance and Monitoring officer is a member of the Strategic Leadership Team and attends all meetings of the WMCA Board, and responsibility for oversight of all assurance activities, including Internal Audit. Governance activities are managed centrally to ensure robust arrangements are in place and conform to all legal requirements. Statutory Officers Group meets to moderate and review compliance of governance arrangements. A WMCA single assurance framework is in place. Governance requirements for Adult Education Budget, Housing and SG have been established to ensure the adoption of streamlined approaches where required. Ongoing programme of risk based Internal audits undertaken to provide an independent review that governance arrangements and internal policies are adhered to and remain effective. Corporate Assurance Team and Governance continue to liaise with new functions to establish appropriate assurance and governance arrangements. A governance review was undertaken and reported in November 2021 and continues to be implemented. Executive Directors and their respective departments to ensure good governance is embedded within their departments and activities 	3	4	12	5	↔	<ul style="list-style-type: none"> Review and where appropriate implement recommendations of the Governance Review from November 2021. Continue to monitor national guidance from Govt and the LGA and work with the Met Authorities to maintain a consistent approach where possible. Review the constitution with a view to affirming a current version at Board in May 2023 followed by a more comprehensive review and redrafting for consideration by the Board later in 2023 particularly to revise officer delegations and protocols.
SRR-R012	Exec Dir Housing, Property and Regeneration	WMCA Resilience	Unexpected or irregular events and circumstances affecting WMCA services, buildings and facilities, disrupting operations and activities.	WMCA may be unable to respond in an effective and timely manner to events that have the potential to disrupt operations and activities, causing service outages, incl. those relating to the disruption of the transport network. All of which could result in: financial loss, failure to realise expected benefits or funding, reputational damage, service outages, and legal or regulatory breach	<ul style="list-style-type: none"> A business continuity framework and programme exists and continues to be advanced to ensure that WMCA can respond to any business disruption in a timely manner. Hybrid working arrangements and increased resilience from communications methods put in place as a result of remote working have provided mitigation of some of these effects An incident management team and out of hours On Call arrangements are in place with alternative workspace identified at alternative WMCA locations. Independent review by Internal Audit provided 'substantial' rating for corporate business continuity arrangements. Raising business continuity awareness and embedding the programme within the business. Consistent messaging and comms throughout organisation. Establishment of multi agency partnerships with monthly progress updates and review of risk exposure. Major event emergency planning and associated governance structure to review on an ongoing basis. 	3	3	9	6	↔	Raising business continuity awareness and embedding the programme within the business, a 'task and finish' group has been established which is being led by the FM team to review and refresh our business continuity key documents. A new 'all staff updates' messaging service has been established in teams and a new business continuity teams site is being established with ICT. All incidents are now reported to CMT as part of the 'organisational health' dashboard and share with 'Security Steering Group'. FM are now working closely with Network Resilience to share best practice on TIWM plans ICT to review disaster recovery plan to ensure consistency between ICT and operational requirements are met and to update following Covid-19 and in light of the new remote working policies and procedures. WMCA FM Team are working on an updated Business Continuity Plan and ICT are now working with FM as part of the 'task and finish' group for this to look at the IT DR plan in conjunction with business requirements Phase 2 of the Business Continuity Strategy is the review and refresh of the 16 Summer Lane emergency plan (over Q3 2023) Phase 3 of the plan is the development of a wider corporate and organisational resilience plan (Q4 2023)
SRR-R015	Exec Dir Strategy, Integration & Net Zero	Failure to deliver the collective regional commitment to reducing the carbon budget to net-zero CO2 by 2041	A variety of challenging and uncertain structural and operational factors, including the pace of transition within key industries and sectors, and the scale of government investment and legislation.	WMCA, its members and partners, do not meet the region's carbon budget reduction net-zero CO2 by 2041 aims and attendant interim targets. There are profound implications for the region as part of a headline global risk of severe warming which evidence suggests will be hugely significant and costly in both human and economic terms.	<ul style="list-style-type: none"> A climate change strategy has been developed and priorities identified through a paper presented to the CA Board in June 2020; WM2041: a programme for implementing an environmental recovery. Actions from this paper are being taken forward and the CA Board agreed a Five-Year Plan. As part of the approval of the Five-Year Plan, budget was provided to create 5 new roles for the Environment Team and five new roles for Energy Capital; significantly enhancing our ability to deliver against the programme's targets. The Environment Team are working with other parts of the CA (TIWM, Housing and Land and Productivity and Skills) to ensure that net zero is embedded across the CA's work. TIWM continues work to affect a modal shift to clean and efficient public transport and active travel addresses medium term carbon reduction goals as well as shorter term concerns over clean air and congestion. The new Movement for Growth strategy will have carbon as a key consideration in future transport measures. Supporting progress with sustainability partners in aligning the five-year budget cycles required under the UK Climate Change Act. Annual monitoring of progress by the WMCA Environment Team is in place, as is annual reporting to the Carbon Disclosure Project. 	2	5	10	10	↔	<ul style="list-style-type: none"> Implement the first 5-year action plan; there is concern that it is currently only fully resourced for 2-years, and we are now over halfway through. In addition, several milestones for HLDs relating to our carbon neutral objective have seen activities delayed this year. Successful delivery of our objective will be very challenging without additional resourcing of both the team and the work. The scale of the renewed commitment of WMCA alongside that of its members and partners requires a step change in our behaviour, this includes a particular need for focus on climate change across the whole of the CA's portfolio of activity. We continue to press the Government for additional funding for the work on energy and environment in connection with any review of public spending.
SRR-R016	Exec Dir Finance Business Hub	Continued operations - West Midlands SG	Completion of the national TestBeds and Trials programme (as funded by DCMS) has removed the main funding stream from WM5G; WM5G successfully concluded all DCMS required outputs and its largest funded project is delivered and closed. WM5G is now tasked with replacing future income from new work it must pitch for and its continued existence depends on what it might win before March 2023 and any additional funding that the Region may offer it whilst it continues to build income to replace the DCMS funding.	Delivery failures and the need to wind down WM5G if alternate funding is not secured impacting on Staff, Skill levels within the CA. Operational impacts beyond the 5G Team caused by the skill gaps created if there are staff losses. There is a significant potential for financial loss: 1. If no further funding is received to continue the work of WM5G, then the start up costs have not been spread over many years. 2. Any future digital initiative that could have utilised the WM5G skill and knowledge base would need to incur new start up costs.	<ul style="list-style-type: none"> Finances throughout the project are drawn down subject to robust business case criteria and grant agreement within WMCA. The governance structure further reinforces this - via an arms length, wholly owned subsidiary company of WMCA, overseen by an independent Chair and with WMCA representation, held ultimately to account by WMCA through monthly Shareholder meetings. External funding for projects is in arrears and all targets met to date, the risk of any failure to deliver is falling. WMCA funding is largely in arrears and is strictly controlled by Finance and supported by the Shareholder meetings. WM5G have an in-house Finance Director and have demonstrated prudent financial control to date. 	1	4	4	6	↔	A business plan will form the business case and grant agreement for 2023/24 and will follow the Single Assurance Framework.

Risk ID	Risk Owner	Title	Cause	Effect	Controls/ measures in place	Likelihood	Impact	Score	Target	Trend	Further actions required to mitigate risk
SRR-R018	Exec Dir TIWM	Health & Safety	Failure of the WMCA to implement and embed suitable and sufficient Health and Safety arrangements across its activities via a defined Safety Management System (SMS) which as a minimum ensures compliance with all relevant legislative requirements.	Insufficient or absent arrangements to ensure the safety, health and wellbeing of any persons who may be affected by the organisation's assets and undertakings, resulting in significant risk to persons and/or infrastructure, including safe delivery or Metro Operations and Programme Delivery construction activity. Breach of legislative requirements, with potential for enforcement action by regulatory bodies, legal action (both criminal and civil) and reputational damage.	<ul style="list-style-type: none"> SMS certified to ISO 45001 standard with ongoing compliance externally assessed annually. Assessment of internal and external issues relevant to the SMS undertaken to allow the organisation to understand the H&S challenges and risks inherent to its activities, as well as any interested internal and external parties. WMCA Health and Safety Policy signed by Chief Executive containing statement of intent, roles and responsibilities and arrangements for implementation. Comprehensive H&S Legislation Register maintained by H&S Dept. Three-year WMCA Health & Safety Strategy (and associated Annual Delivery Plans) developed. Strategic and Operational Health & Safety Committees established. Audit and Inspections of all operational assets undertaken against set schedule to ensure H&S compliance is maintained. Monthly Health and Safety Report produced to provide regular update of performance and activity. Annual Health and Safety Performance Report produced to provide a summary of principal activities relating to the promotion and management of health and safety and outcomes during the past year. H&S obligations are considered in the development of all projects and programmes. Provision of relevant instruction, training, and supervision. Robust procedures in place for the reporting and investigation of accidents, incidents, and near misses. 	2	3	6	4	→	<ul style="list-style-type: none"> Development of policies, procedures, and guidance to ensure suitable and sufficient H&S implemented for all areas of the WMCA portfolio. Implementation of SMS Compliance Audit Tool to assess the application, understanding and maturity of health and safety policies and procedures within each WMCA directorate. Enhanced Visible Felt Leadership Programme to engage and motivate employees, whilst demonstrating commitment and support to the overall Health and Safety Policy. Continued development of the Health and Safety Training Programme. Immediate engagement with emergency services and/or regulatory body (HSE, ORR) in response to serious H&S incidents.
SRR-R019	Exec Dir Finance Business Hub	Investment Programme Delivery	Due to uncertainties created by the use of Delivery Partners / Delivery Bodies to deliver Projects / Programmes wholly or partially funded by WMCA Investment Programme, there is a risk that they may fail to deliver the full agreed scope of the Project / Programme, due to circumstances beyond their control. This may not be identified early on / monitoring mechanisms are not robust. Mitigating actions are limited by robustness of Funding Agreements and desire to enact clawback. HMG are demonstrating increased interest in the benefits from the Investment Programme and increased scrutiny is expected for all CAs. Many Business Cases approved in early days of the WMCA are light on monitoring and evaluation requirements when reviewed against current HMG expectations.	Resulting in delays to the delivery of programmes of work, failure to deliver the elements of WMCA's devolution commitments. Potentially leading to Reputational damage to the WMCA as well as damage to Political relations / Programme Delivery. Increased demand on resources to meet HMG expectations on information gathering and analysis. Revised monitoring requirements now implemented revealed 31 projects of 92 total now report more than 6 months delay in completion date and Change Requests to notify Board and seek extensions are being processed.	<ul style="list-style-type: none"> Monitoring Arrangements in place with Delivery Partners to ensure timely monitoring and reporting. WMCA assurance framework is in place and resources being bolstered. Progress of financial contributions monitored to enable coverage of all WMCA successes or early intervention of possible challenges. Recruitment of a dedicated Investment Programme Monitoring and Evaluation team largely completed with 2 of 3 positions filled and a new Monitoring Framework rolled-out. Improved standards of project initiation, development, delivery and monitoring/oversight through the Single Assurance Framework (SAF) have been rolled out. Funding agreements now in place with most Delivery Partners although many reflect Business Case requirements set historically and could be bolstered. Local Evaluation Framework to be put in place to HMG accepted standards this year but needs to be accepted by all Delivery Partners. 	3	5	15	6	▲	<ul style="list-style-type: none"> Deliver Local Evaluation Framework. Process all relevant Change Requests for the 31 projects with delays and gain approval plus put in place revised Funding Agreements. Ensure adoption and compliance with enhanced monitoring by Delivery Partners.
SRR-R021	Exec Dir Finance Business Hub	Financial resilience of WMCA to absorb fiscal shocks	Reduced levels of reserves / resources which are available to deal with fiscal shocks. The most evident causes of such fiscal shocks currently are: <ul style="list-style-type: none"> The ongoing effect of the pandemic on public transport services (see SRR R007), and The effect of inflation and global supply chain issues (see SRR R024) 	The revenue budget in recent years has been supported by reserves and other one-off resources which is the case for the recently approved 23/24 budget. This approach limits the degree to which the WMCA can direct funding quickly towards specific, or changing, priorities and reduces the extent to which WMCA has the financial capacity to effectively deal with fiscal shocks. Potential to force the reorganisation of activity, including the use of earmarked reserves to support the organisation, which will affect the delivery of regional priorities.	<ul style="list-style-type: none"> During the pandemic the WMCA lobbied Government for additional funding for key priorities, but these opportunities to fund excess cost are now being withdrawn by Government. Progress of financial contributions monitored to enable coverage of all WMCA successes or early intervention of possible challenges. Recruitment of a dedicated Investment Programme Monitoring and Evaluation team largely completed with 2 of 3 positions filled and a new Monitoring Framework rolled-out. Improved standards of project initiation, development, delivery and monitoring/oversight through the Single Assurance Framework (SAF) have been rolled out. Funding agreements now in place with most Delivery Partners although many reflect Business Case requirements set historically and could be bolstered. Local Evaluation Framework to be put in place to HMG accepted standards this year but needs to be accepted by all Delivery Partners. 	4	5	20	10	→	<ul style="list-style-type: none"> We are seeking a funding stream through the Levelling-Up agenda and Trailblazer Devolution Deal (TDD). The WMCA has special status to consider future funding of Authorities and we will use this opportunity to pursue our case for CAs to receive their own funding stream. Through the TDD we have identified a series of fiscal devolution options that would provide long term funding stability for WMCA which includes business rates funding. TDD is expected to be announced in early 2023. Finally, we could consider use of the precept.
SRR-R023	Exec Dir TIWM	Metro Tram Availability	The 2GT tram fleet has multiple cracks located on the body car and also on the Bogie Box which has resulted in previous withdrawal of service whilst repairs are carried out. There is an ongoing programme of repairs to trams on the body cars and bogie boxes. There is a residual risk that propagation of further cracks may again result in the tram being withdrawn for service.	Risk that 2GT/3GT trams are unavailable to meet service schedule, including suspension of all tram services to Edgbaston Village. This could result in a loss of revenue and impact other Metro extension projects. This is more prevalent whilst trams are routinely maintained (including P3 Overhauls) and are not available for short periods whilst being carried out. 15-16 trams currently needed - typically between 8 - 15 trams available. Operating a repair service until more 2GT trams can be repaired - therefore pressure on MML Operations to provide a sustainable service.	<ul style="list-style-type: none"> Immediate risk of suspension of service is reduced, with 8 new 3GT trams in service, a further two 3GT trams are being delivered early against schedule to improve availability in March. 3GT Quality issues have mostly been closed out and the programme is on track to close the remaining issues. The repair programme includes monitoring of cracks for any further propagation in other locations, replacement of full body panels and an independently assured repair to Bogie boxes. To date the repair programme has taken place at the Metro Depot which is now subject to an expansion programme limiting space for both repairs and general maintenance for those in operation. To ensure momentum can be maintained, TIWMMML and CAF have been working to secure an offsite location for the ongoing repairs. This is now secured and arrangements are in place to transport some trams to undergo the repair. TIWM are also working with CAF to ensure that the repairs being made are independently assured and also guaranteed to last for the full length of the trams expected life. 	5	2	10	4	→	<ul style="list-style-type: none"> Consider negotiate / fund full replacement of whole sections/components affected in 2GT fleet This is ongoing with full site panel replacement by CAF. 2. Ensure on-going monitoring of fleet and timely completion of repairs by CAF, with provision of repair documentation for approval. 3. Consider unlocking any cost constraints on timely temporary stabilising provision 6 trams are being repaired off-site in Dudley and these will have all been completed by end April. Remaining programme and cost of repairs being discussed with CAF.
SRR-R024	Exec Dir Finance Business Hub	Inflation & global supply chain pressures	Macro-economic events (such as the war in Ukraine, Brexit, and lasting impacts of the 2019 pandemic) are placing pressure on the price and availability of resources. As such, there is a risk that a continuation (or escalation) of these issues severely hampers WMCA's ability to deliver to the speed and scale required.	There are four elements to the risk based on cost and availability of resources: <ol style="list-style-type: none"> Material price increases. Energy price increases. Availability and price of materials. Availability and price of Labour These matters impact WMCA in the following ways. <p>CRSTS Programme Delivery: If projects cost more to deliver, WMCA may be required to severely curtail delivery programmes (doing less for more). If it is perceived as 'under-performance' by DfT or WMCA do not meet DfT's delivery expectations, the value of funding from DfT could be reduced either during or following the CRSTS 5 year period.</p> <p>Operational Delivery: Certain industries will be more exposed than others. The Bus industry for example is severely exposed to increasing fuel prices and the availability of suitably qualified labour. This could result in a contraction of commercially funded services and a reduction in the scope of what the public sector is able to financially support.</p> <p>Capital Delivery Transport: For existing projects in the delivery stage, there is a risk that tightening profit margins in the construction sector mean contractor behaviours change, with the aim of forcing more cost onto WMCA - the Rail Programme is a good example of where these risks are beginning to crystallise and a paper on this went to the WMCA Board on 16 December. Where there is no contractual protection from rising prices WMCA will need to identify additional funding to compete the schemes (or consider termination / de-scope) - the Metro network (BEE) is an example of where these issues are beginning to crystallise. Additionally, availability of labour for construction works could result in extended schedules which again, import additional cost. For projects in development (not yet in construction), the external environment makes it more difficult to accurately cost the projects and set budgets. In some cases this could affect the viability of the project. In others, where the impact is</p>	<p>CRSTS Programme Delivery: WMCA are in continual dialogue with DfT over the CRSTS programme delivery arrangements and change control processes which may need to apply if the programme is delivered in a different way to the original expectations. The issues experienced are not exclusive to WMCA and DfT (who are being pragmatic and helpful, to date) are liaising with other MCAs who are in receipt of CRSTS.</p> <p>With respect to CRSTS projects (and Investment Programme projects) which are delivered by Local Authority partners, the funding agreements will be capped (limiting immediate exposure to WMCA).</p> <p>Operational Delivery: With respect to MML energy pressures, MML will hedge where possible, but the price rises will continue to impact, and the position is being monitored closely. Where contracts provide for RPI / CPI related increases, WMCA are contractually bound but a detailed (bottom / up) budget for 2023/24 has sought to predict the impact over the financial year and has made reasonable allowances and the Finance Director is happy that reasonable assumptions around revenue risks have been made within the budget. The impact on the bus industry (network) is being closely monitored and there is an ongoing dialogue with Bus Operators. WMCA continue also to be in ongoing conversations with Government about the degree to which ongoing support is required.</p> <p>Capital Delivery Transport: Project Teams (in Rail for instance) have bolstered Commercial expertise within teams to ensure any excess additional costs are robustly defended and contained. The review of the TIWM structures will take into account the need to ensure adequate expertise is available and steps are underway to strengthen the control, monitoring and reporting processes. Where additional costs (and descope or termination) are unavoidable WMCA will need to meet these costs. WMCA have undertaken an exercise to provide early warnings to WMCA Board. The report included a strategy for how additional costs may be met using CRSTS or Levy. Costs are being monitored and matters managed on a case by case basis.</p> <p>Capital Delivery Housing: Principal contractors to plan and ensure materials ordered in sufficient time. Suppliers and subcontractors to manage the impact of material shortages and ensure delivery dates are maintained as scheduled. Continue to assess / monitor exposure of Inflation & Market pressures on schemes / contractors / suppliers. For the Investment Programme, the Single Assurance Framework (SAF) requires all projects and programmes to include a contingency sum. Once the contingency is exhausted, the Accountable Body is expected to meet any cost overrun. The final option is for the Accountable Body to request a change to the project through the SAF. Programme delivery and trends are monitored via reports to Site Pipeline, Housing & Land Board and Investment Board. In addition, regular pipeline development meetings are held with</p>	5	5	25	6	→	<p>CRSTS Programme Delivery & Capital Transport Delivery: Once the DfT change control requirements are known, the programme will be re-prioritised to cater for any unavoidable overspends in line with the report to Board. If this is not possible, there may be a requirement to increase future Levy payments and Local Authorities have been advised accordingly. The implementation of the revised TIWM structure is intended to address any shortfalls in capacity and capability to manage the programme in a robust way.</p> <p>Operational Delivery: Ongoing monitoring of RPI / CPI and the subsequent impacts with the outcomes being reported through the Financial Monitoring Report or the current year, and the Medium-Term Financial Plan for future years.</p> <p>Capital Delivery Housing: Developers must prepare for the predicted ongoing and increasing inflation with contingency plans and agile project management, while improving our own contract & commercial management. We need to look at delivery profiles and ensure, along with contractors, that there is effective resource planning. We have monthly priority pipelines meetings with Local Authority colleagues, while development managers are focussed on unblocking bottlenecks in projects coming up in the next 6 months in a bid to ensure projects continue to proceed.</p>
SRR-R027	Exec Dir Finance Business Hub	Financial Sustainability of the Mayor-led CA Model	There are multiple risks around the various funding streams for Combined Authorities including, but not limited to the lack of multi-year funding models; Government failure to act on business rate reform; reduction in transport funding per capita; and reduction in devolution deal per capita.	Significant pressures on Combined Authority budgets resulting in breakdown in their ability to deliver added value.	<ol style="list-style-type: none"> The Trailblazer Devolution Deal fiscal workstreams - we are discussing 15 fiscal opportunities with Government for longer term fiscal sustainability. The Autumn Statement 2022 provided some greater fiscal assurance given the restated commitment to the trailblazer devolution deals. Regular review and reporting of the Mid Term Financial Plan to consider funding, local income generation and or service cuts. 	3	5	15	5	→	<ul style="list-style-type: none"> Agree TDD fiscal opportunities with Government to provide longer term fiscal security. However, these agreements will not come through until 2024, which means the CA has a hole in its budget requiring filling in 2023/24. The final 2023/24 budget agreed by WMCA Board February required £9.2m of reserves to deliver a balance position. This will further impact SRR-R021 Financial resilience of WMCA to absorb fiscal shocks. The further activity available to reduce SRR-R021 Financial resilience of WMCA to absorb fiscal shocks can also be applied to this risk, namely: funding through the Levelling-Up agenda; use our status with Government to consider future funding of Authorities and the opportunity for CAs to receive their own funding stream; engage Government over the possibility of CAs being part funded through Business Rates; and finally, we could consider use of the precept. Although the Autumn Statement was positive about the potential of a TDD being agreed, there could still be problems for the CA were the TDD not to cover everything we expect or were it to come with caveats.

Risk ID	Risk Owner	Title	Cause	Effect	Controls measures in place	Likelihood	Impact	Score	Target	Trend	Further actions required to mitigate risk
SRR-R028	Our Staff - Exec Dir Finance Business Hub Citizens - Exec Dir Strategy, Integration & Net Zero	Cost of living crisis	The UK is experiencing the highest rate of inflation in forty years, with the Consumer Price Index up by 11.1% in the 12 months to October 2022. This has primarily been driven by increases in the cost of electricity, gas, and other fuels, cost of food, and cost of transport, primarily driven by increases in fuel costs, and there is therefore a direct link with SRR-R024 - Inflation & global supply chain pressures	The cost of living crisis is an existential threat to the WMCA through its impact on the businesses and people of the West Midlands, including many of our own staff, and through an associated threat to both our funding and revenue streams.	Our Staff: A range of information is now available to staff on the intranet through the financial-wellbeing-guidance, including links to external support and our CareFirst programme. Citizens: The direct response to the cost of living crisis is being led and coordinated by our constituent local authorities. The WMCA is signposting residents and businesses to the help and support being coordinated by local partners including local authorities, community and faith groups, charities and other voluntary organisations, and local businesses and enterprises. The immediate role of the WMCA has seen it use the convening power of the Mayor and the 'strategic headroom' provided by its regional and leadership role to bring together stakeholders locally, regionally and nationally, as well as campaign and lobby for support nationally, to meet the immediate challenges faced. An internal position paper was produced in January 2023 that set out the situation in relation to the cost of living, along with the short-term and longer-term actions being taken to address the cost of living by both the CA and LA partners.	5	3	15	10	↔	Our Staff <ul style="list-style-type: none"> A key theme of activity for the SLT 6 bespoke facilitated roundtable events for staff are being arranged to consider the cost of living crisis Feedback from those events will go to the leadership forum in December and next steps considered and communicated to staff thereafter. Citizens; The people and businesses of the West Midlands Focus now is on incorporating our response into our business as usual activity.
SRR-R029	Exec Dir ESC	Impact of LEP Integration	Causes of risk to WMCA arising from the LEP integration include: 1. Integration negotiations 2. Resourcing & the application of TUPE 3. Ongoing Business Support	There are significant reputational and financial impacts to WMCA, as well as impacts on both WMCA and LEP staff. We cannot be clear of all the possible impacts until the negotiations have finalised but primarily: <ul style="list-style-type: none"> We may fail to meet the required deadline for transfer Issues may arise regarding claims by some LEP staff that TUPE ought to apply to them. The quality of business support across the region is reduced There are significant reputational and financial impacts to WMCA, as well as impacts on both WMCA and LEP staff. We cannot be clear of all the possible impacts until the negotiations have finalised but primarily. 	<ul style="list-style-type: none"> Specific LEP functions are now integrated into the WMCA and the risks arising out of negotiations with LEPs, TUPE, Resourcing issues etc have been largely mitigated. FD and Head of Governance have reviewed the transfer agreement warranties and liabilities and are satisfied that the transfer agreement provides sufficient protection for the WMCA - Specific LEP functions are now integrated into the WMCA and the risks arising out of negotiations with LEPs, TUPE, Resourcing issues etc have been largely mitigated. FD and Head of Governance have reviewed the transfer agreement warranties and liabilities and are satisfied that the transfer agreement provides sufficient protection for the WMCA. 	1	3	6	6	NA	<ul style="list-style-type: none"> Keep under review Operational review of risks Risks around the future delivery of business support in the WM are no longer directly related to the integration of LEPs but rather to the on-going delivery of UKSPF-funded programmes, such risks, along with any other risks that may arise over the next month or so, are likely to be operational rather than strategic risks.
SRR-R030	Exec Dir TIWM	TIWM Programme Cost Management	Inconsistent visibility of a range of reliable financial and management information at programme level, incl. forecast outturn costs; the impact of change and cost over-runs, and the visibility of whole-life costs.	Any lack of visibility or consistency could result in: over-ambitious budgets being set for programmes / projects, leading to possible cost-over runs and an inability to provide reliable cost-certainty. This could in turn result in reputational damage and reduced confidence in our ability to deliver future schemes.	Regular reporting to both TIWM and WMCA, the centralised capture of costs, forecasting of costs at regular intervals and management of programme finances through a Finance Business Partner structure that closely aligns TIWM's Finance function, with programme delivery.	5	5	25	4	NA	Implementing TIWM reimaged.

Issue Priority	Issue Ref	Issue Title	Issue Description	Issue Owner	Issue Due date	Action Title	Action Description	Action Owner	Action due date	Action Status	Issue Status	Over all Status	Lessons Learned Initiated
Red	SRR-I001	Metro - 2GT fleet crack propagation	<p>1. Cracks propagating in 2GT fleet prior to entry into Car Body repair programme. Dudley VLR repair schedule means potential delay return of trams to service and increased need of stabling</p> <p>2. Operating a reduced service until more 2GT trams can be repaired, resulting in pressure on MML Operations to provide a sustainable service.</p> <p>3. Stalemate on CAF negotiations for 2GT fleet crack repairs; and non agreement with CAF regarding bogie box liability.</p>	Exec Director TfWM	Dec-21	Repair programme	<p>Finalising stabling options to store over capacity trams off site, has taken longer than hoped.</p> <p>Depot has received funding. Phasing has been reviewed with TfWM and MML teams. Value Engineering ongoing to reduce depot cost.</p> <p>TfWM wrote to CAF insisting that they secure and fund the site at Dudley and pay for transport of trams.</p> <p>P3 overhaul progressing, but with a number of 2GT fleet still pending their body panel replacements before entering back into service. Second bogies have come back. Third set has a provisional date mid February. Delays are having little impact on availability at present.</p> <p>High level reporting findings have been sent to CAF detailing investigation of causes for Bogie Box cracking. Commercial discussions set up. No propagation has been observed since last period; inspections have been reduced to monthly.</p> <p>Plans are in place to provide long term inspection of repairs. Assurance from CAF will be required that the repaired vehicles will have full life expectancy of 30 yrs. Remaining programme and cost of repairs being discussed with CAF. CAF reluctant to continue without financial input from WMCA, discussions on-going. As a result there's likely to be a financial impact to complete repairs on trams.</p>	MMA	Ongoing	Open at Risk	Open at Risk	Open	
Red	SRR-I003	TfWM - Technical Financial Breach	<p>Wolverhampton Interchange scheme: the accrued value of works instructed and undertaken exceeded the approved budget. This is an indication of a weakness in cost control practices, and represents a breach of financial regulations.</p>	Exec Director TfWM	Dec-22	Breach of Financial Regulations	<p>WMCA Board received and noted a report from the independent investigation on 10 February</p>	Exec Dir Finance	Ongoing	Open On Track	Open on Track	Open	

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Audit, Risk & Assurance Committee

Date	18 April 2023
Report title	Single Assurance Framework (SAF) Assurance Performance Report – Oct to December 2022
Portfolio Lead	
Accountable Chief Executive/WMCA Director	Linda Horne – Executive Director of Finance & Business Hub
Accountable Employee	Joti Sharma – Head of Programme Assurance & Appraisal
Report has been considered by	WMCA Strategic Leadership Team

Recommendation(s) for action or decision:

Read this report and note its contents for information. The report provides reassurance that the WMCA continues to support embedding the Single Assurance Framework (SAF) arrangements at WMCA (this is to support increase in project management capability within the organisation).

Audit, Risk & Assurance Committee (ARAC) is recommended to:

This report follows on from the Single Assurance Framework (SAF) update shared with Audit, Risk & Assurance Committee (ARAC) previously in September 2022. ARAC had requested that Programme Assurance & Appraisal Team present assurance thematic performance information on a quarterly basis.

1. Purpose

This report details thematic performance information from WMCA projects that have been assured through the Single Assurance Framework (SAF). This report will help demonstrate progress being made by projects and WMCA directorates transitioning to new SAF assurance and governance arrangements and includes Programme Assurance and Appraisal Team activity from October to December 2022.

2. Background

Single Assurance Framework (SAF) Implementation Progress

2.1 As reported to ARAC previously, the WMCA Strategic Leadership Team approved WMCA SAF to be implemented across all WMCA directorates in October 2021. This was to mitigate the risk of non-compliance to mandatory devolution commitments. The SAF Implementation project, led by a dedicated Project Manager, was established to support the implementation, and was split into two distinct phases which have now been completed:

- i. **Phase 1** – Transition all WMCA Directorates to operate within SAF standards and governance requirements (Oct - March 2022)
- ii. **Phase 2** – Undertake annual refresh of WMCA Single Assurance Framework document in accordance with Government standard (April – September 2022)

2.2 The table below summarises Programme Assurance and Appraisal Team activity between April 2021 and December 2022. It demonstrates engagement across all WMCA Directorates and an overall increase in activity over time.

REPORTING PERIOD	DIRECTORATE/ EXTERNAL ORG.	Business Case Assessment (BCAT)	Health Check	Risk & Investment Appraisal	Change Requests
Apr – Sept 2021 (H1)	TfWM	5	1	5	3
	Productivity & Skills	1	0	0	0
	Finance & Business Hub	1	0	1	0
	WM Growth Company	0	1	0	0
	Solihull MBC	0	2	1	2
	Strategy and Economy	0	0	2	1
(Q1& Q2) TOTAL		7	2	9	6
Oct – Dec 2021 (Q3)	TfWM	3	1	1	1
	Finance & Business Hub	1	0	1	1
	Solihull MBC	2	0	2	1
	WM Growth Company	0	1	0	0
	Strategy & Economy	0	0	1	1
	Housing & Regeneration	0	0	1	0
Q3 TOTAL		6	2	6	4
Jan – Mar 2022 (Q4)	TfWM	6	2	13	4
	Strategy, Innovation & Net Zero (SINZ)	2	1	2	0
	Investment Programme	0	0	6	9
Q4 TOTAL		8	3	21	13
April – June 2022 (Q1)	TfWM	5	0	9	0
	SINZ	0	1	2	0
	Greater Birmingham & Solihull LEP	0	1	1	0
	Economy, Skills & Communities	3	0	1	0
	Investment Programme	2	0	2	1
Q1 22 TOTAL		8	2	15	1
July – Aug 2022 ¹ (Q2 – 2 months)	TfWM	1	0	2	1
	Strategy, Innovation & Net Zero (SINZ)	1	1	1	0
	Economy, Skills & Communities	1	1	0	0
	Investment Programme	1	0	0	1
Q2 22 TOTAL		4	2	3	2
Oct – Dec 2022 (Q3)	TfWM	15	0	10	4
	Strategy, Innovation & Net Zero (SINZ)	0	0	1	1
	Economy, Skills & Communities	1	37	1	1
	Investment Programme	4	0	3	7
Q3 22 TOTAL		20	37	10	13

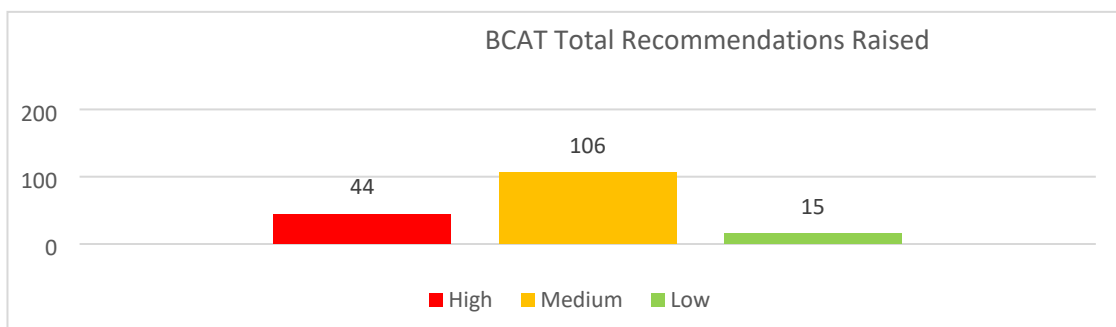
High Level SAF Trend Observations

- 2.3 The number of Business Case Assurance Reviews completed has quadrupled since the start of the SAF Transition project in October 2021. This has helped drive improvements to business cases prior to them being submitted for Risk & Investment Appraisal and approval.
- 2.4 The number of Risk & Investment Appraisal reports have increased 5 times since the start of the SAF Transition project; ensuring that project proposals have been accompanied by an independent risk appraisal review prior to the funding request being considered for approval.
- 2.5 The number of Change Requests undergoing the Risk & Investment Appraisal process has doubled since the start of the SAF Transition project. This shows that an effective Change Control process is in place and being utilised which allows WMCA to understand the root causes of change requests across all directorates and funding streams. It does not necessarily raise a concern about the level of change being undertaken as the control process has been rolled out across WMCA Project portfolios whereas previously the Programme Assurance & Appraisal team mostly only undertook independent risk and appraisal reviews on Investment Programme Projects.

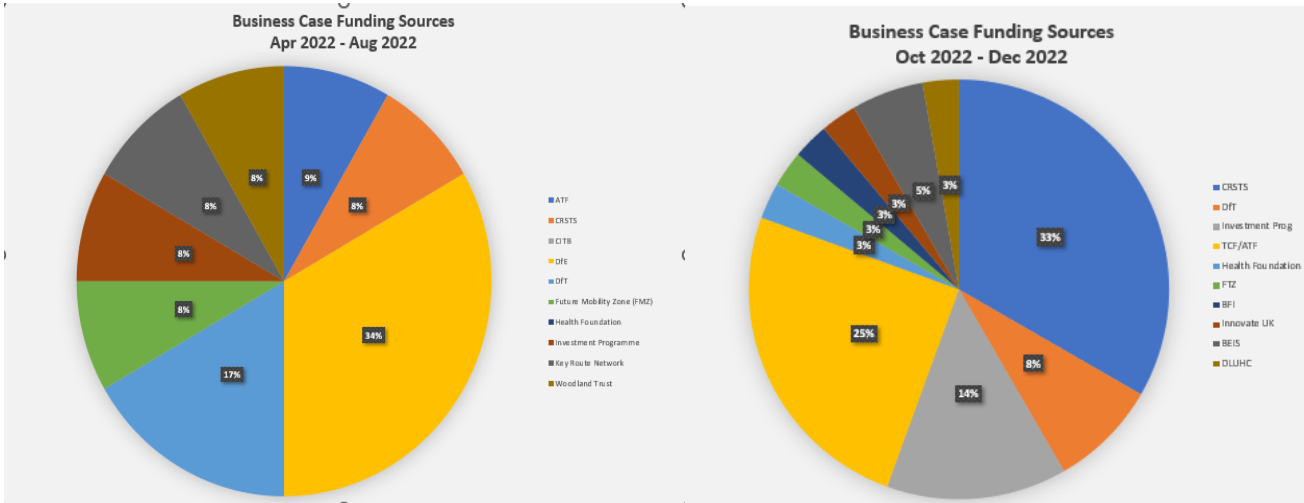
3 Assurance Performance Analytical Insights (October – December 2022)

Business Case Maturity Assurance Reviews (BCAT)

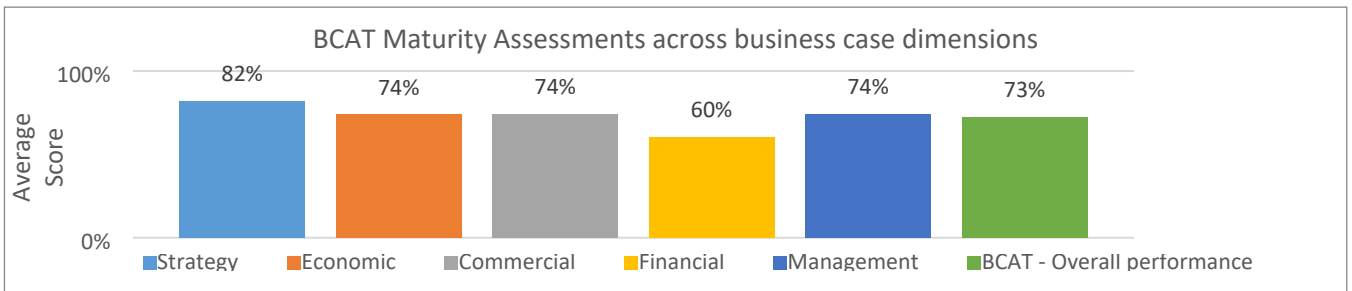
- 3.1 A total of 20 Business Case maturity assessments were undertaken in this period, with 44 high priority recommendations raised. The Programme Assurance and Appraisal Team have worked with project leads to improve the quality of business cases prior to their approval and this information will continue to be analysed to help drive organisational development and continuous improvement.



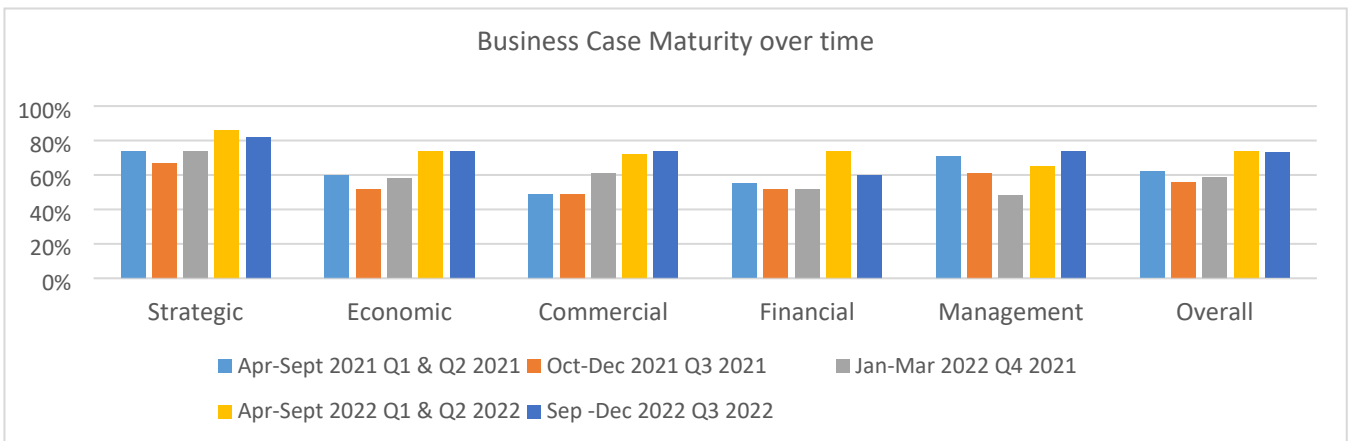
- 3.2 The charts below compare the business case reviews for Q3 (last reporting period) and the new reporting period by funding source. The chart demonstrates that SAF standards being rolled out widely across Portfolios, not only the Investment Programme funded projects. The pie charts demonstrate that there has been an increase in funding sources supporting the implementation of increased projects. Reassuringly, all these projects have been initiated in accordance with SAF.



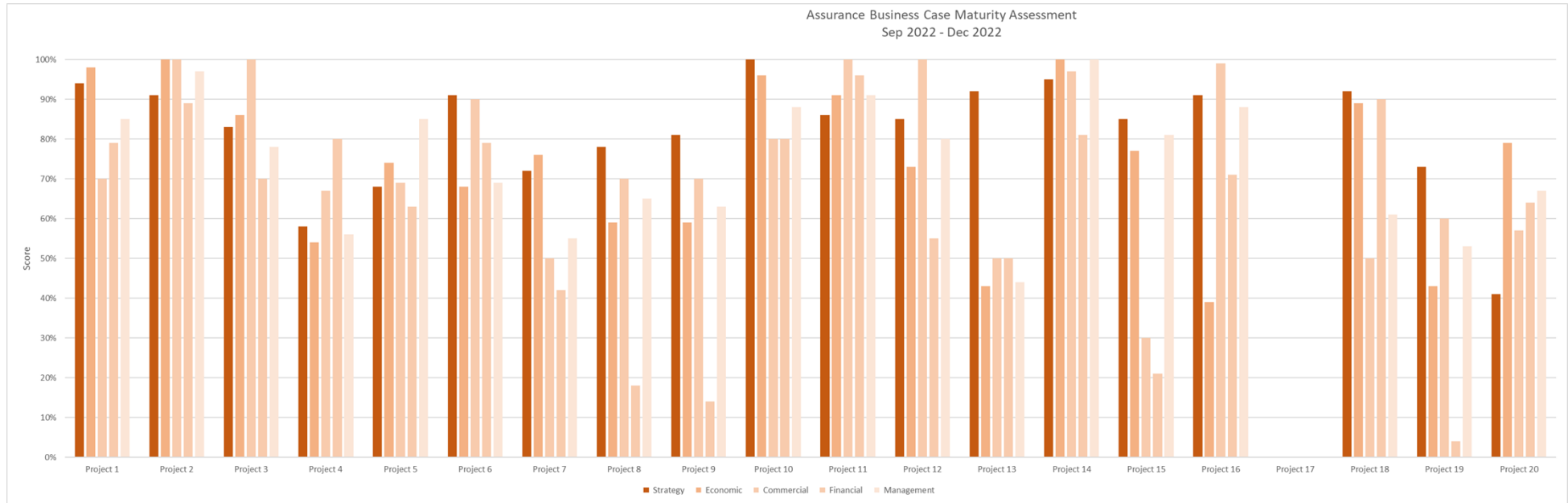
3.3 The following chart provide an overview of the assessed maturity of each Business Case dimension for the period.



3.4 The following chart demonstrates how business case maturity is generally improving over time.



3.5 The following chart provides a detailed overview of business case maturity by project. Project 17 business case was expedited through the assurance and appraisal processes and received a joint assessment, resulting in formal BCAT data not being available/produced. There were external factors impacted the timeframes that were available for the project team to produce a business case.

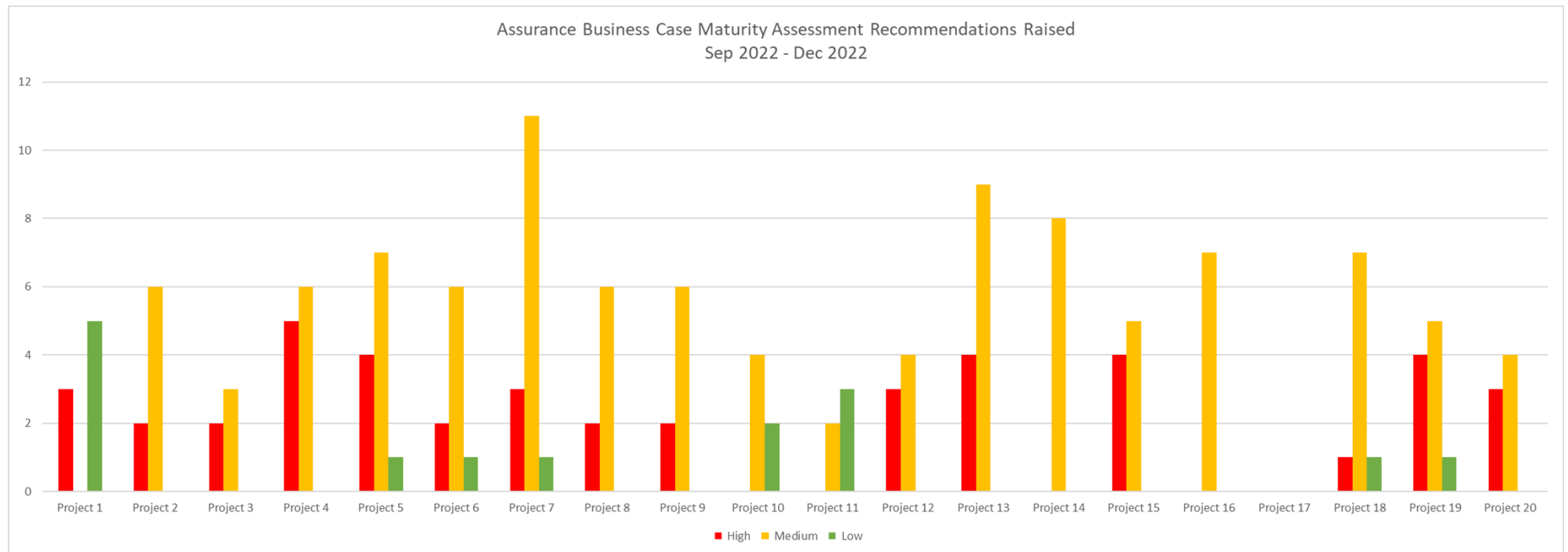


3.6 Key Observations between Q2 & Q3 (Business Case Maturity against HMT Green Book – Central Government Guidance on Appraisal & Evaluation)

- Between Q2 and Q3 there has been an increase in number of business case submission and generally demonstrating some increase in maturity
- Commercial Case between Q2 and Q3 has seen the greatest increase in maturity levels in this period.
- Several projects have noticeably less developed Financial Cases, in these instances there was inconsistent costs, conflicting information etc. To support greater consistency in this area, the Programme Assurance & Appraisal team have held training sessions with the Finance Accountants and the Finance Business Partners. This statement does not mean that the Financial Case was poor but that their business case quality and financial cases had differing levels of detailed included. Sitting behind each business case will be detail financial planning statements.
- Generally, there has been a programme with several underlying projects underneath that indicated less developed business cases. However again, several joined up sessions were held with the delivery team to support greater understanding of expectations.

3.7 Key Observations between Q2 & Q3 – Assurance & Appraisal Recommendations

- Between Q2 and Q3 positive trend shows that generally fewer recommendations were made by the Assurance team and a reduction in the number of high priority (red) recommendations as well. This is a positive indicator that as more projects are coming through SAF then learning from previous business case development has been taken into consideration. This is an indicator that organisation maturity is increasing in this space.
- There is a parallel with the less mature business cases tend to have had a greater number of red recommendations made during the assurance review stage.



Project & Programme Health Check Reviews

- 3.8 No formal Health Checks were conducted during the period; however, a total of 37 assessments were undertaken across the EDSC Directorate to support the Multiply Phase 1 and Innovation Accelerator Programmes. The Programme Assurance Specialists provided subject matter expertise to the Directorate to ensure HM Treasury Green Book principles were applied to the application and assessment process and a consistent and objective assessment process was undertaken to determine successful applicants for funding.
- 3.9 To further drive this assurance best practice with more projects moving into the delivery phase. A Programme of risk-based Health Check programme was approved by WMCA Senior Leadership Team in March 2023. This will be implemented throughout 2023-24 to help drive organisational improvements in Project and Programme Management activity. It is anticipated that approximately 10 programme level health checks will be undertaken throughout the year.

Risk & Investment Appraisals Reviews

- 3.10 A total of 13 Risk & Investment Appraisals were completed by the Appraisal team during the period, in comparison to the 17 undertaken in the last reporting period. However, it should be noted that the Christmas Period would have impacted the number of approvals coming forward during this time. A summary of these is detailed in the table below:

Funding Source	Business Cases Appraised
Active Travel England	2
The Health Foundation (THF)	1
City Region Sustainable Transport Settlement (CRSTS)	5
Department for Education (DfE)	1
Department for Business, Energy & Industrial Strategy (BEIS)	1
Department for Transport (DfT)	1
Investment Programme	1
WMCA (Growth Company)	1

- 3.11 Most business cases received during this period were <£5m with approval delegated to Executive Director or Statutory Officers/Executive Board. The Appraisal team continue to recommend most business cases for approval, though with some conditions to address weaknesses where this is felt appropriate. The appraisal team felt that adequate planning and risk mitigations were in place to provide confidence to commence project delivery. The most common causes of risks being identified are:
- Misalignment between government timescales/documentation requirements and SAF
 - Lack of input/engagement from internal stakeholders when developing the business case, leading to potential weaknesses in project delivery
 - Weak linkage between business cases and delivery, with a need to strengthen monitoring and evaluation planning in business case development.
- 3.12 To mitigate the above risks, the SAF Business Case templates and guidance material has been updated. These now provide clearer understanding of standard requirements and more explicitly ask for input from supporting services. There is also closer working relationship with the Appraisal

team and the WMCA Risk Manager. Any significant risks or risk themes are shared with the risk team. The WMCA Risk categories are used to assess risks in the appraisal summaries.

Change Request Reviews

- 3.13 A total of 12 Change Requests were processed by the Programme Risk & Investment Appraisal team during the period. The change trends include time extensions due to delays as a result of Covid-19 and re-scoping programmes that were originally scoped in 2016, however the case for change has weakened over time hence an updated baseline with new outputs and outcomes were required. There are also 4 change requests identified as 'opportunities' due to the availability of increased Central Government funding to enhance the scope and value of existing projects and programmes.
- 3.14 Most Change Requests have been received from Investment Programme, this is because it is the most mature programme with SAF controls and closely monitored by the Investment team. A deep dive review of the Investment Programme was undertaken during this reporting period with project teams which resulted in several CRs being received. All CRs were reviewed by the Appraisal team prior to approval being sought.
- 3.15 A summary of these changes is detailed in the table below:

Funding Source	No. Change Requests Appraised
Investment Programme	8
Department for Transport (DfT)	2
Department for Education (DfE)	1
Department for Business, Energy & Industrial Strategy (BEIS)	1
Change Request Type	No. Change Requests by type (note, some changes fall into multiple change types)
Scope (Objective Changes)	6
Value (Cost)	5
Schedule (Time)	10

Change Requests Appraised		Time	Cost	Scope
Q2 – April – Sept 2022	3	2	2	1
Q3 – Oct – Dec 2022	12	10	4	6

4 Assurance Performance Trends & Themes Identified October – December 2022

Key emerging assurance themes emerging from this reporting period are:

- Up to 2021, the WMCA SAF arrangements had been applied to Investment Programme only. Since the establishment of SAF Transition Project in Oct 2021, all WMCA Delivery Directorates have now transitioned to SAF (for 'in flight' projects) and all new major projects funded through devolved funds have been developed in accordance with SAF protocols.
- The assurance quarterly insight data outlined in section 3 provides an evidence base that the SAF is supporting an increase in driving improvements in project management planning maturity which will contribute in turn to further increasing project management capability.

- c. Change Requests numbers are increasing, most common reason is time extensions.
- d. In October 2021, the WMCA Strategic Risk Register included a SAF risk with an amber rating since SAF had not been fully rolled out as this posed a compliance risk for WMCA. It is now deemed Green overall- the risk can be reduced due to the progress made in the past year.

5 Strategic Leadership Team (SLT) Support

5.1 The SAF Implementation project's SRO is the Director of Finance. SLT will receive monthly progress reports of the SAF Implementation project via the Director of Finance.

6. Financial Implications

No implications.

7. Legal Implications

No implications.

8. Equalities Implications

No implications.

9. Inclusive Growth Implications

No implications.

8. Geographical Area of Report's Implications

All areas.

9. Other Implications

N/A

10. Schedule of Background Papers

N/A

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Audit, Risk and Assurance Committee Meeting

Date	18 April 2023
Report title	Internal Audit Update – March 2023
Accountable Chief Executive	Laura Shoaf, Chief Executive Email: Laura.Shoaf@WMCA.org.uk
Accountable Employee	Helen Edwards, Director of Law and Governance Email: Helen.Edwards@WMCA.org.uk
Report has been considered by	N/A

Recommendation(s) for action or decision:

The Combined Authority Audit, Risk and Assurance Committee is recommended to:

Note the contents of the latest Internal Audit Update Report.

1.0 Purpose

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

2.0 Background

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

2.2 The reports will also feed into the Annual Internal Audit Report that will be finalised following the completion of a number of audit reviews underway at the time this report was produced. 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. A draft opinion has been provided in paragraph 2.3 below.

2.3 As at the time this report was produced (27 March 2023) a number of internal audit reviews were nearing completion. Unless anything of significance is raised as part of these, prior to their completion – and we understand that there has been nothing to indicate that there will be, and dependent upon the final outcome of an independent investigation into a breach of the Combined Authority's financial regulations whereby costs on a capital project had exceeded the budget provision, our Annual Internal Audit Opinion should be able to provide reasonable assurance that the Combined Authority has adequate and effective governance, risk management and internal control processes.

3.0 Wider WMCA Implications

3.1 There are no implications

4.0 Financial implications

4.1 There are no direct financial implications as a result of this report.

4.2 The draft internal audit opinion for feeding into the Annual Governance Statement to be included in the 2022/23 annual statement of accounts is noted.

5.0 Legal implications

5.1 This report will provide the Audit Committee with assurance that it is fulfilling its functions as set out in Schedule 5A to the Local Democracy, Economic Development and Construction Act 2009.

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

Internal audit reports:

Appendix A – Organisation Change

Appendix B – Payroll

Appendix C – Key Financial Systems

Appendix D – Information Assurance and Cyber Security (private agenda item)



West Midlands Combined Authority

Internal Audit Update Report – 27 March 2023

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 2022 - 2023 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 which will be issued following the completion of a number of audit reviews currently underway, and as referenced later in this report.

Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

No Assurance	Limited	Satisfactory	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

2 Summary of progress:

The following internal audit reviews have been completed.

Auditable area	AAN Rating	Status and level of assurance
Internal Audit Reviews previously reported		
ICT Strategy	High	Final issued – Satisfactory
Dudley Interchange	Medium	Final issued – Satisfactory
Affordable Housing Delivery Vehicle	High	Final issued – Satisfactory
WM2041 Delivery Programme (Environmental Recovery)	High	Final issued – Satisfactory

Auditable area	AAN Rating	Status and level of assurance
Audit Reviews reported for the first time		
Organisational Change Report attached at Appendix A	High	Final issued - Satisfactory
Payroll Report attached at Appendix B	High	Final issued – Satisfactory
<u>Key Financial Systems:</u> <ul style="list-style-type: none"> • Accounts Payable • Accounts Receivable • Treasury Management • Budgetary Control • General Ledger Report attached at Appendix C	High	Final issued: <ul style="list-style-type: none"> • Satisfactory • Substantial • Substantial • Substantial • Substantial
Information Assurance and Cyber Security Report attached at Appendix D <i>Due to the nature of this topic, the report has been classified as private.</i>	High	Final issued – Satisfactory

The below table details the remaining audits in the current years audit plan, that were underway at the time this report was produced. Those highlighted in green are being completed by the City of Wolverhampton Council’s internal audit team, and those highlighted in grey by the Combined Authority’s interim internal auditors.

The rows highlighted in blue indicate audit reviews, which following a preliminary assessment, are to be carried forward to the following year.

Audit
Procurement Exemptions
IR35
Bromsgrove Rail Station
Single Commissioning Framework
Adult Education Budget – Provider Performance
Bid Management
Land and Tenant Management
Corporate Asset Acquisition and Disposal Framework
Business Continuity

Investment Programme: Monitoring and Evaluation

Adult Education Budget – Procurement

4 Follow-up of previous recommendations

Progress Monitoring Update							
Auditable area	Overall Opinion	Report Issue Date	Action Date	Agreed Actions			Number Progressed*
				Red	Amber	Green	
Human Resources Pre-employment checks	N/A	27/11/20	31/12/20	-	2	-	2
Environmental Management System	Satisfactory	06/01/21	30/06/21	-	1	1	2
Digital Retraining Fund	Satisfactory	10/06/21	01/11/21	-	3	1	4
Risk Management	Satisfactory	10/06/21	21/07/22	-	1	3	4
WMCA Devolved Adult Education Budget	Satisfactory	07/09/21	30/09/22	-	3	2	5
Longbridge Park and Ride Income Management and Charging Arrangements	Limited	30/03/22	30/11/22	1	2	-	3
ICT Strategy	Satisfactory	29/03/22	31/08/22	-	1	3	4
Dudley Interchange	Satisfactory	13/05/22	31/07/22	-	3	-	3
Affordable Housing Delivery Vehicle	Satisfactory	20/06/22	30/04/23	-	1	-	0
MML	n/a	22/06/22	31/12/22	-	1	-	0
WM2041	Satisfactory	19/10/22	31/01/23	-	3	1	2
Information Assurance and Cyber Security	Satisfactory	05/01/23	30/06/23	-	5	13	1
Key Financial Systems	Substantial/Satisfactory	03/02/23	31/05/23	-	5	3	4
Payroll	Satisfactory	09/03/23	06/04/23	-	2	5	2

* The number of recommendations completed reflects the opinion of the auditee only and the position as at 17 March 2023.

The target date for delivery of audit actions has been met in most cases, with two actions currently recording a delay to delivery against the target date originally set. These include the appointment of an independent member of the Midland Metro Limited Board, and the approval of revised Terms of Reference for the Environment and Energy Board, identified as part of the WM2041 audit.

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West Midlands Combined Authority

Internal Audit Report: Organisational Change Management Arrangements 2022 – 2023

Report Date: 27 March 2023

Report Distribution: Linda Horne, Executive Director of Finance
Laurence Adams, Head of Human Resources
Jayne Shearer, HR Service Centre Manager
Corinne Seymour, HR Consultant
Lorraine Quibell, Internal Audit Liaison Officer

1. Executive summary

Introduction

An audit of the organisational change management arrangements was undertaken as part of the approved internal audit plan for 2022-2023.

Objectives, potential risks, and scope of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following:

Objectives:	A review of the management arrangements for recruitment and changes to the establishment, including departmental restructuring, ensuring the adoption of and compliance with the Managing Organisational Change Policy and Changes to Establishment Policy.
Potential Risks:	<ul style="list-style-type: none"> • Unauthorised organisational changes. • Organisational change decision making is ineffective, inappropriate, or non-compliant. • Changes to the establishment are not made in an open and transparent manner. • Potential changes to the establishment are not communicated clearly to employees, unions etc.
Scope:	<p>The scope of the audit will include a high-level review of the application of and compliance with WMCA policy, process, and procedure when:</p> <ul style="list-style-type: none"> • deciding to undertake a recruitment exercise • undertaking a restructure or making a change to the approved establishment <p>A review of the Managing Organisational Change Policy and Changes to Establishment Policy will be undertaken as part of the above.</p>
Limitations to the scope of our audit:	This review will be restricted to the above areas.

Overall conclusion

Our audit provides **Satisfactory** assurance over the adequacy of the controls reviewed as part of the process to mitigate risks to an acceptable level.

No Assurance	Limited	Satisfactory	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Key issues identified

We rate each issue identified based on the following:

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
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We have identified one **amber** issue where improvement could be made, arising from the following:

- Changes to the establishment are being undertaken without prior appropriate approvals.

A copy of this report will be presented to the Audit, Risk and Assurance Committee.

Examples of good practice identified

During our work we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

- HR have produced a guide called How to Recruit. This provides guidelines for managers on the recruitment process to be followed when either requesting approval to recruit to a post in the establishment or when changes to the establishment are required.
- A review of the approval to recruit process found that in all cases tested, the appropriate documentation and processes had been applied. Where a recruitment exercise was completed, the individual had been appointed in accordance with the information on the recruitment approval form.
- Separate procedures had been developed for changes to the establishment depending on the value of the change – (under or over £100,000).

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. Findings and recommendations

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

1. Changes to the establishment

Findings:

A sample of three changes to the establishment that cost over £100,000 was tested to ascertain they had been appropriately approved and followed procedures. It was noted that:

- in one instance, the business case to change the establishment for Integrated Transport Services - Phase 3 Reorganising Proposals, that there was no evidence of approval by the Head of HR, or the Executive Finance Director before the post was recruited to. However, details had been presented previously to Senior Leadership Team but evidence of this had not been retained by HR.
- in one instance no evidence of approval by the Executive Director for Finance could be located.

A sample of changes to the establishment under £100,000 was tested to ascertain they had been appropriately approved and the established procedures applied. The following was noted:

- in one instance the workflow remained at HR approval pending even though a recruitment exercise had been completed.
- the change to establishment procedure states that proposed structure changes which are less than £100,000 will be approved by the Head of HR and Deputy 151 officer. It was found that the Head of HR had approved four of the five changes, but none had been approved by a Deputy 151 officer. From discussions with HR, it is understood that the process had been amended to approval being given by either post. However, procedures had not been updated to reflect this.
- It was also noted that initially, an establishment change was valued under £100,000 and the appropriate workflow applied. Subsequently, the management accountant valued the change as over £300,000, requiring approval by the Executive Director for Finance. However, due to the initial workflow route, the accountant's comments were not acted on.

Implications:

- Unauthorised changes may be made.
- Organisational change decision making is ineffective, inappropriate, or non-compliant.

Recommendations:

- i) HR should ensure that appropriate approvals and evidence are retained in the Nintex SharePoint workflow to support all changes to the establishment.
- ii) Requests to make changes to the establishment should be fully approved before recruitment exercises are undertaken.
- iii) The documented procedures for recruitment and changes to the establishment should be reviewed and updated to ensure that they are still appropriate.

Agreed Actions:

The issues identified above are acknowledged. Work is currently being undertaken to move the changes to the establishment process into Business World (Unit 4). Each stage of the process will be built into the workflow, including review and, approval. Documentation to support the process will be attached (where applicable) before it can progress to the next stage. The recruitment

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

authorisation form, job evaluation and change to employment forms are also going to be moved into Business World (Unit 4). Once this process has been finalised, procedures will be updated .

Responsible Officer:

Laurence Adams, Head of Human Resources
Jayne Shearer, HR Service Centre Manager

Target Date:

30 April 2023

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.

Stage	Date
Draft issued	09 March 2023
Exit meeting	20 March 2023
Final issued	27 March 2023
ARAC reporting date	30 March 2023
ARAC meeting date	18 April 2023



West Midlands Combined Authority

Internal Audit Report: Payroll Key Financial System Audit 2022 - 2023

Report Date: 9 March 2023

Report Distribution: Linda Horne – Executive Director of Finance
Louise Cowen - Head of Financial Management
Kate Ketteringham - Group Payroll and Pension Manager
Carolyn Prince - ERP Systems and Analytics Manager
Lorraine Quibell – Internal Audit Liaison Officer

1. Executive summary

Introduction

An audit of the payroll system was undertaken as part of the approved internal audit plan. This was a full systems review, to take account of the system change from SAGE to Business World on 1 April 2022.

Objectives, potential risks, and scope of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following:

Objectives:	The audit aims to give assurance that there is an appropriate system in place to ensure that correct payments and deductions are being made to genuine WMCA employees
Potential Risks:	<ul style="list-style-type: none"> • Inadequate segregation of duties in the payroll system resulting in potential inaccuracies / fraud. • Ghost employees set up on the payroll are undetected and inadvertently paid. • Employees will be paid after they have left, and outstanding amounts are not recovered. • Unauthorised changes may lead to fraudulent payments. • Inaccuracies in the payroll resulting from unauthorised and unreconciled payroll runs being operated. • The organisation's accounts are inaccurate due to posting errors. • Payments to third parties are inadequately controlled and managed resulting in errors being made. • Errors and omissions are not identified resulting in employees being either under / over paid. • Access to the payroll is inadequately controlled leading to potential data breaches.
Scope:	<p>The scope of the audit includes coverage of the following core controls:</p> <ul style="list-style-type: none"> • Starters • Leavers • Amendments to payroll / deductions (including updates to system control files) • Payroll runs • Payments to third parties (i.e., HMRC, pension schemes) • Management controls including a review of processes for exception reporting and corrective action taken • Access Arrangements
Limitations to the scope of our audit:	<p>This review will focus on reviewing the controls of the new Business World payroll system and testing the areas detailed in the scope. Testing will cover the period from 1 April to 30 September 2022.</p> <p>The review will not cover third-party and company payrolls.</p>

Overall conclusion

Our audit provides **Satisfactory** assurance over the adequacy of the controls reviewed as part of the process to mitigate risks to an acceptable level.

No Assurance	Limited	Satisfactory	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Key issues identified

We rate each issue identified based on the following:

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
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We have identified two **amber** issues where improvements could be made, arising from the following:

- There is no evidence maintained to support the verification of control table changes made by the Business World Support Team.
- There is no policy in place regarding the recovery or write off of salary overpayments. Testing found that an overpayment had not been recovered and there were no records to support whether the overpayment had been approved for write-off.

In addition, we have raised five issues classified as **green** which are detailed in section two of this report.

A copy of this report will be presented to the Audit, Risk and Assurance Committee.

Examples of good practice identified

During our work we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

Starters

- All starters had been accurately input by Human Resource officers and checked by payroll to the payroll tracker.
- The first months' pay had been correctly calculated and paid on a timely basis
- Back pay had been correctly calculated and paid on a timely basis to individuals who started after the payroll had been run for that month.
- Appropriately completed opt out forms were evidenced for the new starters who opted out of the pension scheme.
- Voluntary deductions are only made on receipt of an official request and testing confirmed that the deductions being made were for the correct amounts.

Leavers

- All leavers' details were being accurately recorded by Human Resource officers on Business World.
- Final payments to leavers were correctly calculated and paid on a timely basis.

Amendments

- Business World had correctly calculated pay following a change in employee's circumstances.
- All changes had been made on a timely basis by Human Resource officers.
- There was suitable evidence to show that changes and the effect on pay had been checked by Payroll officers.

Payments to third parties

- Third party payroll payments were subject to independent checks and sign off by the Head of Financial Management prior to payment.
- Payments to third parties are being made accurately and on a timely basis.

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. Findings and recommendations

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

1. Payroll Control Table

Finding:

Currently the WMCA Business World support team are responsible for uploading changes to the payroll control tables. Based on recent changes to the tables it is understood that Group Payroll and Pensions Manager undertook some checks to ensure these had been correctly uploaded. At the time of this review, it was not possible to evidence this as no audit trail had been retained to support the check undertaken.

It was only possible to check the control tables to agree pay steps up to SP52. There is currently no formal pay structure for senior management therefore senior officer salaries are paid in accordance with the amount agreed in accordance with their contract of employment. For the purpose of this review, we have not verified pay for those contracts that fall outside the current pay structure (i.e., senior officers and TUPE transfers).

Implication:

- Incorrect payments and statutory deductions could be made
- Employees may be incorrectly paid
- Reputational risk to the organisation

Recommendation:

The Group Payroll and Pensions Manager should seek copies of control tables each time an update is undertaken to provide assurance that information has been correctly updated in the system's control files. These should be signed and dated to evidence the checks undertaken.

Agreed Actions:

Agreed. Upon upload of the new tables, officers from payroll will ensure the changes have been correctly entered and any discrepancies investigated.

Responsible Officer:

Kate Ketteringham, Group Payroll and Pensions Manager

Target Date:

6 April 2023

2. Recovery / write-off of overpayments

Findings:

The audit identified that there is currently no policy or procedure in place for agreeing how salary overpayments are dealt with. In addition, it was noted that there was no record being maintained to show details of all overpayments made and any decision made regarding either the write-off or recovery of the overpayment.

Testing of a sample of leavers identified a leaver that had not been promptly entered on the system, by Human Resources, the service area had failed to notify them that the individual was leaving, resulting in a salary overpayment of £494.71. It is understood that a decision was made not to recover the overpayment as it was felt that there was little likelihood of the money being repaid. It is further understood that this case would have been discussed with Human Resources and the service area. However, there was no evidence retained to support this discussion and the decision taken to write-off the overpayment.

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

Implications:

- Overpayments may be inconsistently collected and written off
- Overpayments may not be recovered
- Overpayments are being written off without proper authorisation

Recommendations:

- (i) An overpayments policy and procedure should be established, which clearly sets out the decision process for the write-off or recovery of overpayments. The decision to write-off overpayments should reside with the organisations Section 151 Officer.
- (ii) A formal record should be maintained showing details of all overpayments made. The record should the reason for the overpayment, recovery decision, method of recovery and confirmation that the overpayment has been recovered.
- (iii) Attempts should be made to recover all overpayments before a decision is made to write the amount off. If the overpayment is to be written off this should be authorised in accordance with the organisation's write off / debt management policy and records retained to support the decision made.

Agreed Actions:

Agreed. An overpayments policy will be written and appropriate records will be maintained to support the decisions made with regard to the recovery or write off of overpayments.

Responsible Officer:

Kate Ketteringham, Group Payroll and Pensions Manager

Target Date:

6 April 2023

Action is advised to enhance risk control or operational efficiency
Green

3. Payroll data not being retained

Findings:

Testing of the payroll runs could not be completed as the PR01 and PR02 system reports were not available. Without the PR01 report it is not possible to provide assurance that any errors or exceptions had been corrected before the PR02 (Payroll Confirmation) process was run.

After further investigation, the system providers (UNIT4) confirmed that the system had been set-up to delete these files after 90 days and therefore it was not possible to retrieve the information.

There was no evidence that WMCA's external auditors were consulted around the retention of these reports and the potential implications this may have on the annual auditing and certification of accounts.

Implications:

An audit trail of the payroll run process is not maintained.

Recommendations:

- (i) The Group Payroll and Pensions Manager and Business World Support Team should review how the payroll has been set up to ensure that key system files and reports are suitably retained.
- (ii) Business World should be reviewed to identify any other records or files that are not being retained for longer than 90 days to ensure there are no statutory implications such as external audit or HMRC retention requirements.

Agreed Actions:

- (i) Agreed. Business World Support are going to copy the PR01 and PR02 files over on a monthly basis, as part of the period end routine, to the PROD WES Datafiles area. Access will be restricted to the Payroll Team and Business World Support. In addition, the payroll team will also save a PDF version in their working folders of the final reports run, as this supports payroll sign off. As a minimum this will include the PR01, PR02 and PR14 – Back pay reports (once working).
- (ii) Agreed. Business World has been reviewed and a decision has been made regarding which reports / files need to be archived. A regular review of report and retention requirements will be undertaken.

Responsible Officer:

Carolyn Prince, ERP Systems and Analytics Manager and Kate Ketteringham, Group Payroll and Pensions Manager

Target Date:

Implemented

4. Access to payroll and Human Resource functions

Finding:

Based on information supplied by the ERP Systems and Analytics Manager there are currently two Human Resources Officers and the Group Payroll and Pensions Manager that have access to both the payroll and human resource functions in Business World. Therefore, these officers have the ability to set up new employee records and enter payroll information in order for them to be paid, thus compromising a separation of duties.

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

The audit identified that there are five unique roles set up within the payroll system. However, it was not possible to test whether access had been assigned correctly as requested systems access reports were not provided at the time this report was produced.

Implication:

- Unauthorised changes may be made
- Inadequate separation of duties being maintained

Recommendation:

- (i) Officers with access to both the human resource and payroll functions should be reviewed and where possible amended to allow a separation of duties. Where this is not practically possible exemption reports should be produced to identify cases where the same employee has created the employee record and entered the payroll information. These reports should be subject to independent scrutiny.
- (ii) Systems access reports should be available from the system to allow an annual review of access in order to ensure access roles have been allocated correctly and revoked for officers who have left the organisation or changed role.

Agreed Actions:

- (i) Access to WA-Payroll has now been removed for the two HR officers identified and a separate role created for them so they can action the tasks on the positions as required. The new role is WA-HRPOSREG.
- (ii) Agreed. The longer-term goal will be that access is attached to the position register; therefore, should the position change/end the relevant access be automatically updated

Responsible Officer:

Carolyn Prince, ERP Systems and Analytics Manager and Kate Ketteringham, Group Payroll and Pensions Manager

Target Date:

6 April 2023

5. Automatic calculation of back pay

Findings:

Where back pay had to be paid for new starters this is calculated manually by the Payroll and Pensions Officer and then checked by another officer. It is understood that when Business World was initially implemented the back pay function was not working.

Following discussions with the Group Payroll and Pensions Manager it is understood that back pay can now be calculated by Business World, if back pay is run individually for a new employee. However, if a bulk back pay run (e.g., for the pay award) it will calculate back pay that has previously been entered manually. Therefore, at the time of audit all back pay was being manually calculated and entered until this is resolved.

Implications:

- Individuals may be incorrectly paid
- Time consuming to undertake manual calculations

Recommendations:

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

The back pay function in Business World should be reviewed by the Business World Support Team, in conjunction with the Group Payroll and Pensions Manager, to resolve the issues around the system calculating back pay. Once resolved, the manual calculation of back pay should stop and all calculations should be processed within Business World.

Agreed Actions:

Agreed. Further work on the implementation of the system is still required and on-going this includes work on the automatic calculation of back pay.

Responsible Officer:

Carolyn Prince, ERP Systems and Analytics Manager and Kate Ketteringham, Group Payroll and Pensions Manager

Target Date:

6 April 2023 - On-going with further system improvements

6. Monitoring / exception reports not available**Findings:**

The audit identified that there is currently a limited suite of standard payroll reports, built within Business World. Currently Payroll officers are either writing their own reports or pulling information out of Business World into Excel spreadsheets to complete their payroll checks. It is understood that the most significant report that is missing is an amendment logging report that shows changes being made.

Implications:

- Mistakes and omissions can arise from manual intervention
- Action being taken is time consuming and circumventing the payroll system

Recommendations:

- (i) The Business Support Team / payroll Business World consultant should be asked to produce the reports required by the payroll team to allow them to efficiently manage and run the payroll.
- (ii) Additional training should be provided to the Group Payroll and Pensions Manager on writing reports to allow them to produce any reports that they require.

Agreed Actions:

- (i) Agreed. Requests for a usable amendment logging report have been made previously but the report has not been produced.
- (ii) Agreed. Requests have been previously agreed.

Responsible Officer:

(i) Carolyn Prince, ERP Systems and Analytics Manager and Kate Ketteringham, Group Payroll and Pensions Manager

(ii) Carolyn Prince, ERP Systems and Analytics Manager and Kate Ketteringham, Group Payroll and Pensions Manager

Target Date:

6 April 2023

Action is advised to enhance risk control or operational efficiency
Green

7. Completion of payroll tracker

Findings:

Audit testing identified that Human Resources have not been recording details of all leavers and payroll changes on the payroll checker spreadsheet. As a result of this Payroll Officers have not been able to confirm that pay has been correctly calculated.

Implications:

- Mistakes and omission can occur where manual intervention is required.

Recommendations:

Human Resources should be reminded that all payroll changes including starters, leavers, and contract changes should be recorded on the payroll tracker.

Agreed Actions:

Agreed. Monthly meetings are in place with Human Resources to resolve issues with information provided on the payroll tracker. In addition, the drop down boxes have been introduced to control the variety of information being recorded.

Responsible Officer:

Kate Ketteringham, Group Payroll and Pensions Manager

Target Date:

Implemented

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.

Stage	Date
Draft issued	06 February 2023
Exit meeting	14 February 2023
Final issued	09 March 2023
ARAC reporting date	30 March 2023
ARAC meeting date	18 April 2023

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West Midlands Combined Authority

Internal Audit Report: WMCA Key Financial Systems 2022 - 2023

Report Date: January 2023

Report Distribution: Linda Horne – Finance Director
Carl Pearson – Head of Major Programmes
Louise Cowen – Head of Financial Management

1. Executive summary

Introduction

An audit of the West Midlands Combined Authority's (WMCA) key financial systems was undertaken as part of the approved internal audit plan for 2022-2023.

All the WMCA's key financial systems are considered to have a potential effect on the annual accounts. Therefore, these audit reviews are undertaken on an annual basis. The controls tested as part of this review are deemed as core controls.

The following key financial systems were reviewed:

- Accounts Payable
- Accounts Receivable
- Budgetary Control
- General Ledger
- Treasury Management

Scope and objectives of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following objective, and the potential risks to the achievement of the objectives the adequate controls are in place for the key financial systems and are operated in accordance with the Combined Authority's Financial Regulations and Contract Procedure Rules.

Scope

Accounts Payable

- Adequate controls, including a separation of duties are in place for approval of purchase requisitions / orders and invoices in accordance with the scheme of delegation.
- Adequate controls ensure 3-way matching of invoices to goods receipting and purchase orders.
- Payments have been matched to the correct invoice and allocated to the correct creditor account.
- Payment runs are appropriately processed and authorised (including BACS processing and cheque control).
- CHAPS/Faster payments are appropriately processed and authorised.
- Adequate controls are in place in respect of creating supplier records and amending supplier details including bank details.
- Adequate controls are in place for the approval and processing of AP spreadsheet uploads.

Accounts Receivable

- Controls are in place to ensure debtor invoices and credit notes are processed accurately, completely, and only once.
- Receipts are properly identified, recorded, and deposited intact.
- Adequate procedures are in place with regards to aged debts and write-offs.
- Adequate procedures should be in place for setting up new and amending customer details.

Scope

Budgetary Control

- The budget is prepared in accordance with standard guidance and the budget timetable.
- The budget is approved in accordance with delegated responsibilities in the Constitution and the budget in Business World does correspond to the approved budget.
- Budget monitoring reports presented to Committee members are accurate and timely and are in accordance with the Constitution.
- Cost centres are assigned to budget managers.
- Over/under spends are highlighted and corrective action is taken.
- Virements are undertaken and monitored in accordance with the Constitution.
- Final accounts are produced in accordance with prescribed timescales.

General Ledger

- General ledger is regularly reconciled to feeder systems.
- Control and suspense accounts are regularly reconciled.
- Bank accounts are regularly reconciled to the general ledger.
- System error codes are regularly cleared.
- Changes to cost centres / account codes are appropriately authorised.
- Opening balances are reviewed and are in accordance with closing balances from the previous year.
- Journals are authorised in accordance with the scheme of delegation and access controls and are processed on a timely basis.

Treasury Management

- Treasury management activities are undertaken in accordance with the Constitution and Code of Practice.
- Treasury management activities are accurately and completely recorded, and appropriately authorised.
- Risks associated with treasury management activities are effectively controlled.
- Cash and investments are effectively managed.
- Transactions are fully accounting for.
- Control accounts are reconciled.
- Appropriate and regular monitoring and reporting arrangements are in place and operated.

Limitations to the scope of our audit

This audit was limited to current year systems and transaction testing. Testing was undertaken for the period April 2022 to September 2022. The reviews also included the follow-up of previous recommendations made in 2021-2022.

Note: Payroll has been audited as a separate systems review.

Overall conclusion

Taking account of the issues identified in this report, in our opinion the controls operating within the systems reviewed provide the following levels of assurance as part of the process to mitigate risks to an acceptable level:

Key Financial System	Overall Opinion
Accounts Payable	Satisfactory
Accounts Receivable	Substantial
Budgetary Control	Substantial
General Ledger	Substantial
Treasury Management	Substantial

No Assurance	Limited	Satisfactory	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control are inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Key issues identified

We have identified five issues classified as **amber** and three **green** issues. These are further detailed in section two of this report, as well as examples of good practice identified for all audits undertaken.

This report will also 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.

2. Detailed Findings

Accounts Payable 2022-2023

Key issues identified

We have identified five **amber** issues where improvements could be made, arising from the following:

- Goods receipting was not always completed promptly, and some invoices were paid outside the expected payment period of 30 days.
- CHAPS / Telephonic Transfer forms were not always fully completed and evidence of approval throughout the process was not always evident.
- Payment runs (BACS processing) did not always show evidence of approval throughout each stage of the process.
- New and amended supplier supporting information to validate changes made was not always evident, and the completion of finance officer checks was not always evident.
- A budget manager had approved a high value spreadsheet upload transaction; however, this was above the level defined in the Scheme of Delegation.

Examples of good practice identified

During the course of our work, we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

Purchase requisitions, orders and invoices

- Business World had been used to process the payments.
- Purchase orders had been suitably raised and appropriately approved in accordance with the Scheme of Delegation for each invoice payment against these orders.
- Where required, Procurement approval had been suitably evidenced within workflow within Business World.
- Purchase orders had been suitably raised prior to invoice tax date (date services / works / goods provided) in most cases. Where purchase orders had been issued after that date, the delay was minimal.
- Invoice details agreed to the corresponding purchase order and goods receipting (per Business World) in all cases tested.
- 3-way match re Purchase Order, Goods Receipting and Invoice / payment amounts are understood to be auto-matched by the system per workflow once a PO is raised, receipting undertaken, and invoice registered within Business World.
- A separation of duties was suitably in place and evidenced in all cases tested regards ordering, goods receipting and authorisation.
- For the No Purchase Order invoices / exception payments tested, payments had been appropriately approved in accordance with the Scheme of Delegation.
- Sundry creditor payments suitably agreed to supporting documentation.

Payment runs / CHAPS

- Payments made via CHAPS (Telegraphic Transfer) processes agreed to supporting information regarding details and amounts.
- Reconciliation of Business World payment run reports to bank statements showed that payments had been made accurately and completely.

Supplier records new and amended

- Business World workflow is used for the customer amendment forms, includes approval stages.
- Business World is used to process supplier amendment forms.

Spreadsheet uploads

- Sampled transactions processed via uploading spreadsheets directly into Business World were confirmed as accurate.

Findings and recommendations

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

1. Purchase requisitions / orders and invoices

Findings:

Invoices (with purchase orders)

From our testing on a sample of 10 transactions, we noted:

- In six cases, goods receipting was undertaken after receipt of invoice or the invoice tax date.
- One purchase order was raised after the invoice tax date (30 days respectively).

Invoices (with no purchase orders)

From testing of five transactions, we noted one instance where payment was made 39 days after the invoice date.

Implications:

- Unauthorised payments may be made.
- Non-compliance with Financial Procedure Rules.
- Financial records may be incomplete or inaccurate leading to difficulties in determining actions taken in the event of query, challenge or fraud.

Recommendations:

Wherever possible:

- Purchase orders should be raised prior to receipt of the invoice or the invoice tax date.
- Goods receipting should be promptly undertaken following the receipt of goods / services.
- Invoices should be paid within 30 days to avoid any potential late interest payment charges.

Agreed Actions:

Officers will be reminded to promptly process purchase orders, goods receipting and invoice approvals.

Responsible Officer:

William Godden – AP/AR Manager

Target Date:

31 March 2023

2. CHAPS / TT Payments

Findings:

From an examination of five CHAPS payments (same day Telegraphic Transfer payments) totalling £6,304,896, whilst details of payments made agreed to supporting information, we found none of the forms had been fully completed.

Further, we found:

- In four cases, finance check sections on the CHAPS forms had not been completed.
- Sections relating to budget manager certification had not been completed. However, additional email approval was provided in one case.

In the remaining three instances:

- Additional supporting approval was not evident for two payments.
- A supporting grant funding letter, signed by Section 151 officer was provided for one payment.
- The HSBC bank authorisation section had not been completed in four instances.
- A separation of duties could not be confirmed due to incomplete forms (as above).

Implications:

- Unauthorised payments may be made.

- Non-compliance with Financial Procedure Rules.
- Financial records may be incomplete or inaccurate leading to difficulties in determining actions taken in the event of query, challenge, or fraud.

Recommendations:

- CHAPS / TT forms should be fully completed and evidenced as approved to show a separation of duties in accordance with the Scheme of Delegation.
- Approvals for CHAPS payments, whether by email or TEAMS, should be recorded on the form or should be easily retrievable and provided for inspection on request.
- Checks to confirm that prices are correct, goods had been received and checked should be certified within the relevant section by a responsible officer within a service area.
- Incomplete and / or unauthorised forms should be returned for remedial action by the initiating service area to ensure payments are only made based on fully completed and authorised forms.

As previously recommended in our 2021– 22 audit report, a review should be undertaken of the current processes for actioning payment via CHAPs forms to ensure they are fit for purpose, facilitate compliance with Financial Procedure Rules and provide a robust audit trail.

Agreed Actions:

Going forward all TT payment documentation will be fully completed.

Responsible Officer:

William Godden – AP/AR Manager

Target Date:

31 March 2023

3. Payment runs**Findings:**

We found from an examination of five payment runs that whilst the BACS report and bank account amounts agreed, evidence of approvals were not always evident throughout the process (e.g. SU08, BACSTEL-IP, TEAMS Channel).

We noted that for the five payment runs sampled, for:

- SU08 – One transaction approval was not evidenced
- BACSTEL-IP (TEAMS Channel) - Four approvals were not evidenced
- BANK Approval (TEAMS Channel) - Four approvals were not evidenced

Previous recommendations had been made regarding the proper verification and processing of bank detail changes to prevent and detect fraud in our 2020-2021 and 2021-2022 audit reports.

Implications:

- The WMCA's systems and records may not sufficiently evidence the checks and controls in operation to clearly demonstrate actions taken in the event of query, challenge, or fraud.

Recommendations:

Approvals or evidence of approvals throughout the payment run / BACS process should be retained and be easily retrievable for review.

Agreed Actions:

Bacs Payments approvals will be recorded and documented within the Confirmation File.

Responsible Officer:**Target Date:**

William Godden – AP/AR Manager	31 March 2023
4. New / Amended Supplier Records	
<p>Findings:</p> <p>We found from an examination of 10 supplier records:</p> <ul style="list-style-type: none"> • The supplier records had been accurately and completely established. However, we noted: <ul style="list-style-type: none"> ○ Secondary supporting documentation was not evident in nine instances. ○ In one instance, the order acknowledgement (bank detail evidence provided) did not agree with the bank details recorded on the system. ○ The company letterhead was not evident on one letter. ○ Three signatory issues found: <ul style="list-style-type: none"> ▪ In one instance the letter had been signed by the Chief Finance Officer whose name did not appear on Companies House records. ▪ one signature had been copied / pasted onto the letter. ▪ one signature had been typed. • Supporting evidence i.e., the WMCA Bank Details Log, new supplier / amended supplier workflow or customer amendment workflow was not observed therefore checks regarding completion and checks undertaken could not be confirmed. <p>We note recommendations to address new / amended supplier issues had been previously made in our 2020-2021 and 2021-2022 audit reports.</p>	
<p>Implications:</p> <ul style="list-style-type: none"> • The WMCA's systems and records may not sufficiently evidence the checks and controls in operation. • It may be difficult to demonstrate actions taken in the event of query, challenge or potential fraud. 	
<p>Recommendations:</p> <ul style="list-style-type: none"> • Supporting evidence used for bank detail verification checks as well as the corresponding online form should be held centrally together within Business World and attached to the supplier record within the supplier master file to create a central record. This would provide a clear audit trail when records are requested for query / inspection. • Documents / letters received that do not comply with WMCA processes should be challenged with the supplier, recorded on the Bank Details Log and further appropriate documentation (e.g. letterheaded / signed) should be obtained. 	
<p>Agreed Actions:</p> <p>All communications will be attached to the account to evidence that full checks have been completed.</p>	
<p>Responsible Officer: William Godden – AP/AR Manager</p>	<p>Target Date: 31 May 2023</p>
5. AP Spreadsheet Uploads	
<p>Findings:</p> <p>We found from a sample of five spreadsheet uploads that the spreadsheets were fully completed and budget manager approval was evidenced prior to uploading. However, we noted that one budget manger approved a value that was greater than the approval levels within the Scheme of Delegation.</p>	
<p>Implications:</p> <p>Incorrect levels of authorisation.</p>	

Recommendations: Approval in accordance with the Scheme of Delegation should be suitably evidenced.	
Agreed Actions: A request will be made for the Delegation of Budget Holder Values to be reviewed and updated.	
Responsible Officer: William Godden – AP/AR Manager	Target Date: 31 March 2023

Account Receivable 2022 – 2023

Key issues identified

We noted from sampling unpaid invoices that a record evidencing action taken to recover the debt was suitably recorded and reported. However, one of the unpaid debts related to a training provider that had gone into liquidation owing a large debt. The AP/AR Manager agreed that consideration would be given to raising periodic invoices as this would provide an opportunity to monitor trends in unpaid debts and would reduce the risk of significant loss. This would also provide an opportunity to discuss suspension or stopping the use of such providers. However, this would need to be discussed with budget managers.

We found no significant issues and identified several areas of good practice as detailed below.

Examples of good practice identified

During the course of our work, we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

Debtor invoices and credit notes

- Adequate procedures were in place for raising and authorising sales invoices and credit notes.
- Sample testing identified that invoices had only been raised once and had been suitably authorised by a budget manager.
- Credit notes sampled were against the appropriate invoice.
- Use of workflow within Business World ensured there was a separation of duties and that the correct authorisations were in place.

Receipts

- Sound procedures were in place for identifying income received.
- Receipts were properly identified and deposited intact.
- Income received was suitably recorded in Business World.

Aged debts and write-offs

- Adequate debt recovery procedures, including delegations for the approval of write-off's had been established.
- Sampled aged debts had been suitably chased and a record of action taken had been retained.

Suspense

- Unallocated (suspense) items were promptly reviewed and cleared.

New and amended customer details

- Adequate procedures were in place for setting up and amending new customers.

Previous 2021-22 Recommendation (Green rating)

The recommendation made in 2021-22 has been implemented.

Debt recovery procedures had been suspended due to the impact of Covid-19. However, recovery action had recommenced. We noted that 9 of the 10 invoices sample tested during the 2022–23 audit had been paid/were paying by instalments.

Budgetary Control 2022-2023

Key issues identified

We found no major issues in this area and identified several areas of good practice, making one **green** recommendation as detailed below.

Examples of good practice identified

During the course of our work, we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

- Employees who are involved with budget planning were issued with detailed budget guidance together with a timetable for the 2022 - 2023 budget setting process to assist with budget planning.
- The consolidated budget was approved by the WMCA Board prior to the start of the financial year on 11 February 2022 which corresponded to the budget set in Business World.
- Budget setting process were in place involving budget managers, heads of service and directors.
- Financial reporting to the WMCA Board took place on consolidated and detailed budgets, with reports undertaken on a timely basis during the period under review, which was found to be accurate when compared to Business World. Under/overspends were being reported to WMCA Board with supporting explanations and actions taken, where required.
- Cost centres were allocated to responsible budget managers.
- New cost centres and account codes set up in the finance system were subject to an approval process.
- Budgets were being reviewed and monitored at Strategic Leadership Team meeting each month.

Findings and recommendations

Action is advised to enhance risk control or operational efficiency
Green

1. Audited accounts not published by the required date

Finding:

The required date under the Audit & Accounts Regulations 2015 for audited 2021 /2022 accounts to be published on the WMCA website was the 30 November 2022. The audited accounts were not published by this date (and remained unpublished at the date of review 14 December 2022), due to resource capacity constraints on the part of the external auditors. In accordance with the regulations, a notice was published on the WMCA website stating the reasons why the audited accounts had not been published.

Implication:

Failure to publish audited accounts in accordance with regulations may result in reputational damage to the WMCA.

Recommendation:

Audited 2021-2022 accounts should be published at the earliest opportunity. Further, assurances should be sought from the external auditors that adequate resources will be in place for next year's audit.

Agreed action:

Audited 2021-2022 accounts will be published at the earliest opportunity. Assurances will be sought from the external auditors that adequate resources will be in place for next year's audit.

Responsible Officer: Louise Cowen - Financial Controller

Target Date: 31 March 2023

General Ledger 2022 - 2023

Key issues identified

We found no major issues identifying several areas of good practice and making two **green** recommendations as detailed below.

Examples of good practice identified

During the course of our work, we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

- The General Ledger was reconciled to the payroll feeder system on a regular basis.
- Control accounts were up to date and had been reconciled over the period examined.
- Ticketing control accounts were reconciled on a regular basis.
- Responsibility for reconciliation and review of the bank statements to the General Ledger had been appropriately assigned and testing confirmed that these processes were being undertaken.
- Responsibility for reconciliation and review of the validation error codes had been appropriately assigned and testing confirmed that these processes were being undertaken.
- Opening balances for 2022/23 had been correctly input into Business World and were in accordance with closing balances for 2021/22.
- Cost centre and account codes were accurately set up and approved.
- Journals were authorised in accordance with the scheme of delegation and access controls and are processed on a timely basis.

Findings and recommendations

Action is advised to enhance risk control or operational efficiency
Green

1. Reconciliation of debtor and creditor balances to the general ledger

Finding: Accounts Payable (AP) and Accounts Receivable (AR) reconciliations of the total of individual debtor and creditor balances to the GL control accounts were found to be undertaken. However, it was noted that unlike the AR reconciliations, the AP reconciliations did not follow a structured format.

Further for both the AP and AR reconciliations, the name of person completing the reconciliations and certification by a second reviewing person was not evident.

Implication: The absence of a structured format for the AP reconciliation and identification of the person undertaking the AR and AP reconciliations provides a poor audit trail to evidence the checks undertaken.

The absence of a certified check by a second person increases the risk of errors going undetected.

Recommendation: The AP reconciliations should follow the same structured format that the AR reconciliations follow.

Both the AP and AR reconciliations should state the name of person completing the reconciliations and certification by a second reviewing person.

Agreed action: The AP reconciliations will follow the same structured format that the AR reconciliations follow.

Both the AP and AR reconciliations will state the name of person completing the reconciliations and certification by a second reviewing person.

Responsible Officer: William Godden – AP/AR Manager	Target Date: 31 January 2023
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2. Adverse / opposite individual debtor and creditor balances

Finding: Several opposite debit entries on the creditors, and credit balances on the debtors had not been identified and reviewed for appropriate remedial action. On 31 July 2022 these totalled:

Debtors - £207k

Creditors - £9.6m (includes an individual balance of £8.8m which was due to a timing difference).

Implication: The financial records will not represent an accurate position if individual debtor and creditor balances are opposite / adverse.

Recommendation: All current adverse balances should be investigated and resolved. Going forward as part of monthly reconciliation processes individual balances should be reviewed and resolved.

Agreed action: All current adverse balances will be investigated and resolved. Going forward as part of monthly reconciliation processes individual balances will be reviewed and resolved.

Responsible Officer: William Godden – AP/AR Manager	Target Date: 31 January 2023
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Treasury Management 2022-2023

Key issues identified

We found no major issues and identified several areas of good practice as detailed below. Some minor improvements regarding record keeping for reconciliations and supporting information for daily treasury transactions have been discussed with the Lead Treasury Accountant.

Examples of good practice identified

Policies

- WMCA had adopted the CIPFA Code of Practice on Treasury Management in Local Authorities.
- The annual Treasury Management Strategy and Treasury Policy Statement was approved by WMCA Board, following endorsement by the Audit, Risk and Assurance Committee (ARAC).
- The Treasury Management Practices were reviewed for adequacy by ARAC.
- Prudential Indicators were appropriately presented and approved by the WMCA Board.
- WMCA demonstrated good awareness of the new CIPFA Code of Practice on Treasury Management in Local Authorities (2021) which needs to be introduced from 1 April 2023. WMCA are working towards this.
- Treasury Management training was provided to ARAC members.

System

- A Borrowing Strategy was agreed by WMCA Board, with a debt cap agreed with HM Treasury.
- An Investment Strategy was agreed by WMCA Board, with suitable limits and credit ratings for the financial institutions stated.
- Sample testing of ten investment and borrowing transactions confirmed that:
 - The cashflow spreadsheet, Treasury Live (treasury management software system) and Business World were accurately maintained.
 - Investments and borrowings were placed with suitable organisations.
 - Evidence in support of the transactions was provided.
 - A separation of duties was evident in the majority of instances. Where it was not evident in the case of the overnight placement of monies with the WMCA's bank, suitable compensating controls were in place.
 - For long-term borrowing repayments, suitable notification was received in advance of the payment.
 - Future repayments of long-term borrowing were scheduled in the cashflow.
- Bank controls prevented inputting officers from authorising the online bank transactions which provided a suitable separation of duties.
- Evidence of discussions at the Treasury Management Group were observed for a sample of new borrowings.

Reconciliation

- Daily reconciliations between the bank statements and cashflow record were completed by the Treasury Accounting Assistant.
- Monthly reconciliations between Treasury Live and the General Ledger in Business World are undertaken. A sample of three reconciliations confirmed that they were undertaken on a timely basis. A recent change to procedures also captures the independent review of the reconciliations.

Monitoring and Reporting

- A report on the outturn for 2021-2022 was presented to WMCA Board.
- A report on mid-year treasury management activities and details of external investments for 2022-23 was prepared for presentation to ARAC in November 2022. Due to reasons beyond the control of the Treasury Management team, this meeting will now not be convened. However, it is understood that the report will be presented at the next available ARAC meeting, and then subsequently presented to WMCA Board.
- Both the outturn report for 2021-2022 and the draft mid-year report for 2022-2023 confirmed compliance with various Treasury Management Indicators, CIPFA's Code of Practice and WMCA's Treasury Management Strategy.

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.

Final issued	3 February 2023
ARAC reporting date	
ARAC meeting date	



Audit, Risk & Assurance Committee

Date	18 April 2023
Report title	Internal Audit plan 2023/24
Accountable Chief Executive	Laura Shoaf, Chief Executive of the WMCA Email: Laura.Shoaf@wmca.org.uk
Accountable Employee	Helen Edwards, Director of Law and Governance Email: Helen.Edwards@wmca.org.uk
Report has been considered by	WMCA Executive Board 14 December 2022

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

1. Review and approve the Internal Audit Plan for 2023/24, which includes an indicative timetable for delivery.

1. Purpose

- 1.1 The purpose of internal audit is to provide the West Midlands Combined Authority (WMCA) with an independent and objective opinion on the effectiveness of our risk management, control, and governance arrangements, and the effectiveness of management arrangements in delivering our agreed objectives.
- 1.2 This document provides ARAC with a risk-based internal audit plan, and is based upon an assessment of assurance needs, used to direct internal audit resources to those aspects of the organisation which are assessed as generating the greatest risk to the achievement of the WMCA's objectives.

- 1.3 The WMCA Executive Board has considered the draft plan and is in agreement with the proposed audits.
- 1.4 The internal audit plan was provisionally approved at the January 2023 meeting of this committee, subject to an updated version of the plan, including a schedule for delivery, being presented at the April 2023 meeting to obtain final approval.

2. Background

- 2.1 Internal Audit is a statutory requirement for all Local Authorities. The audit service is provided in accordance with the Local Government Act (1972), the Accounts and Audit Regulations 2015, as amended and the Public Sector Internal Audit Standards (PSIAS).
- 2.2 Internal Audit is required to provide an independent and objective opinion on risk management, control and governance arrangements within the organisation, and the effectiveness these have in achieving our agreed objectives. The outcome of these activities will be reported to, and monitored by ARAC throughout the year, and will also be used to inform Internal Audit's annual report on the adequacy and effectiveness of our governance, risk management and internal control processes for reporting as part of the Annual Governance Statement within the financial accounts.
- 2.3 A review of the delivery arrangements from the WMCA internal audit function is underway with the aim to ensure that adequate resources are in place to deliver this plan and to provide a full and comprehensive audit function in the future.
- 2.4 As the review is ongoing, WMCA has recruited two interim auditors to support delivery of the 22/23 internal audit plan. These posts will remain in place to enable delivery of the audit plan whilst the internal review is completed.
- 2.5 The timetable for delivery of audits has been structured to accommodate these changes.

3. Financial Implications

There are no financial implications arising directly from the recommendations in this report. However as detailed above, an internal review of the audit function is ongoing and any financial considerations arising from this review that may impact the delivery of the Audit Plan, will be shared with the committee as appropriate.

4. Legal Implications

There are no legal implications arising from the recommendations in this report. The relevant legislation is set out in the body of the report. Internal Audit is a statutory requirement for all Local Authorities. The audit service is provided in accordance with the Local Government Act (1972), the Accounts and Audit Regulations 2015, as amended and the Public Sector Internal Audit Standards (PSIAS).

5. Equalities Implications

Not applicable.

6. Inclusive Growth Implications

Not applicable.

7. Geographical Area of Report's Implications

Not applicable.

8. Other Implications

Not applicable.

9. Schedule of Background Papers

Appendix 1 – Draft Internal Audit Plan 2023/24

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Draft Internal Audit Plan 2023/24

Auditable area	Purpose	Strategic Risk	Audit needs rating	Schedule
Organisational				
Health & Safety	To seek assurance that a robust health and safety management system is in operation for the WMCA that aligns to ISO 45001 to effectively manage health and safety risks.	SRR – R018 Failure of the WMCA to implement and embed suitable and sufficient Health and Safety arrangements.	Medium	Q2
Contract management	A review of contract management processes applied to ensure the effective management of suppliers, ensuring the service or supply of goods meets expectations, with set procedures followed in the management of poor performance or non-compliance of contractual obligations.	SRR – R008 / R024 Commerciality / Inflation & global supply chain pressures	High	Q2
Declarations – Gifts and Hospitality	A review of the application of the Declaring Hospitality and Gifts policy ensuring associated procedures are followed as set out in the Constitution.	SRR - R010 Failure to adopt and embed adequate formal governance arrangements.	High	Q1
Business Continuity	A review of the business continuity arrangements in place within WMCA to ensure it reflects and can respond to the business needs of an agile workforce in the event of disruption to ICT services and/or the working environment.	SRR-R012 WMCA Resilience	Medium	Q3
Decision making	A review of the decision-making arrangements in place throughout WMCA assessing compliance with legislative and constitutional requirements.	SRR - R010 Failure to adopt and embed adequate formal governance arrangements.	High	Q4
Finance and Business Hub				
Key Financial Systems	To provide assurance that the key financial processes are operating effectively, including: <ul style="list-style-type: none"> • Payroll • Accounts payable 	-	Annual requirement	Q3

Draft Internal Audit Plan 2023/24

	<ul style="list-style-type: none"> • Accounts receivable • General ledger • Budgetary control • Treasury Management 			
National Fraud initiative	A review of WMCA's processes to ensure it meet all obligations of the 22/23 NFI exercise including its response to identified data matches.	SRR – R010 Failure to adopt and embed adequate formal governance arrangements.	Medium	Q2
Activity Register / Project pipeline	To seek assurance that robust processes are in place to demonstrate an effective organisational Project Pipeline is in place from inception and identification of funding through to delivery, to support the management of financial and business planning.	SRR -R009 Project / Programme Appraisal & Assurance - Ensuring Compliance to National Devolution Commitments	Medium	Q3
Monitoring & Evaluation	To seek assurance that robust monitoring and evaluation arrangements have been established supporting oversight of the Investment Programme project and programme deliverables.	SRR-R019 Investment Programme Delivery – Reputational Impact	High	Q4
Economy, Skills & Communities				
UK Shared prosperity fund	A review of compliance with the Government Functional Standard: 015 Grants as set out and required to meet the conditions for delivery of the UK Shared Prosperity Fund.	-	Medium	Q4
Adult Education Budget	To seek assurance robust procurement arrangements are in place to ensure the procurement of quality training providers in the delivery of Adult Education services.	-	Medium	Q1
Strategy, Innovation & Net Zero				
Deeper Devolution Deal (DDD)	To assess elements of the DDD programme to confirm it's compliance with the Single Assurance Framework's (SAF) initiation and development stages.	SRR -R009 Project / Programme Appraisal & Assurance - Ensuring Compliance to National Devolution Commitments	Medium	Q4

Draft Internal Audit Plan 2023/24

Energy efficiency retrofit	To seek assurance WMCA's retrofit programme is meeting the standards of the government's Home Energy Performance Retrofit programme.	SRR-R001 Failure to deliver the opportunities and benefits of the Investment Programme	Medium	tbc
Housing and Regeneration				
Asset Acquisition and Disposal Framework	To review the structure of, and operational compliance with the Corporate Asset Acquisition and Disposal Framework.	-	Medium	Q4
TfWM				
Active Travel Fund	To seek assurance of compliance of the Single Assurance Framework (SAF) for the Active Travel Fund and assess the agility of SAF to accommodate and support smaller, time limited funding projects and programmes.	SRR- 009 Project / Programme Appraisal & Assurance - Ensuring Compliance to National Devolution Commitments	Medium	Q1
Swift	A review to seek assurance effective procedures are in place to provide customers with a quality service in the management of Swift accounts including account opening, change requests and account closures.	-	High	Q4
Operator Charging	A review to seek assurance income obtained from Departure Charging and Information at Bus Stops and Shelters (IBSS) is effectively and proportionately managed in line with associated policies and procedures.	SRR-R007 Post pandemic sustainability of public transport network	Medium	Q3

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Audit, Risk & Assurance Committee

Date	18 April 2023
Report title	West Midlands Combined Authority – Response to Audit Findings Report for the Year Ending 31 March 2022
Accountable Chief Executive	Laura Shoaf, Chief Executive Email: Laura.Shoaf@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Linda Horne, Executive Director of Finance and Business Email: Linda.Horne@wmca.org.uk Tel: (0121) 214 7508
Report has been considered by	N/A

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note WMCA's response to the draft Audit Findings Report for the year ended 31 March 2022 presented by Grant Thornton at the Committee's meeting on 23 January 2023.

1.0 Purpose

- 1.1 This report has been prepared to formally respond to the draft Audit Findings Report for the year ended 31 March 2022 presented by Grant Thornton at the Committee's last meeting on 24 January 2023.

2.0 Background

- 2.1 The audit process for 2021/22 has now concluded and Grant Thornton presented their draft audit findings to members of the Committee at their meeting on 24 January 2023. This report sets out WMCA's formal response to the draft Audit Findings Report for the year ended 31 March 2022 and provides further context around the timeliness of the publication of audited accounts.
- 2.2 As previously reported to members of the Committee, the Audit Findings Report for the year ended 31 March 2022 highlights that the audit for the year ended 31 March 2022 was particularly challenging due to staff sickness in both the WMCA Finance Team and the Grant Thornton audit team. Audit progress was again impacted by further absence in the Grant Thornton audit team following formal approval of the 2021/22 Statement of Accounts by WMCA Board on 10 February 2023. Although at the time of writing it is currently anticipated that the audit opinion for the year ended 31 March 2022 will be issued by 31 March 2023 to enable the audited accounts to be published, this is a full 12 months after the end of the reporting period and 6 months later than originally planned.
- 2.3 WMCA's Finance Team and Grant Thornton are working together to ensure that the audit process for the year ended 31 March 2023 will progress at a far faster pace enabling the audited Statement of Accounts to be published in time for the statutory publication deadline of 30 September 2023.
- 2.4 To provide further context around the timeliness of publication of audited accounts, in their recently published report 'About time?', Grant Thornton notes optimism that there will be an improvement in timeliness as foundations are being laid for the future as follows:
- The Audit, Reporting and Governance Authority (ARGA) will act as the new systems leader for local audit, with a dedicated unit with local government audit expertise. Interim arrangements are in place, including the appointment of the first Director of Local Audit (DLA) by the Financial Reporting Council (FRC). The FRC and the Department for Levelling Up, Homes and Communities (DLUHC) have published an agreed memorandum of understanding which sets out the roles and responsibilities the FRC will take on as system leader during the shadow period ahead of the intended establishment of ARGA.
 - Public Sector Audit Appointments Ltd (PSAA) has awarded new contracts at more sustainable fees, and new market entrants should help to secure a more competitive and resilient local audit market over time.
 - The current National Audit Office (NAO) Code of Audit Practice (CoAP) will apply for the next PSAA contract round, through to 2027/28, providing greater certainty on audit workloads.
 - Delays caused by infrastructure accounting have been largely resolved by the related Statutory Instrument and revised accounting requirements and guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). Steps are being taken to develop a longer-term approach to the accounting framework for these assets.

- 2.5 The report also notes that more could be done by key stakeholders to secure improvement and a return to high levels of compliance with timely publication of audited accounts. Their recommendations to improve timeliness are as follows:

For FRC, ARGA and Government

R1. To determine how to deal with the backlog of local government audits. In particular, to consider whether temporary flexibility can be introduced into the local audit framework to allow reduced scope audits to be undertaken on backlogged accounts. We consider this would be of benefit to the local government entities freeing them up for more forward-looking activities with limited detrimental impact on the users of the financial statements given some outstanding financial statements date back to 2015/16.

For FRC and ARGA

R2. To determine and agree with Government the purpose of local audit and the required focus on the financial statements and value for money arrangements elements respectively, particularly in relation to the audit of land and building assets.

R3. To consider whether local auditors can be represented as key stakeholders in local audit system meetings convened by the new Director of Local Audit.

R4. To consider whether the system leader's Annual reports on the state of local audit should highlight instances of poor financial reporting and longstanding delay to the publication of both unaudited and audited accounts.

For Government

R5. To require statutory officers to attest to the effectiveness of their financial reporting process, in line with Sir Donald Brydon's recommendation. This should form part of Government accounting requirements and non-compliance should result in intervention.

R6. To introduce intervention with commissioners where authorities do not afford sufficient priority to their financial reporting responsibilities.

R7. To decouple the reporting requirements for Pension Funds and Administering Authorities.

For FRAB, CIPFA/LASAAC and Government

R8. To reframe the accounting code to ensure financial statements provide the information needed by Government and elected members to manage and govern the local government sector. This should include consideration of Whole of Government Accounts (WGA) requirements, particularly with regard to compliance with IFRS.

R9. To address Redmond's recommendation for summarised and accessible financial information to be made available to citizens, either through specifying required content within Narrative Reports or by introducing a standardised summary statement.

For local government bodies

R10. To make new investment in and keep under review the adequacy of in-house financial reporting skills, paying close attention to succession planning and professional training, and look to collaborate with other authorities or commission independent support where additional capacity or expert advice is required.

R11. To ensure auditors are engaged at an early stage where innovative, complex or significant transactions are anticipated, to allow for effective planning of the additional audit work which may be required.

R12. To ensure more consistent and robust completion of CIPFA's Disclosure Checklist and allow adequate time for robust internal quality assurance before draft accounts and working papers are presented for audit.

R13. Where significant accounting estimates are made, ensure the underlying assumptions and judgements are clearly documented and that appropriate experts are employed by the local government entity to support management on these judgements and estimates. These judgements should routinely be reported to Audit Committees.

For Audit Committees

R14. To hold management and auditors to account for preparing and monitoring delivery plans.

R15. To undertake a regular assessment of whether they have appropriate membership, training, and access to the professional support they need to effectively discharge their responsibilities.

R16. To report to full Council on an annual basis with their assessment of the accounts preparation and audit process.

For auditors

R17. To focus on continuous improvement in delivering accounts audit and value for money arrangements work early and fostering effective working relationships where changes and potential complexities are identified, discussed, and planned for as soon as practicable.

R18. To consider whether to issue statutory recommendations where significant failures in financial reporting or governance are identified, delays become unacceptable or where insufficient attention is paid to timely financial reporting.

R19. To focus on making local public audit a more attractive career choice and promote the value of public sector audit and the wider societal benefits of robust and independent scrutiny.

R20. To support the local audit workforce strategy led by the Financial Reporting Council.

3.0 2021/22 Audit Findings Report

- 3.1 The audit process for the year ended 31 March 2022 has now concluded. The draft Audit Findings Report was shared with members at their last meeting on 24 January 2023. Despite the delays experienced in finalising the audit process, it is pleasing to note that the report highlights only two adjustments required to the accounts for the year ended 31 March 2023 as follows:
- 1) The pension fund auditor identified a variance with the rate of return used by the actuary in the IAS 19 reports. As a result, all local government admitted bodies received revised IAS 19 reports. The impact of the revised report was to reduce the Authority's net pension liability from £42.9m to £41.1m (£1.8m reduction). Whilst this was not material, officers decided to amend for this balance to ensure an accurate picture of the Authority's net pension liability is reported in the audited accounts.
 - 2) The valuation report for assets that form part of the land fund arrived after the production of the draft financial statements. The valuation received was £5.9m less than the previous valuation which has been adjusted to ensure an accurate picture of land fund assets is recorded in the audited accounts.
- 3.2 A small number of disclosure changes were also identified during the course of the audit and are detailed in the draft Audit Findings Report. These changes have been made in the final set of financial statements.
- 3.3 Two potential adjustments relating to capitalisation of Metro project costs and classification of a BACs run that was in progress at year end and a prior year adjustment relating to impairment of tram track for the 2020/21 year were considered not to be material either quantitatively or qualitatively and were not adjusted in the accounts in line with accepted practice.
- 3.4 Six recommendations were identified for the WMCA Group as a result of issues identified during the course of the audit that Grant Thornton concluded were of sufficient importance to report on. These six recommendations, four of which are considered to be medium risk and two of which are considered to be low risk, are agreed by WMCA and are discussed further in Appendix 1.
- 3.5 Whilst WMCA's Finance Team and Grant Thornton are working together to ensure that the audit process for the year ended 31 March 2023 is resourced effectively and will progress at a far faster pace than for the year ended 31 March 2022 enabling WMCA's audited Statement of Accounts to be published in a compliant way, it is also important to consider the wider external context which has impacted on audit firms' ability to report on a timely basis as set out in section 2 of this report.

4.0 Financial Implications

4.1 The financial implications are covered within the body of this report.

5.0 Legal Implications

5.1 Production of the accounts and the external audit process is a statutory requirement.

6.0 Equalities Implications

6.1 Not applicable.

7.0 Inclusive Growth Implications

7.1 Not applicable.

8.0 Geographical Area of Report's Implications

8.1 Not applicable.

9.0 Other Implications

9.1 Not applicable.

10.0 Schedule of background papers

10.1 The DRAFT Audit Findings for West Midlands Combined Authority
[Audit Findings Report LG 2021-22 \(wmca.org.uk\)](https://www.wmca.org.uk)

10.2 Grant Thornton 'About time?' Exploring the reasons for delayed publication of audited local authority accounts.
[Report: key challenges in local audit accounting | Grant Thornton](#)

Action Plan – Audit of Financial Statements

Assessment	Issue and Risk	Recommendations	WMCA Response
Medium	1. Complexity of the audit trail and working papers to support the financial statements.	A full review of the process should be undertaken following the completion of the audit to try and identify more efficient ways to gain assurance in future years.	We acknowledge the need for less reliance on intermediate spreadsheets and work arounds when producing the financial statements and are working towards their automation for 2022/23. Despite this work being hampered by delays in completing the 2021/22 external audit process, it is anticipated that the Comprehensive Income and Expenditure Account for 2022/23 will be produced directly from the Business World finance system enabling drill down to transaction level without needing to rely on intermediate spreadsheets going forward. We are also in the process of rolling out training on the grant award process to back this up and to ensure improved access to grant award documentation and better quality audit working papers.
Medium	2. We worked with officers at planning to understand the likely estimate of gross expenditure that would be presented in the accounts. These estimates did not include additional capital expenditure that was funded from additional grant money to support the growing capital programme.	Clear working papers should be available as part of the interim audit which more accurately translates the forecast financial position into the impact on the financial statements at year end.	We acknowledge the shift in gross expenditure between the final forecast for the year and the draft financial statements primarily resulting from the receipt of government grants awarded to support our growing capital programme that were not anticipated to be received in the final forecast for the year which was produced in January 2022. For 2022/23, whilst it has since been confirmed by Grant Thornton that there will unfortunately be no interim audit taking place, we are working on a gross expenditure position for the year that takes into account all forecast capital expenditure that will be shared with the Grant Thornton audit team during the planning phase of the 2022/23 audit.

Assessment	Issue and Risk	Recommendations	WMCA Response
Low	3. Our testing of journals did identify one transaction that included an expense claim for the Chief Executive. The claim had been entered onto the system by her assistant but had been authorized by the Chief Executive. We reviewed the supporting evidence for the claim and confirmed that the claim was adequately supported. Further testing suggested that this was an isolated incident.	Management may want to review their governance processes around senior management expense claims so that they are authorized by a different member of the management team.	We confirm that this was an isolated incident. Other controls were in place to ensure that the claim complied with the Travel and Expenses Policy prior to release of payment. We have reviewed the governance around senior management expense claims and confirm that these are routinely authorised by a different member of the Executive Board.
Medium	4. Setting the Minimum Revenue Provision (MRP) for capital loans to zero on the expectation that principal repayments would reduce the Capital Financing Requirement is not in accordance with the regulations leading to an undercharge of MRP.	Management should review the calculation of MRP and ensure that it is calculated in accordance with the current regulations.	We are cognizant of evolving legislation in this complex area which has unfortunately been delayed. In the November 2021 government consultation on changes to the capital framework, it was anticipated that amendments proposed to the Local Authorities (Capital Finance and Accountancy) (England) Regulations 2003 to would take effect in April 2023 although this is not now the case. We will be mindful of existing and proposed legislation when calculating a prudent provision for MRP for 2022/23.
Medium	5. The authority has entered into a loan commitment with Phoenix Life Limited. The Authority will draw down £100m on 1 August 2023 and will have a maturity date of 1 August 2073.	Having reviewed the loan agreement it is likely that the prepayment feature in the loan is likely to give rise to a separable embedded derivative, this will require careful analysis to ensure that it is correctly accounted for in the 2023/24 financial statements.	We have noted this matter and confirm that our proposed accounting treatment for the loan will be shared with the audit team at Grant Thornton for their review ahead of the preparation of the 2023/24 financial statements.

Assessment	Issue and Risk	Recommendations	WMCA Response
Low	6. The narrative report is very long when compared to others, and while it complies with the Code, there are elements of duplication within it, and it could be reviewed to be more concise and more accessible to a reader of the accounts.	The content of the narrative report should be reviewed to ensure that elements of duplication are removed, and that it provides a concise summary of the activities of the Authority.	Although the depth and breadth of the Authority's remit continues to grow at pace, we acknowledge the need to review the content of the narrative report to ensure any elements of duplication are removed and that it provides a more concise and accessible summary of the activities of the Authority.

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Audit, Risk & Assurance Committee

Date	18 April 2023
Report title	West Midlands Combined Authority External Audit Plan 2022/23
Accountable Chief Executive	Laura Shoaf, Chief Executive Email: Laura.Shoaf@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Linda Horne, Executive director of Finance and Business Hub Email: Linda.Horne@wmca.org.uk Tel: (0121) 214 7508
Report to be considered by	Audit, Risk & Assurance Committee

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note the External Audit Plan for the year ending 31 March 2023 presented by Grant Thornton.
- (2) Note the Informing the Audit Risk Assessment report for West Midlands Combined Authority 2022/23.

1. Purpose

1.1 External Audit Plan

The External Audit Plan attached as Appendix 1 provides an overview of the planned scope and timing of the statutory audit of the West Midlands Combined Authority for those charged with governance.

The National Audit Office has issued a document entitled Code of Audit Practice ('the Code') which summarises where the responsibilities of auditors begin and end and what is expected of 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, the body responsible for appointing Grant Thornton as auditor of West Midlands Combined Authority.

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

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

The audit of the financial statements does not relieve management or Audit, Risk and Assurance Committee of their 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. Grant Thornton has considered how the Authority is fulfilling these responsibilities.

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

1.2 The Informing the Audit Risk Assessment

The purpose of the Informing the Audit Risk Assessment attached as Appendix 2 is to contribute towards the effective two-way communication between West Midlands Combined Authority's external auditors Grant Thornton and West Midlands Combined 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.

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Risk & Assurance Committee. ISA(UK) 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.

As part of the risk assessment procedures Grant Thornton is required to obtain an understanding of management processes and the Authority's oversight of the following areas:

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

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 2023

8.2 Informing the audit risk assessment for West Midlands Combined Authority 2022/23

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West Midlands Combined Authority Audit Plan

Year ending 31 March 2023

West Midlands Combined
Authority

18 April 2023

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Section	Page	
Key matters	3	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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Key matters



National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local government front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, authorities are also essential in driving strong and inclusive local economies, through their economic development functions and measures such as increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. 88% of local authorities missed the deadline for the audit of the 2021/22 financial statements. In your case, as reported in our Audit Findings Report this was due to a combination of factors, some of which were unavoidable, some of which have led to the need to improve processes around accounts preparation and production, most notably in relation to accounting for government grants. We are continuing to work closely with your finance team to ensure improved delivery of the audit in 2022/23.

Financial Sustainability and Government Funding

Like many others, the Authority continues to operate in a period of significant financial uncertainty, with the impact of Covid 19 still being felt. This is most notable within the transport budget, with the bus network still operating at around 90% of pre-Covid 19 levels and some operators ceasing to trade or significantly reducing operational routes. In addition high inflation, especially in relation to fuel and energy prices continue to impact on the ongoing financial resilience of the Authority into the medium term. In the Spring Budget the Chancellor announced a Deeper Devolution Deal for the Authority, securing wide-ranging new powers and financial freedoms as well as new funding to level up the West Midlands region. This is likely to improve the financial resilience of the Authority in the medium to long term, however full details need to be considered. We will consider the progress made on this as part of our work on the value for money arrangements.

Key matters



Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, will be discussed and agreed with the Executive Director of Finance & Business Hub
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit and Risk Committee (ARAC) with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector. Your officers attended the session earlier this year.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control – please refer to page 9

Introduction and 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

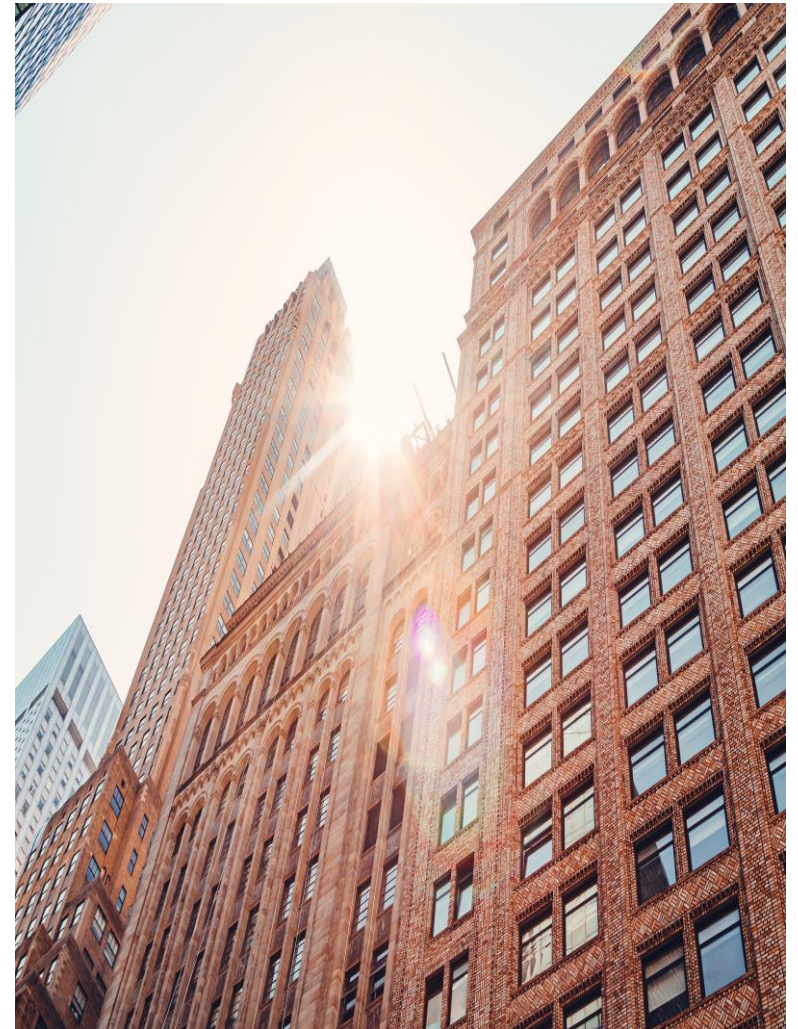
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment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

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 Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (ARAC); and we consider whether there are sufficient arrangements in place at the Authority and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or ARAC 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.



Introduction and headlines

Significant risks

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

- Revenue and expenditure recognition (rebutted);
- Management override of controls; and
- 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.

Group Audit

The Authority is required to prepare group financial statements that consolidate the financial information of both Midland Metro Limited and WM5G. This is the second year of operation of HT01 and HT02 and we will review any increase in activity of these subsidiaries to ensure they remain immaterial to consolidation.

Materiality

We have determined planning materiality to be £9.4m (PY £9.3m) for the group and £9.1m (PY £9m) for the Authority, which equates to 1.4% of your prior year gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £465k (Group) (PY £465k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness:

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our planning visit has taken during March and April and our final visit will start in July. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £79,230 for the Authority, subject to the Authority delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

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
The revenue cycle includes fraudulent transactions (rebutted)	Risk relates to both the Group and the Authority	<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 considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including West Midlands Combined Authority, mean that all forms of fraud are seen as unacceptable. 	No specific work is planned as the presumed risk has been rebutted.

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ (ISA (UK) 315)

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The expenditure cycle includes fraudulent transactions (rebutted)	Risk relates to both the Group and the Authority	<p>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:</p> <ul style="list-style-type: none"> "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". <p>Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.</p> <p>We have rebutted this presumed risk for West Midlands Combined Authority because:</p> <ul style="list-style-type: none"> expenditure is well controlled and the Authority has a strong control environment; and the Authority has clear and transparent reporting of its financial plans and financial position to the Board. <p>We therefore do not consider this to be a significant risk for West Midlands Combined Authority.</p>	No specific work is planned as the presumed risk has been rebutted.

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Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Risk relates to both the Group and the 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>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business 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"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Risk relates to the Authority only	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved 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"> • 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; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of the West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data (including the 2022 triennial audit data this year); contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Group audit scope and risk assessment

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

Key changes within the group:

We have not identified any significant changes in relation to the group audit. In addition to the companies identified below for consolidation, the authority also has West Midlands Development Capital Limited which is not included within the group on the basis of materiality, West Midlands Growth Company which is accounted for as an investment and West Midlands Rail Limited which is accounted for as an associate. The following three companies are dormant, Centro Property Limited, Network West Midlands Limited, and Midlands Development Capital Limited. We note that this is the second year of operation of HT01 and HT02, and we will continue to review the scale of the operation to ensure that it remains immaterial for the purposes of consolidation. The outcome of this will be reported as part of the AFR.

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Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
West Midlands Combined Authority	Yes	Audit of the financial information of the component using component materiality	As set out on pages 7 to 10	Full scope audit performed by Grant Thornton UK LLP
Midland Metro Limited (MML)	No	Specified audit procedures relating to risks of material misstatement of the group financial statements	Management override of controls	<p>Specific scope procedures to be performed by the component auditor Williamson & Croft Audit Ltd.</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 audit documentation and meeting with appropriate members of management.</p>

Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
WM5G	No	Specified audit procedures relating to risks of material misstatement of the group financial statements	Management override of controls	<p>Specific scope procedures to be performed by the component auditor Cooper Parry.</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 audit documentation and meeting with appropriate members of management.</p>

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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 risks of material misstatement of the group financial statements
- Analytical procedures at group level

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 to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set 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 legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - 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.

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the group financial statements, which resulted in 6 recommendations being reported in our 2021/22 Audit Findings Report. We have followed up on the implementation of our recommendations and noted the progress made below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Page 116 In progress	Complexity of the audit trail and working papers to support the financial statements.	The finance team have reviewed how the financial statements are produced from the general ledger and have proposed a revised methodology which should improved the audit trail and make sample selection less complicated.
	A full review of the process should be undertaken following the completion of the audit to try and identify more efficient ways to gain assurance in future years.	
In progress	<p>We worked with officers at planning to understand the likely estimate of gross expenditure that would be presented in the accounts. These estimates did not include additional capital expenditure that was funded by additional grant money to support the growing capital program. As a result, expenditure used as part of the planning was significantly different from actual expenditure, which caused a significant shift in the level of materiality used.</p> <p>Clear working papers should be available as part of the interim audit which more accurately translates the forecast financial position into the impact on the financial statements at year end.</p>	Working papers have been provided by the finance team, however based on prior years experience we have determined materiality at planning based on the prior year outturn.

Progress against prior year audit recommendations

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	<p>Our testing of journals, did identify one transaction that included an expense claim for the Chief Executive. The claim had been entered onto the system by her assistant but had been authorised by the Chief Executive. We reviewed the supporting evidence for the claim and confirmed that the claim was adequately supported. Further testing suggested that this was an isolated incident.</p> <p>Management may want to review their governance processes around senior management expense claims so that they are authorised by a different member of the management team.</p>	<p>Officers have reviewed the governance around senior management expense claims and confirm that these are routinely authorised by a different member of the Strategic Leadership Team.</p> <p>The audit team will review any journals approved by senior management as part of its year end testing of journals.</p>
In progress	<p>The consultation makes it clear that the Authority's current policy to use capital receipts in place of an MRP provision is not in accordance with the regulations. The impact of this has been quantified by the audit team, and consider there to be an undercharge of £8.3m on MRP.</p>	<p>Management remain comfortable that they have provided sufficient MRP, and will continue to review this as part of the medium term financial planning.</p> <p>The audit team will review the provision for the 2022/23 as part of the financial statement audit.</p>
In progress	<p>The Authority has entered into a loan commitment with Phoneix Life Limited. The Authority will draw down £100m on 1 August 2023, and will have a maturity date of 1 August 2073.</p> <p>Having reviewed the loan agreement, it is likely that the prepayment feature in the loan is likely to give rise to a separable (non closely related) embedded derivative, this will require careful analysis to ensure that this is correctly accounted for in the 2023/24 financial statements. We would recommend that officers prepare a detailed accounting paper explaining their proposed treatment for this loan in advance of the preparation of the draft financial statements.</p>	<p>Officers have committed to consider this in advance of the preparation of the 2023/24 financial statements.</p>

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	The narrative report is very long when compared to others, and while it complies with the Code, there are elements of duplication within it, and it could be reviewed to be more concise and more accessible to a reader of the accounts. The content of the narrative report should be reviewed to ensure that elements of duplication are removed, and that it provides a concise summary of the activities of the Authority.	The finance team will consider this as part of the 2022/23 closedown process.

Our approach to 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.

Matter	Description	Planned audit procedures
1	<p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. Materiality at the planning stage of our audit is £9.4m (Group), which equates to 1.4% of your draft gross expenditure for the period.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <ul style="list-style-type: none"> – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £24k applicable to an individual's disclosures.

Our approach to 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.

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Matter	Description	Planned audit procedures
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>
4	<p>Other communications relating to materiality we will report to ARAC</p> <p>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 ARAC 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.</p>	<p>We report to the ARAC any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>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 £465k (Group) (PY £465k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to ARAC to assist it in fulfilling its governance responsibilities.</p>

Our approach to 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.

	Group Amount (£)	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	£9.4m	£9.1m	We have applied a benchmark to the gross expenditure in the prior year to determine materiality at both the group and the Authority level. In setting the benchmark we have considered users expectations, the previous years' measures of materiality and the level of engagement risk.
Materiality for specific transactions, balances or disclosures (senior officer remuneration)		£23,800	We believe these disclosures are of specific interest to the reader of the accounts.

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IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

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IT system	Audit area	Planned level IT audit assessment
Business World	Financial reporting	ITGC design and implementation assessment
Sageline	Payroll	ITGC design and implementation assessment

ISA315

ISA 315 (revised July 2020) takes effect for accounting periods starting on or after the 15th December 2021. This ISA deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements. The revisions made in the ISA have increased the level of work required of auditors and detail of this extra work is set out below.

Area	What's changed?	Impact on the audit
Information Technology Environment	<p>The new requirement states certain aspects of the IT environment must be understood and documented for each significant classes of transactions, account balances and disclosures (SCOT+).</p> <p>The auditor is required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response.</p>	<p>The audit team will be required to:</p> <ul style="list-style-type: none"> perform walkthroughs of the IT environment; identify and review relevant controls within the IT environment to ensure they are operational; obtain details of the relevant IT / technical infrastructure (i.e., server location, database type); and obtain details of the processes that operate within the IT environment (i.e., process to manage user access or manage a program or IT environment change).
Considering IT risks related to internal controls relevant to the audit.	<p>The auditor is required to identify controls within a business process and identify which of those controls are controls relevant to the audit. For each internal control relevant to the audit, the auditor is required to evaluate the design of the control and evidence effective implementation of the control.</p> <p>The auditor is required to evaluate the design and determine the implementation of the general IT controls (ITGCs) that address the risks arising from the use of IT.</p>	<p>This requirement will lead to a significant change in practice, to the level of detail in which we will be required to understand the risks arising from the use of IT and associated general IT controls (ITGCs).</p> <p>There has been a significant increase in the number of detailed ITGC assessments required.</p>
Control reliance	<p>In previous years, where we had performed a walkthrough of your controls (such as operating expenditure), we were able to use the review of these controls to obtain comfort over the design effectiveness of your system. This would usually result in smaller sample sizes. The changes made to the ISA mean that design effectiveness will no longer grant a benefit when determining sample sizes.</p>	<p>There will be larger sample sizes across a number of areas. Key areas where we will likely see the biggest increase are:</p> <ul style="list-style-type: none"> operating expenditure and payables; property, plant and equipment; non-contract income. <p>This is not a complete list but these will be the areas we expect to be most affected.</p>

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

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Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

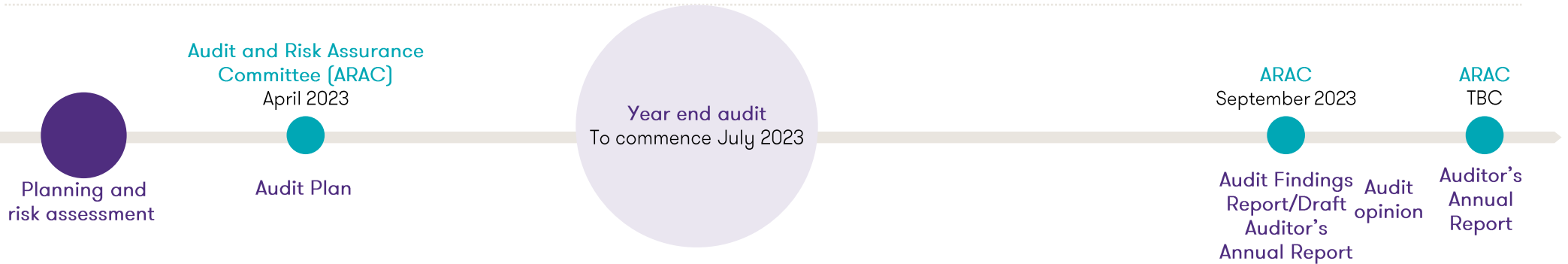


Governance

How the body ensures that it makes informed decisions and properly manages its risks.

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Audit logistics and 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 auditor's annual report.



Helen Lillington, Audit Manager

As manager, Helen will manage the audit process and work with officers and the audit 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.

Audited Entity responsibilities

Where audited bodies 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 audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity 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 an entity 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 for testing
- 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.

Audit fees and updated Auditing Standards including ISA 315 Revised

PSAA awarded a contract of audit for West Midlands Combined Authority to begin with effect from 2016/17. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

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Enhanced requirements around understanding the Authority's IT Infrastructure and IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.

Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.

- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £1,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf.

Audit fees

	Actual Fee 2020/21	Estimated Fee 2021/22	Proposed fee 2022/23
West Midlands Combined Authority Audit	£66,805	£76,780	£79,230
Total audit fees (excluding VAT)	£66,805	£76,780	£79,230

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 \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	2021/22	2022/23	Comments
Scale fee published by PSAA	£35,805	£49,555	Scale fee increase for complexity and on-going audit quality requirements and inflation
Group Audit	£6,875	£6,875	
Raising the bar/regulatory factors	£3,125	£0	Merged within revised scale fee
Enhanced audit procedures for Net Pension Liability	£3,125	£0	Merged within revised scale fee
Increased audit requirements of PP&E and accounting standards	£625	£0	Merged within revised scale fee
Additional work on Value for Money (VfM) under new NAO Code	£15,000	£15,000	
Increased Audit Requirements of ISA 540	£1,800	£1,800	
Increased Audit Requirements for Management Override of Controls (Journals)	£2,000	£2,000	
Increased Audit Requirements of ISA 315	£0	£1,000	
Increased requirements of Payroll Change of Circumstances	£0	£500	
Total planned audit fees (excluding VAT)	£68,355	£76,730	
FRC response – Hot Review of Accounts and associated follow up for PPAs and amendments	£3,000	£0	Estimate at April 2023. Subject to discussions with management
Enhanced audit procedures for Infrastructure	£2,500	£0	Estimate at April 2023. Subject to discussions with management
Local Risk Factors – Grants and Audit Trail	£2,925	£2,500	Estimate at April 2023. Subject to discussions with management
Total proposed audit fees for variations and local risk factors (excluding VAT)	£76,780	£79,230	

All variations to the scale fee will need to be approved by PSAA

Independence and 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.

There is one matter that impacts on our independence as auditors that we wish to draw to the attention of ARAC.

Under ethical standards an Engagement Lead can complete no more than seven years with any one client to reduce the risk of familiarity. An additional safeguard is in place for any audit's under the PSAA contract, and this requires further approval from PSAA for any engagement leads having an association with a client for more than five years. The audit of the 2022/23 financials statements will be the 7th year of association for the engagement lead. PSAA have granted Grant Patterson an extension for the 2022/23 financial statements and this has been confirmed by our own internal ethics function. We are satisfied that the matters above provide sufficient protection to enable us to remain independent to the audit of West Midlands Combined Authority.

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.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

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

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Non Audit related	5,000	Self Interest	The amount of grant paid by the DfT to WMCA (who then pay it to MML) is less than 5% of the income of WMCA and our role would only ever focus on a small amount of the grant. As such, overall the work for the DfT will be a very small proportion of WMCA's income.
		Self review	The work is part of a much wider remit covering all bus and light rail operators in the UK and so the proposed service fee of £5k reflects the WMCA part of a much larger fee.

Grant Thornton team separate to the audit team will prepare an analysis of the LRRG paid to West Midlands Combined Authority (WMCA) and its wholly-owned subsidiary Midland Metro Limited (MML) which operates the Midland Metro network. The analysis will determine whether further grant is payable to WMCA and onto MML or whether grant needs to be reclaimed.

We recognise that as WMCA's auditor there is a potential for perceptions of a conflict of interest in undertaking the work i.e. if it identifies areas that should have been picked up through audit work on the Authority's accounts. To mitigate this risk, and following discussions with the Authority's Finance Director, we have established a tripartite agreement which permits the report prepared for the DfT to be shared directly with the Authority. We are therefore satisfied that our independence is maintained.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	
Respective responsibilities of auditor and management/those charged with governance	•		ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•	
Significant matters in relation to going concern	•	•	We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•	
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a	Respective responsibilities
Significant findings from the audit		•	As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.
Significant matters and issue arising during the audit and written representations that have been sought		•	
Significant difficulties encountered during the audit		•	The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Significant deficiencies in internal control identified during the audit		•	
Significant matters arising in connection with related parties		•	
Identification or suspicion of fraud (deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•	
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	

Informing the audit risk assessment for West Midlands Combined Authority 2022/23

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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between West Midlands Combined Authority's external auditors and West Midlands Combined 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), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Risk & Assurance Committee. ISA(UK) 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 Authority's oversight of the following areas:

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

This report includes a series of questions on each of these areas and the response we have received from West Midlands Combined 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
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	The key events are the Adult Education Budget (AEB) and the Commonwealth Games (CWG) where the WMCA is responsible for the delivery of the Games Transport Plan. There are no new or different accounting issues in relation to the AEB or CWG. They have been highlighted by virtue of their magnitude.
2. Have you considered the appropriateness of the accounting policies adopted by West Midlands Combined Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	The accounting policies are reviewed annually to ensure they are relevant, complete and in accordance with the CIPFA Code of Practice on Local Authority Accounting. There are no new events or transactions that may result in a change or adoption of new accounting policies this year.
3. Is there any use of financial instruments, including derivatives? If so, please explain.	Yes. The Authority's financial instruments consist of investments, cash and cash equivalents, long-term debtors, short-term debtors and creditors, borrowings and transferred debt.
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No, we are not aware of any significant transaction outside the normal course of business.
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	We will be doing an impairment review on our non-current assets as part of our year-end closedown process. Currently, we do not expect any material impairments.
6. Are you aware of any guarantee contracts? If so, please provide further details.	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? If so, please provide further details.	No, we are not aware of any.

General Enquiries of Management

Question	Management response
<p>8. Other than in house solicitors, can you provide details of those solicitors utilised by West Midlands Combined Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p>	<p>WMCA uses several external solicitors' firms for a range of mainly non-contentious legal work. In relation to insured risks, litigation is handled by firms instructed by our insurers. We currently have one open issued litigation case which has been outsourced to Eversheds LLP.</p>
<p>9. Have any of the West Midlands Combined Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details.</p>	<p>We are not aware of any cases.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>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.</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>Yes, we have identified the following assets:</p> <ul style="list-style-type: none"> • Investments • Cash and cash equivalents • Loans to group undertakings • Trade debtors

Fraud

Matters in relation to fraud

ISA (UK) 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 West Midlands Combined 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 West Midlands Combined Authority's management.

Fraud risk assessment

Question	Management response
<p>1. Has West Midlands Combined 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 & 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 annual audit reports which are presented to the Audit, Risk & Assurance Committee. Additionally, their recommendations and observations are acted upon.</p> <p>The risk register is reviewed monthly as part of the monthly management reporting.</p>
<p>2. Are the entity aware of the risks of fraud that may be evident in the entity? This includes the risks of fraud that are specific to the entity's business sector.</p>	<p>Treasury-related transactions.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud within West Midlands Combined Authority as a whole, or within specific departments since 1 April 2022 that affect/have affected the entity? If so, please provide details.</p>	<p>No, we are not aware of any.</p>
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Risk issues including fraud feature as a standing item in the Audit, Risk & Assurance Committee agenda.</p>

Fraud risk assessment

Question	Management response
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within West Midlands Combined Authority where fraud is more likely to occur?</p>	<p>No, we have not identified any specific fraud risks.</p> <p>Yes, the areas we consider that are the biggest risks are the Adult Education Budget, concessions, ticketing and treasury management. However, the governance and control framework helps mitigate the risk of the likelihood and impact.</p> <p>There are no particular locations where fraud is more likely to occur.</p>
<p>6. What processes do West Midlands Combined Authority have in place to identify and respond to risks of fraud?</p> <p>7. What other controls are in place to help prevent, deter or detect fraud?</p> <p>8. 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 a financial targets) If so, please provide details</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 potential fraud is reported, the Internal Audit Liaison Officer would be contacted who will then commission Wolverhampton Audit Services to conduct an investigation.</p> <p>We have sound financial processes to ensure stewardship.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for West Midlands Combined Authority, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <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)? If so, please provide details.</p>	<p>The overall control environment is assessed as robust. We commission Wolverhampton Audit Services to perform internal audits on key areas and processes annually.</p> <p>N/A</p> <p>Our financial reporting processes include a number of controls from layers of checking through to reviews prior to finalisation of our reporting. All financial monitoring reports undergo differing levels of review before publication and public reporting.</p> <p>No. Our procedures and processes are designed to minimise the potential for override of controls.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details.</p>	<p>There is potential for misreporting but this is mitigated by processes and controls in place.</p>

Fraud risk assessment

Question	Management response
<p>9. How does West Midlands Combined 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? Have any significant issues been reported? If so, please provide details</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>10. 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>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>We are not aware of any related party relationships or transactions that could give rise to instances of fraud.</p> <p>Senior officers are required to complete Register of Interests form annually and members are required to declare any relevant interests at Board and Committee meetings. The risks are also mitigated by robust procurement procedures.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Risk & Assurance Committee?</p> <p>How does the Audit Risk & 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 in place and published on the Intranet site for access by all staff.</p> <p>Fraud issues are considered by Internal Audit with a triage process being in place for review and to determine an appropriate response to any claims received.</p> <p>Whilst no cases of potential fraud have been identified within year, the Chair would be kept informed on progress of investigations throughout and the outcome reported to Audit, Risk & Assurance Committee upon completion.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Three whistleblowing claims have been received in the year with all having been or are currently being taken through a triage process to determine if a full investigation is required or not.</p> <p>Investigations are underway for one claim with the outcome to be shared with ARAC when concluded.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>We are not aware of any reports being made.</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 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 West Midlands Combined Authority's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Risk & Assurance Committee as to whether the body is in compliance with laws and regulations. Where we become aware 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 West Midlands Combined 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 Director of Law & 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. Any legal risk that is identified is escalated up to the Monitoring Officer for further action.</p> <p>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 & Assurance Committee provided with assurance that all relevant laws and regulations have been complied with?</p> <p>Is Management aware of any non-compliance with any laws and regulations?</p>	<p>The Chief Audit Executive is the Director of Law & 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 and governance teams reports to the Director of Law & Governance and are also the custodians of the WMCA Constitution. Governance at the WMCA has also been strengthened by a new Head of Corporate Support and Governance role having been recruited to. The Chief of 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 & Assurance Committee, a legal representative is present at the Committee.</p>

Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details.	None.
4. What arrangements does management 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.
5. Has management identified possible litigation and claims which may give rise to a risk of material misstatement?	Whilst the WMCA has a number of potential claims at investigation stage and one issued claim, there are no significant litigation claims that would give rise to a risk of material misstatement.
6. What arrangements does West Midlands Combined Authority have in place to identify, evaluate and account for litigation or claims?	All claims are controlled by the legal team in conjunction with our insurers. Where appropriate, these are taken to the WMCA Board for approval.
7. What knowledge does West Midlands Combined Authority have over the potential litigation or claims that are affecting the entity?	WMCA has full knowledge over potential litigation or claims that are affecting the entity.
8. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details.	No.

Related Parties

Matters in relation to Related Parties

West Midlands Combined Authority are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

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- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by West Midlands Combined Authority;
- associates;
- joint ventures;
- a body 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 body 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 Authority's perspective but material from a related party viewpoint then the Authority must disclose it.

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

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in West Midlands Combined Authority's 2021/22 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and West Midlands Combined Authority whether West Midlands Combined Authority has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>There have been no material changes in the related parties.</p>
<p>2. What controls does West Midlands Combined Authority have in place to identify, account for and disclose related party transactions and relationships, including changes from the prior period?</p>	<p>Key officers complete a Register of Interests form detailing their interests. These are reviewed annually.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Robust procurement procedures are in place to provide assurance that all expenditure is carried out on a commercial basis.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>As above.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis of accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by West Midlands Combined Authority will no longer continue?	WMCA will continue to monitor government announcements and consider any relevant changes in legislation that will impact the number and level of statutory services provided.
2. Are management aware of any factors which may mean for West Midlands Combined Authority that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	We are not aware of any factors which may mean that either statutory services will no longer be provide or that funding for statutory services will be discontinued.
<p>Page 151</p> <p>With regard to the statutory services currently provided by West Midlands Combined Authority, does West Midlands Combined Authority expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for West Midlands Combined Authority to cease to exist?</p>	Yes, WMCA is expected to continued to deliver the statutory services for the foreseeable future.
4. Are management satisfied that the financial reporting framework permits West Midlands Combined Authority to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes, we are.
5. Whether events or conditions, that individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern were identified?	We have not identified any events or conditions that may cast significant doubt on our ability to continue as a going concern.

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Risk & Assurance Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

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

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?</p> <p>Page 153</p>	<p>The classes of transactions, events and conditions that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures is the Pension Fund (LGPS) valuation.</p> <p>We have also considered the estimated remaining useful lives of PP&E/depreciation and accruals (namely capital accruals) and although they are material, they do not give rise to the need for, or changes in accounting estimate due to the following reasons:</p> <ul style="list-style-type: none"> • The nature of our assets are mainly infrastructure assets and assets under construction. Useful lives for infrastructure assets will only be affected in the unlikely event that these assets are to be demolished or de-commissioned. Assets under construction are not depreciated but held at cost. • Accruals are based on expenditure incurred in the ordinary course of business that have not yet been invoiced or paid. Where accruals are based on claims, a reconciliation is performed between estimated expenditure as declared by claimant and actual claim submitted post year-end. The accounts will be adjusted if there are significant differences.
<p>2. How does the Authority's risk management process identify and address risks relating to accounting estimates?</p>	<p>The operational risk management process will highlight any changes to circumstances which could lead to an assessment of accounting estimates and/or assumptions may require revision.</p> <p>All risks and opportunities are identified as part of monthly management accounts preparation and provided for consideration by Finance Leadership Team.</p> <p>As part of the annual accounts closedown process, material accounting estimates are reviewed and reconciliations between accruals and claims are performed with any significant differences being adjusted in the accounts.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>Each transaction will be assessed on its own merit and the identification will be based on requirements/criteria set out by the CIPFA's Code of Practice and the applicable accounting standards e.g. IFRS, ISA and IPSAS.</p> <p>On the Pension Fund (LGPS), we commission the West Midlands Pension Fund actuary to undertake this work on our behalf, in accordance with the Code and accounting standards. Actuarial assumptions are being reviewed and assessed for reasonableness.</p>
4. How do management review the outcomes of previous accounting estimates?	<p>This is done via the rigorous monthly management reporting where the basis is reviewed and where applicable a reconciliation between the accrual and submitted claims received. If there are significant differences, the accounts will be adjusted.</p>
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	<p>No.</p>
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	<p>New classes of transactions, events and conditions are assessed and specialist skills or knowledge are resourced as appropriate.</p>
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	<p>This is determined by assessing the activities on their own merit.</p>
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	<p>This is done via the rigorous monthly management reporting.</p> <p>On the defined pension benefits, we place reliance on the internal audit carried out annually at the West Midlands Pension Fund where its findings are reported to the West Midlands Pensions Board. Additionally, we have employer representatives present at this Pensions Board. We also receive a briefing note on the actuarial assumptions and these are reviewed for reasonableness.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The nature and extent of oversight and governance in relation to accounting estimates includes:</p> <ul style="list-style-type: none"> • Agreement/review of assumptions for their appropriateness and reasonableness • Rigorous monthly management reporting where results are reviewed for reasonableness and comparative analysis on the Balance Sheet
<p>10. Are management aware of any 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)? If so, what are they?</p>	<p>No significant judgements expected over and above those already outlined in Appendix A.</p>
<p>11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?</p>	<p>We undertake rigorous monthly management reporting and where external experts are used, their assumptions are reviewed for reasonableness.</p>
<p>12. How is the Audit Risk & Assurance Committee provided with assurance that the arrangements for accounting estimates are adequate?</p>	<p>We quantify the financial impact of estimation. This is reported to the Audit, Risk & Assurance Committee as part of the Statement of Accounts.</p>

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?
Estimated remaining useful lives of PP&E/depreciation Page 156	Each part of an item of PP&E 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 management and project teams 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
Accruals	We use standard accruals accounting – accruals are based on expenses incurred that have not yet been paid.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	N/A	N/A	No

Appendix A Accounting Estimates

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?
Valuation of defined benefit net pension fund liabilities (LGPS)	<p>The actuarial gains and losses figures are calculated by the actuarial expert, Hymans Robertson.</p> <p>These figures are based on making % adjustments to the closing values of assets/liabilities.</p>	WMCA responds to queries raised by the administering authority, City of Wolverhampton Council.	WMCA is provided with an actuarial report by Hymans Robertson who is commissioned by WMPF.	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
Level 3 investment	Valuation is based on our accounting policy for Fair Value Measurement, which follows the fair value hierarchy.	Valuation is carried out in accordance with the Code of Practice on Local Authority Accounting.	WMCA is provided with draft Financial Statements from HTO1/HTO2 LLP.	The valuation method used is earnings based.	No





**West Midlands
Combined Authority**

Audit, Risk & Assurance Committee

Date	18 April 2023
Report title	Draft Annual Governance Statement
Accountable Chief Executive	Laura Shoaf, Chief Executive of the WMCA Email: Laura.Shoaf@wmca.org.uk
Accountable Employee	Helen Edwards, Director of Law and Governance Email: Helen.Edwards@wmca.org.uk
Report has been considered by	Executive Board (29 th March 2023)

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

Consider the draft Annual Governance statement for ARAC's approval and inclusion in the 2022/23 financial accounts.

1. Purpose

- 1.1 The Annual Governance Statement is a statutory document which explains the processes and procedures in place to enable WMCA to carry out its functions effectively as defined by CIPFA.
- 1.2 It is prepared for, and considered by Audit, Risk and Assurance committee annually in preparation for its inclusion in the financial accounts. It is a document which looks back retrospectively over the past year, records where the WMCA has demonstrated good governance, and looks forward to areas where focus should be given in relation to governance in the coming year.
- 1.3 Final approval of the 2022/23 Annual Governance Statement will be sought as part of the process of approving the annual accounts of the WMCA in due course.

- 1.4 Close down of the accounts for this financial year is currently in progress and is to be noted there is a possibility that an unknown issue may arise which requires comment or inclusion within this statement, prior to it's final approval.

2. Background

- 2.1 West Midlands Combined Authority (WMCA) is responsible for ensuring that it's business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 2.2 The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the WMCA is responsible for putting in place proper arrangements for the governance of it's affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 2.3 WMCA's governance arrangements are consistent with the principles of the CIPFA/SOLACE framework of Delivering Good Governance in Local Government, and this Annual Governance Statement meets the requirements of Regulation 6(1) (b) of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an annual governance statement each year.
- 2.4 The document demonstrates compliance of how WMCA applies the seven core principles of good governance as set out in the latest CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016), these being:
- (a) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
 - (b) Ensuring openness and comprehensive stakeholder engagement.
 - (c) Defining outcomes in terms of sustainable economic, social, and environmental benefits.
 - (d) Determining the interventions necessary to optimise the achievement of the intended outcomes.
 - (e) Developing the entity's capacity, including the capability of its leadership and the individuals within it.
 - (f) Managing risks and performance through robust internal control and strong public financial management.
 - (g) Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.
- 2.5 The Director of Law and Governance is satisfied that the system of internal control and assurance is robust and provides visibility of risk and reasonable assurance as detailed in this draft Annual Governance Statement.

3. Financial Implications

Not applicable

4. Legal Implications

Not applicable

5. Equalities Implications

Not applicable.

6. Inclusive Growth Implications

Not applicable.

7. Geographical Area of Report's Implications

Not applicable.

8. Other Implications

Not applicable.

9. Schedule of Background Papers

Appendix 1. Draft Annual Governance Statement 2022/23

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Draft Annual Governance Statement 2022/23

Scope of Responsibility

This Annual Governance Statement (AGS) reflects the activities of the Authority for the year ending 31st March 2023 and up to the date of approval of this Statement and the Statement of Accounts.

West Midlands Combined Authority (WMCA) was established on 17th June 2016 by the West Midlands Combined Authority Order and is made up of constituent and non-constituent members and three Local Enterprise Partnerships (LEPs), observers and a co-opted member.

The Mayor is the Chair of the WMCA and having been re-elected on 6th May 2021, will remain in office until May 2024. The Authority's Constituent member authorities consist of the seven district councils across the region:

- Birmingham City Council
- City of Wolverhampton Council
- Coventry City Council
- Dudley Metropolitan Borough Council
- Sandwell Metropolitan Borough Council
- Solihull Metropolitan Borough Council
- Walsall Metropolitan Borough Council

The non-Constituent members of the Authority are comprised of non-constituent authorities and LEP members:

Non-constituent authorities

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

LEP members

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

In the Levelling-Up White Paper in February 2022, Government set out its expectations in relation to the integration of LEPs and their business boards into the Combined Authority. On 31st March 2022 the Departments for Levelling Up, Housing and Communities (DLUHC) and Business, Energy, and Industrial Strategy (BEIS) issued a joint letter and accompanying Guidance to the Chairs of the LEPs in England and to the Mayors of Combined Authorities setting out their proposals for the roles and functions of LEPs to be integrated into local democratic institutions.

Following the letter from Ministers, the three LEP Boards each took decisions on their future status in the autumn following consultation with local public and private partners. While ultimately each LEP has resolved to close, the path for each is specific to local circumstances as summarised below.

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- Black Country LEP - Closure by 31 March 2023.
- Coventry & Warwickshire LEP - Closure by 31 March 2023, with some ongoing activities undertaken by Coventry and Warwickshire Growth Hub.
- Greater Birmingham & Solihull LEP - Closure by 31 March 2024, with specific functions transferring or ceasing at milestones during 2023/24 (agreed at the GBSLEP Board meeting on 22/09/22)

The WMCA is a democratically accountable and politically led public/private partnership, combining the insight of private leaders, in depth knowledge of place and accountability with the democratic accountability of elected Local Authority Members. This was reflected in the WMCA Order which specified the three LEP Chairs as business representatives on the WMCA Board. The WMCA has committed, post-LEP integration, to strengthen private sector input across the full breadth of WMCA activity. Strong and meaningful private sector engagement ensures better informed decision making by embedding commercial acumen and business expertise into the process and by allowing the WMCA to better communicate with its business base and focus on the areas that matter most or where real value can be added.

There are four Observers of the Authority. These are:

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

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

- Trade Union Congress (TUC)

The Authority currently has ten Arm's Length Company relationships, namely;

No.	Company Name	Stake	Accounting Treatment
a.	West Midlands Rail Limited	50%	Associate
b.	West Midlands Development Capital Limited	100%	Subsidiary
c.	Midland Metro Limited	100%	Subsidiary
d.	West Midlands Growth Company Limited	5.3%	Investment
e.	WM5G Limited	100%	Subsidiary
f.	HTO1 LLP	44%	Joint venture
g.	HTO2 LLP	44%*	Joint venture
h.	Midlands Development Capital Ltd	100%	Subsidiary
i.	Network West Midlands Ltd	100%	Subsidiary
j.	WMCA JV Ltd	100%	Subsidiary

*through ownership with HTO1 LLP

For each of the arm's length companies where the Authority owns a 50% or greater share of the organisation, an assurance and governance review is regularly completed to confirm all legal and financial controls have been satisfied. Although the stake in the Growth Company is small, WMCA together with other contracting authorities exercises joint control over the company and therefore ensures legal and financial controls are satisfied.

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The Purpose of the Governance Framework

The Authority is responsible for ensuring that business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for; and delivers value for money. It also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

To demonstrate good corporate governance, the Authority carries out its functions in a way that provides accountability, transparency, effectiveness, integrity and inclusivity; enabling the Authority to pursue its vision and secure its agreed objectives in the most effective and efficient manner and in line with the approved Constitution.

In discharging this overall responsibility, the Executive Board (formally Strategic Leadership Team) and Statutory officers are responsible for putting in place proper arrangements (known as a Governance Framework) which comprises the legislative requirements, systems and processes, cultures and values.

This enables the Authority to govern its affairs, facilitate the effective exercise of its functions, which includes arrangements for the management of risk, in addition to exercising leadership and being held accountable for its decisions and activities.

The Authority has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives; evaluating the likelihood of those risks being realised, the impact should they be realised, and managing them efficiently, effectively and economically. To that end, the Authority has been embedding the revised Strategic Risk Management Framework, raising awareness of the structure and the tools available for WMCA staff to ensure consistency in how risks are identified, managed, monitored and escalated. Alongside this activity, the authority continues to focus on providing visibility of risk at strategic level. A strategic risk register is updated quarterly and reported to and reviewed by Audit, Risk and Assurance Committee (ARAC) and the Executive Board.

Annual Governance Statement

This Annual Governance Statement meets the requirements of Regulation 6(1) (b) of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an Annual Governance Statement and include it within its Statement of Accounts.

It is a document which looks back retrospectively over the past year and identifies where the WMCA has demonstrated good governance and looks forward to areas where focus should be given in relation to governance in the coming year.

The Authority demonstrates compliance with the seven core principles of good governance as set out in the 2016 CIPFA/SOLACE Delivering Good Governance in Local Government Framework.

These seven principles are:

- (a) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- (b) Ensuring openness and comprehensive stakeholder engagement.
- (c) Defining outcomes in terms of sustainable economic, social, and environmental benefits.

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- (d) Determining the interventions necessary to optimise the achievement of the intended outcomes.
- (e) Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- (f) Managing risks and performance through robust internal control and strong public financial management.
- (g) Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

The table below sets out examples of how the Authority has demonstrated compliance with these principles.

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

The Code of Conduct is laid out in the Constitution and was updated in March 2021 following the issue of a revised model of the Code of Conduct by the Local Government Association (LGA) which incorporates recommendations made by the Committee on Standards in Public Life (CSPL); this defines the standards of behaviour for Members and officers working on behalf of the Authority.

Following consideration by ARAC the revised code was adopted by the WMCA Board on 22nd March 2021. The Director of Law and Governance, who holds the role of Monitoring Officer, deals with issues of conduct and promotes high standards among officers, Members and the Mayor. ARAC performs the role of Standards Committee.

The WMCA has undertaken to review the governance of its formal decision-making bodies to ensure that these arrangements reflect the evolving role and remit of the WMCA as it continues to grow from the organisation that was established in 2016. The first review - undertaken has revised and refreshed the decision making in regard to its responsibilities relating to economic growth, culminating in the establishment of a new Economic Growth Board. This was approved by the WMCA Board at its meeting in November 2021. Further governance reviews are in progress within transport and are due to be undertaken in respect of wellbeing and public service reform responsibilities. WMCA will consider whether its current governance arrangements remain suitable following the announcement of the Deeper Devolution Deal in March 2023 and will make recommendations for change if appropriate.

WMCA is committed to a better connected, more prosperous, fairer, greener and healthier region. This is our vision and will be achieved through living the Authority's values which are central to how we work and interact with our wider partners and stakeholders:

Collaborative

- Team Focussed – working as part of a team, managing and leading
- Service Driven – customer, resident and partner focused

Driven

- Empowered and Accountable – taking ownership and leading when needed
- Performance Focused – being ambitious and going the extra mile

Inclusive

- One Organisation Mindset – believe in each other's expertise
- Open and Honest Communication – we do what we say we are going to do

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Innovative

- Forward Thinking – embrace change and open to new possibilities
- Problem Solving – go for clear and simple wherever possible

The business of the Authority is also conducted in accordance with the Seven Principles of Public Life identified in The Nolan Committee Report (1995), and defined as Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

2. Ensuring openness and comprehensive stakeholder engagement

We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. All formal meetings are held in public and reports are in the public domain unless there are good reasons for confidentiality in individual cases.

All Committee meetings are held in public, (other than in limited circumstances where consideration of confidential information requires the public to be excluded) with agenda and reports being accessible on the WMCA's external website. All public meetings are now recorded and accessible through YouTube on-demand. Following the end of the temporary regulations allowing for hybrid and virtual meetings during Covid-19, all meetings constituted under the Local Government Act 1972 must be held in person and only those members present are considered part of the quorum and are able to vote.

The Authority has in place a committee management system that proactively publishes information relating to public meetings, decisions and the Forward Plan and is designed to make information readily available to the public without the need for specific written requests. Any information not published is available, subject to assessment, under the provisions of the Freedom of Information Act 2000. Details of how to make a request for information are available on our website.

We incorporate good governance arrangements with our partnerships and reflect these in our overall governance arrangements, including the assessment and effectiveness of relationship frameworks in order to identify and implement any changes if required.

Where consultation is required, we adhere to the principles of good consultation of the "Gunning Principles" and a variety of measures are used to seek the views of the public. For example, public consultation is incorporated into any plans where a change to public transport policy is being considered.

Overview & Scrutiny Committee has responsibility to ensure that the decisions of the WMCA have considered all relevant information, are proportionate to the outcomes desired, and have been made in the best interests of the region. It is able to 'call in' any decision for further scrutiny that it considers may not meet these standards. It also conducts Question & Answer sessions with the Mayor twice yearly, with the questioning focusing on policy delivery and budget setting. All of its meetings are held in public, recorded and available through YouTube on-demand. The overview and scrutiny function will be reviewed in 2023 when the requirements of the Deeper Devolution Deal in respect of greater accountability and scrutiny become clearer.

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

The Authority ensures the vision and implications for governance arrangements are regularly reviewed including the monitoring of its achievement of intended outcomes from social, economic, environmental and organisational health perspectives through the budget, performance framework, and project delivery process.

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

To ensure the purpose and vision of the Authority is clear and well communicated, an Annual Business Plan (ABP) is produced, and closely aligned to the WMCA Aims & Objectives that were agreed by WMCA Board in November 2021. The ABP outlines all activities to be undertaken in 2023/24 to deliver against these objectives, with progress regularly monitored through a number of outcome measures (both High Level Deliverables and profiled milestones) and reported monthly to the Executive Board and bi-annually to WMCA Board. The 2023/24 outcome measures were agreed by WMCA Board in February 2023 as part of the Budget report.

The Aims & Objectives are approved by WMCA Board and are outlined below:

- Aim 1:** To promote inclusive economic growth in every corner of the region and stimulate the creation of good jobs
- Aim 2:** To ensure everyone has the opportunity to benefit as the region recovers from Covid 19, improves resilience and tackles long standing challenges
- Aim 3:** To connect our communities by delivering transport and unlocking housing and regeneration.
- Aim 4:** To reduce carbon emissions to net zero, enhance the environment and boost climate resilience
- Aim 5:** To secure new powers and resources from central government, and demonstrate the strength of our regional partnership
- Aim 6:** To develop our organisation and our role as a good regional partner.

4. Determining the interventions necessary to optimise the achievement of the intended outcomes

The Authority works closely with the relevant Government Departments, local and national stakeholders and constituent and non-constituent authorities to determine the necessary actions to achieve its Aims and objectives.

The Executive Board oversees the corporate decision-making process and reports are considered at an appropriate level of the organisation in accordance with the provisions of the Constitution and the Scheme of Delegation.

Corporate strategic decisions are primarily taken at meetings of the WMCA Board, with Investment Fund decisions up to the value of £20M having been delegated to the Investment Board. Other thematic Boards have roles as set out under the Single Assurance Framework (SAF) in terms of overseeing and reviewing project initiation and delivery. This includes reviewing progress of outcomes against delivery plans.

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

We have defined and documented the roles and responsibilities of the Board, Scrutiny and officer functions within the Constitution, with clear delegation arrangements and protocols for effective communication in place. As the Authority continues to evolve, we will review governance arrangements and revise the Constitution to ensure it remains fit for purpose. A Scheme of Delegations is laid out in the Constitution.

Our Performance Management and Monitoring & Evaluation Frameworks, together with a performance reporting solution using Power Bi dashboards, provide a foundation for the journey towards data-driven and evidence-based decision making. This improves the visibility and transparency of reporting as a 'single version of the truth,' and together with the introduction of a more dynamic business planning process, this enables regular conversations about the activity to be delivered and the resources, both financial and people, required to achieve this. Our behavioural framework is fundamental to our performance framework and will align to our goals – ensuring a 'golden thread' between the corporate aims and objectives through to individual performance management goals, enabling every one of our people to see their contribution to the Authority's vision. This facilitates how we develop a culture that supports us all to be diverse, inclusive, innovative and proud to be part of the Authority.

We identify and aim to address the development needs of Members and officers in relation to their roles and support with appropriate induction and training. In addition, statutory training requirements are in place for all officers to ensure our duties under Equalities, Safeguarding, Information Security and GDPR are met.

Each year, after the local elections have been held, the WMCA provides an 'induction day' for newly elected members to provide an introduction to the WMCA, its role and remit, how it operates, and the role of elected members who are attending its boards and committees. This induction also provides further details on the key corporate strategies of the WMCA, along with its current Annual Business Plan.

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

The Strategic Risk Management Framework (SRMF) provides the structure and the tools for WMCA staff to undertake consistent risk management that protects the WMCA and supports the delivery of our objectives. In addition, it documents the risk management roles and responsibilities across the Lines of Defence, helping support the WMCA Board, Chief Executive Officer (CEO), Statutory Officers and Senior Leaders in creating and embedding a strong risk culture within the organisation. The last year has seen a specific focus on supporting an integrated approach to risk management at project and programme level alongside the Authority's Programme Assurance and Appraisal activity. We are now targeting the embedding of good risk management at operational and Directorate level, to similarly support an integrated approach to risk and performance management.

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

ARAC is independent of the Executive and Scrutiny functions; it has an independent, external Chair. They monitor and review risk and governance processes in order to provide assurance to the WMCA Board on the effectiveness of these arrangements. Appropriate

Draft Annual Governance Statement 2022/23

controls are in place for arms-length companies and as good practice, external auditors have been appointed for West Midlands Rail Limited, Midland Metro Limited, WM5G Limited, West Midlands Development Capital Limited, HT01 LLP and HT02 LLP, and the newly established Co-Invest.

Internal Audit provides the 'third line of defence' with the first line being policies, procedures and controls, and the second being managers' own checks of the control environment, along with independent Risk Management and Programme Assurance activities undertaken as part of the Single Assurance Framework. Professional advice and good quality information is provided to ensure those making decisions are provided with relevant information that is fit for purpose.

The Authority has recognized the need for increased scrutiny of its operations and has strengthened its Internal Audit provision within the past year with the appointment of two Internal Auditor posts in addition of, and to support the existing internal audit services provided by the City of Wolverhampton Council.

The Single Assurance Framework was updated during 2022 and was approved by WMCA Board in December 2022. The review incorporated the National Local Growth Assurance Framework requirement for an annual review and outlined the Authority's specific approaches to Housing and Transport schemes and the Adult Education Budget.

The updated document follows more closely the structure of the National Local Growth Assurance Framework, making a distinction between governance and assurance requirements. Flowcharts contained within the framework, describing key processes, have been simplified and the assurance section within the framework reflects the different stages of the Single Assurance Framework, including change control processes.

The Framework supports good governance with enhanced assurance tools and processes and the appraisal of business cases and change requests to identify any improvement opportunities, together with any ongoing risks to inform the decision-making process. The Single Assurance Framework continues to be aligned to the Department of Levelling Up, Housing and Communities (DLUHC) National Local Growth Framework, issued in September 2021.

The Single Assurance Framework is supplemented by an Investment Panel and Investment Board, whose remit has been expanded to include the review and approval of all investment decisions, not just Investment Programme projects (which was the case prior to 2022). The Investment Board has had its delegated approvals authority increased from £5 million to £20 million and its Terms of Reference have been updated accordingly.

The majority of the Authority's audits of its Key Financial Systems received a 'substantial' internal audit rating during the annual review of all financial systems in 2022/23, with Payroll and Accounts Payable being rated Satisfactory. Actions arising from these reviews are actively being addressed with completion expected by May 2023.

7. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Authority is continuing to implement the WMCA Single Assurance Framework which was originally approved by MHCLG (previously Department of Communities and Local Government (DCLG)) in July 2020 and was more recently updated and approved by WMCA Board in December 2022.

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We continue to maintain close links with all relevant Government Departments and have regular conversations regarding issues including funding, delivery and devolution objectives.

The Authority has a Monitoring Officer who sits on the Executive Board and attends the WMCA Board meetings to ensure all activities are conducted in a legal manner. Our high level of governance standards includes the publishing of agendas, minutes and reports in the public domain and only limited use of confidential reporting. The 2022/23 Internal Audit Plan was approved at ARAC's April 2022 meeting.

An annual review of any arm's length companies of the Authority is completed to assess and provide assurance that these operate with satisfactory governance and assurance arrangements in place. The Monitoring Officer is currently undertaking a review of all companies in which WMCA has involvement, and will strengthen arrangements for oversight of them going forward, in addition to providing additional training for all councillors and officers who act as directors of companies as part of their Combined Authority responsibilities.

A Whistleblowing Policy and procedure is in place, last reviewed in May 2021. The Policy is intended to encourage and enable employees and stakeholders to raise serious concerns about any wrongdoing considered to be in the public interest, with the ability for confidential and anonymous reporting of claims to be made through the WMCA website.

Any issues raised are considered by the Monitoring Officer in conjunction with Internal Audit, the Finance Director and Chair of ARAC to determine the progression of claims.

Key Governance Issues

Last year's Annual Governance statement highlighted a number of areas to be considered for development in 2022/23. The table below sets out the actions that have been taken to address these:

Area	Proposed action	Action taken
Governance arrangements between Midland Metro and WMCA	An independent review of the governance arrangements between both parties is currently in progress with the outcome and recommendations to be considered and implemented as appropriate.	There were two key recommendations from the independent review, both of which we are now implementing. We needed to strengthen the 'Owner's Team' with technical support to oversee and challenge our Operator/Maintainer MML. The head of that new team started in January, and we are currently interviewing candidates for three additional posts reporting to him. We were recommended to add an independent Chair of MML and one or two non-exec Directors. We are preparing for a recruitment process in the coming months.
Safeguarding arrangements	WMCA's safeguarding policy to be reviewed to ensure it continues to meet our obligations and ensures the safety of all young persons engaged with the organisation.	The policy was reviewed and approved by Corporate Management Team and the Strategic Leadership Team in September 2022. The Head of HR is responsible for the role of Chief of Safeguarding with the Head of Legal and Head of Systems, Change and

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		<p>Inclusion listed as the Designated Safeguarding Lead Officers.</p> <p>Online safeguarding training is mandatory for all staff. Additional face to face training is commissioned for key roles associated with safeguarding arrangements and for targeted areas that come into contact with vulnerable children and adults.</p>
Single Assurance Framework (SAF)	<p>An annual re-assessment and update of the Single Assurance Framework to be undertaken ensuring it continues to meet all legislative requirements including the introduction of Assurance arrangements for Housing and Transport schemes and the Adult Education Budget.</p>	<p>A review of the SAF has been completed, incorporating the requirements of the National Local Growth Assurance Framework and detailing the approach for Housing and Transport schemes and the Adult Education Budget.</p> <p>The revised framework was approved by WMCA Board in December 2022.</p>
Corporate Aims and Objectives	<p>Continued embedding of a performance management culture, providing management with reporting arrangements to demonstrate its achievement in delivering the Corporate Aims through the Annual Business Plan.</p>	<p>A performance management framework and associated roadmap was approved by the Exec Board in July 2023 and this set out a 3 year plan to move from our current performance measurement approach towards using predictive analytics and trend analysis to a performance improvement state. There are Power BI reports that are shared with Exec Directors monthly for ABP performance and they are encouraged to cascade and share across teams to encourage increased psychological safety around reporting. In addition, improved dashboards on organisational health showing trends, benchmarking and direction of travel are shared with CMT monthly. For 24/25 the ABP dashboards will also show capital funding linked to high level deliverables (HLDs) and we have started to link to strategic risks; this ensures a triangulated view of performance and enables improved data-driven, evidence-based decision making.</p>
Governance review	<p>Recommendations arising from the Governance review undertaken in 21/22 will be implemented as set out in the associated report including the;</p> <ul style="list-style-type: none"> • Rationalisation of decision-making and advisory bodies within service areas • Refinement of reporting and engagement processes 	<p>A report in relation to the rationalisation of decision-making and advisory bodies will be considered by the WMCA Board at the AGM on 9 June 2023.</p> <p>The modern.gov committee management system has been introduced for workflow of reports and will be used for all decision-making bodies from the start of the new municipal year.</p> <p>There is a new role for a Member Relationships Manager that will be</p>

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	<ul style="list-style-type: none"> • Engagement with Constituent and non-Constituent members • Review of arrangements for Member Allowances 	<p>recruited to before the start of the new municipal year.</p> <p>A report from the Independent Remuneration Panel will also be considered by the WMCA Board at the meeting on 9 June 2023.</p>
Freedom of Information / GDPR	Review to be undertaken of our data protection and security policies.	An Information Governance Group has been established. Its terms of reference were approved by CMT in (check date) with its first meeting having taken place in March 2023. Part of the terms of reference for this group is to undertake an annual rolling review of all Data Protection and information governance policies. This is currently in progress. Over the first quarter of 23/24, reviews will have been completed and updated policies will be communicated to all staff.

Annual Review of Effectiveness of Governance Framework

The Opinion of the Director of Law and Governance 2022/23

CIPFA (The Chartered Institute of Public Finance & Accountancy) defines the role of Governance and the Chief Financial Officer as follows:

- Governance is defined as “The arrangements in place to ensure that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an economical, effective, efficient and ethical manner” and;
- The Chief Financial Officer is “The organisation’s most senior executive role charged with leading and directing financial strategy and operations.”

These statements have been confirmed and agreed by the Director of Law and Governance and the Executive Finance Director respectively.

The Director of Law and Governance is satisfied that the system of internal assurance is robust and provides visibility of risk and reasonable assurance to the Executive Board.

The opinion is based on the results of an on-going programme of activities and review, the outcomes of which were considered by ARAC. These include:

- a) External audit
- b) Internal audit
- c) The Risk Management Process, particularly the Strategic Risk Register
- d) Performance information
- e) Programme Assurance and Appraisal

As at 23 March 2023 a number of internal audit reviews are nearing completion. Unless anything of significance is raised through these, prior to their completion, and dependent upon the final outcome of an independent investigation into a breach of the Combined Authority’s financial regulations whereby costs on a capital project had exceeded the budget provision, we should be able to provide reasonable assurance that the Combined Authority has adequate and effective governance, risk management and internal control processes.

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The Single Assurance Framework (SAF) has been implemented across all WMCA Directorates and oversight of business cases and change requests by the Programme Assurance and Appraisal team, as part of the SAF process, continues to increase; demonstrating improved project controls and consistent processes are being implemented across the organisation. This is helping to manage risks and drive improvements in the quality of business cases and overall project and programme management activity.

Regular reporting on Programme Assurance and Appraisal team activity, together with insights regarding common themes, issues and any recommendations for improvement have been provided to the Executive Board and ARAC throughout 2022/23.

Progress of the 2022/23 High Level Deliverables was monitored on a monthly basis by the Executive Board through exception reporting and against identification of key risks that could impact on delivery. In addition, performance was reported to WMCA Board mid-year and at year end.

The Strategic Risk Management Framework includes an escalation process that allows for risks to be escalated, ultimately to the Strategic Risk Register. Quarterly reporting of the strategic risk register is working effectively, and work has been focussed on collaboration with the Programme Assurance and Appraisal team to improve consistency of risk management across all projects and programmes. As this starts to embed, attention has turned to improving the consistency of Operational or Directorate Risk Registers and to focus attention on enabling Directorates to have full visibility of key risks with the potential to impact on the organisation's ability to deliver its business plan objectives. The aim is for Risk Management, Performance Management and Business Planning activity to provide a strong evidence base to improve decision making.

In accordance with the recently ratified Digital and Data Strategy, the organisation has adopted cabinet office levels of protective security. These mandated standards allow for increasing maturity across the business by adherence to articulated mandates and best practice advice and guidance. Any non-conformity constitutes risk and can then be managed appropriately.

The last three years has seen an unprecedented challenge in the shape of the COVID-19 pandemic. This has affected every area of life in the UK and clearly these issues have affected the Authority as with others. Through agile working and the implementation of our corporate resilience arrangements, we have been able to continue to manage workloads and delivery. We worked with public transport providers to ensure that appropriate measures were in place to safeguard the public and took a key role in the regional response and recovery arrangements. We continue to lead on the work needed to ensure that the economic recovery of the West Midlands is put on a secure footing.

The Authority has set itself a demanding programme of work and is ambitious for itself and the benefits that it aims to bring to the region. It has been successful in negotiations for a second Devolution Deal and has recruited an able team of experienced professionals to form the leadership team. There is significant pressure on resources however, particularly in matching staff resources to the tasks in hand and this is being carefully monitored by the Authority and a plan in place to mitigate these pressures accordingly.

This Annual Governance Statement identifies that WMCA has effective arrangements in place; however, the organisation realises the need to monitor its governance arrangements on an ongoing basis given the ever-changing environment within which it operates, and due to the organisation continuing to evolve. Whilst the organisation has not identified any significant Governance issues, a number of areas for development have been identified for progression in 23/24 and are outlined within the table below.

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Area	Action to be taken
Overall governance	The Monitoring Officer has identified a need to review the Constitution, with the aim of making recommendations to the Board during 2023
Overall governance	Informal internal committees and formal decision making committees, together with processes, are to be reviewed during 2023 with a view to streamlining governance procedures to ensure the authority is able to respond to the increased responsibilities of the 2023 devolution deal This will include the continued role out of the workflow functionality in Modern.gov, consideration as to how the Governance and Legal teams are resourced and reconvening the Independent Remuneration Panel to consider member allowances.
Audit, Risk and Assurance	A review of how internal audit is provided at WMCA has been initiated.
Governance and Accountability in the new devolution deal	Work is commencing in partnership with Department for Levelling Up, Housing and Communities, the Centre for Governance and Scrutiny and Greater Manchester Combined Authority in relation to a new scrutiny protocol as detailed in the new deal.
Strengthening Scrutiny	Work is commencing in partnership with Department for Levelling Up, Housing and Communities, the Centre for Governance and Scrutiny and Greater Manchester Combined Authority in relation to strengthening scrutiny and in particular in relation to members of parliament scrutinising the Mayor and portfolio lead.
Engagement with constituent and non constituent local authorities	Work is ongoing to strengthen governance relationships with the local authorities. A west midlands governance network has been set up where forward plans and areas of best practice can be shared and joint working initiatives explored where appropriate.
Member Induction and Engagement	A new member induction programme will be developed for the start of the new municipal year. This will seek to ensure that all members sitting on WMCA meetings are fully briefed as to the role of the WMCA and how it links and works with the Local Authorities and other regional partners.
Awareness raising as to the role of a CA and governance arrangements.	The Head of Governance is working with ADSO to produce a new training course to raise awareness of what CAs do and how they link with both local authorities and central government. Updated training slides on CAs will be included in all ADSO training as it is developed.
Webcasting of meetings – openness and transparency	Investigations are commencing as to options for improving out facilities in Summer Lane in relation to hosting public meeting meetings and in particular our ability to host hybrid meetings and to webcast public meetings.

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Conclusion

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

On behalf of the West Midlands Combined Authority

Andy Street

Mayor and Chair of the West Midlands Combined Authority

Date:

Laura Shoaf

Chief Executive

Date:



**West Midlands
Combined Authority**

Audit, Risk & Assurance Committee

Date	18 April 2023
Report title	Government response to Local Audit Framework: Technical Consultation
Accountable Chief Executive	Laura Shoaf, Chief Executive Email: Laura.Shoaf@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Linda Horne, Finance Director Email: Linda.Horne@wmca.org.uk Tel: (0121) 214 7508
Report has been considered by	N/A

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Note the Government response to the recent Local Audit Framework: Technical Consultation.

1.0 Purpose

- 1.1 This report has been prepared to share a summary of the government's response on the recent consultation, Local Audit Framework: Technical Consultation, with members of the Committee.

2.0 Background

- 2.1 On the 31 May 2022 the Department for Levelling Up, Housing and Communities (DLUHC) shared its consultation outcome on its Local Audit Framework: Technical Consultation.
- 2.2 This was in response to Sir Tony Redmond's independent review into the effectiveness of external audit and the transparency of financial reporting in local authorities. This included strengthening the guidance on audit committees, through the endorsement of CIPFA's position statement as published at the end of April 2022.

3.0 Government Response

- 3.1 The independent audit of a local authority's statutory accounts and arrangements for achieving value for money is fundamental to sustaining public confidence in systems of local democracy.
- 3.2 Local audit enables taxpayers, and local bodies themselves, to have the confidence that financial accounts are true and fair and that the authority has been acting with propriety and has arrangements in place to secure value for money through the economic, efficient and effective use of its resources.
- 3.3 Sir Tony Redmond's Independent review into the oversight of local audit and the transparency of local authority financial reporting reported in September 2020 that there was a lack of coherence and join up across the current local audit framework, as none of the organisations in the system "had a statutory responsibility, either to act as a systems leader or to make sure that the framework operates in a joined-up and coherent manner", which was contributing to wider issues including audit delays and market instability.
- 3.4 Local Audit Framework: technical consultation (July 2021) set out the government's intention to establish the Audit Reporting and Governance Authority (ARGA), which will be established to replace the Financial Reporting Council (FRC), as the new system leader for local audit. It also set out proposals to implement other recommendations from the Redmond Review: to strengthen audit committees and improve capacity and capability.
- 3.5 The consultation sought views on how these arrangements would work and received responses from a range of local bodies, audit firms, partner organisations, and other stakeholders.
- 3.6 The Government's response to the consultation sets out how it plans to act in the light of comments received, confirming its intention to establish ARGA as the system leader for local audit and for shadow arrangements to be established at the FRC ahead of that.
- 3.7 The Government's response also confirms that when parliamentary time allows, it plans to make audit committees compulsory for all councils, with at least one independent member appointed to each audit committee.

- 3.8 The consultation set out the government’s intention to act as interim system leader for local audit before new system leader arrangements were established. This has included the establishment of the new Liaison Committee. This forum has enabled engagement from across the local audit system on how to balance different priorities and objectives including a primary focus on the development of measures to address ongoing audit delays and to support the fragile audit market.
- 3.9 Through this work, a cross-sector package of additional measures was agreed by government and other key stakeholders to support improved timeliness and the wider local audit market. This was published in December 2021: Measures to improve local audit delays. In addition, Public Sector Audit Appointments Ltd (PSAA) has continued to progress its procurement strategy for the next round of local audit contracts.
- 3.10 The government is also continuing wider work to prepare for the establishment of ARGA, including the publication of the government response to the White Paper Restoring trust in audit and corporate governance.
- 3.11 The Financial Reporting Council (FRC) has recently confirmed the appointment of its first director of local audit who will lead a new dedicated local audit unit which will be integral to shaping the FRC’s new system leadership role and working with wider partners.
- 3.12 As the new shadow unit is established and builds capacity, the FRC will start to take on a greater system leadership role. This will include a period of transition during which the new FRC director of local audit will jointly chair the Liaison Committee with DLUHC as interim system leader. Once the outcome of the upcoming procurement of local audit contracts is confirmed, it will also work with the market on the development of a new workforce strategy.
- 3.13 These arrangements will be formalised through a high-level Memorandum of Understanding covering the proposed remit of the new shadow arrangements to be published later in 2022, ahead of future statutory governance arrangements.
- 3.14 The proposed arrangements for local audit are illustrated in the diagram below:

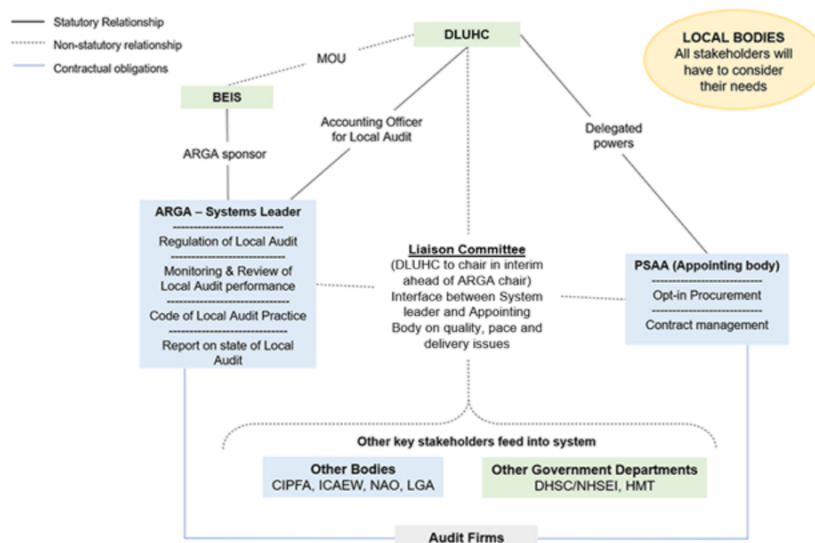


Figure 1: New Local Audit Framework

- 3.15. Further details are outlined in the Government's consultation response via the following link: [Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)

4.0 CIPFA's Position Statement 2022: Audit committees in local authorities and police

- 4.1 CIPFA's view which has been endorsed by the Government in their consultation response is that Audit Committees are a vital part of any organisation. A dedicated, effective committee is key to supporting good governance, strong financial management and effective internal and external audit of all public sector bodies.
- 4.2 CIPFA sets out the key principles of audit committees in a regularly updated position statement which sets out the principles they recommend committees operating in local government follow.
- 4.3 The full position statement is attached to this report as an Appendix for information and is summarised below:
- **Purpose** – to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and controls gives greater confidence to all those charged with governance that those arrangements are effective.
 - **Independent and effective model** - The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is an advisory committee that has sufficient importance in the authority so that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance.

The committee should:

- be directly accountable to the authority's governing body
- be independent of both the executive and the scrutiny functions
- have rights of access to and constructive engagement with other committees/functions, for example scrutiny committees and other strategic groups
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.

- **Core functions** – to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

Specific responsibilities include:

- Maintenance of governance, risk and control arrangements;
- Financial and governance reporting; and

- Establishing appropriate and effective arrangements for audit and assurance
- **Audit Committee membership** – to provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.
- **Engagement and outputs** – the audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs.
- **Impact** – As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.

5.0 Financial Implications

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

6.0 Legal Implications

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

7.0 Equalities Implications

7.1 Not applicable.

8.0 Inclusive Growth Implications

8.1 Not applicable.

9.0 Geographical Area of Report's Implications

9.1 Not applicable.

10.0 Other Implications

10.1 Not applicable.

11.0 Schedule of background papers

11.1 The Government's full response to the consultation can be found via the following link: [Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)

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Audit, Risk & Assurance Committee

Date	18 April 2023
Report title	Terms of Reference - Audit Risk and Assurance Committee
Accountable Chief Executive	Laura Shoaf, Chief Executive of the WMCA Email: Laura.Shoaf@wmca.org.uk
Accountable Employee	Helen Edwards, Director, Law and Governance Email: Helen.Edwards@wmca.org.uk
Report has been considered by	Executive Board: 29 March 2023

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

1. Review and endorse the updated Terms of Reference for Audit, Risk and Assurance committee (ARAC).
2. **Purpose**
 - 2.1 The Terms of Reference were initially considered at the ARAC meeting in July 2022 and it was resolved that they be reviewed and brought back to a future meeting.
 - 2.2 The Terms of Reference set out the structure of the committee, detailing its purpose, roles and responsibilities. This includes details of the committee membership and provisions to ensure that the committee complies with the obligations, as defined in Part 4 of the Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017.

3. Background

3.1 CIPFA's position statement 2022 in relation to the purpose of Audit Committees states that :

“Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective. The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.”

3.1 The Terms of Reference have been updated taking the CIPFA statement into account and the following considerations, amendments and additions are now recommended:

3.2 That the role of Chair continues to be undertaken by the independent member. We recommend that there also be an annual appointment of a Vice Chair, to be determined at the first meeting of the municipal year by voting members of the Committee.

3.3 That membership remains as previously set, with the GBSLEP membership remaining until 31st March 2024 in line with the continuation of this LEP until this date. An invitation to continue as a member of this committee is to be issued to the current GBSLEP representative.

3.4 That consideration be given to increasing the number of Independent persons from one to two, (currently held by the Chair of ARAC).

3.5 That the Quorum reflect the requirements as set out within the Order referenced in 1.2 which sets a requirement in Part 4, paragraph 14.7 for the quorum to be no fewer than two thirds of the total number of members as shown below:

‘The combined authority must determine a minimum number of members required to be present at a meeting of the audit committee before business may be transacted, to be no fewer than two-thirds of the total number of members of the audit committee’.

3.6 That the functions be updated to reflect the additional annual assurance reports that are received by ARAC in relation to Health and Safety, Data Protection and Equalities.

3.7 Clarification has been sought on the membership of non-constituent authorities to this committee. Whilst there are 10 non-constituent member authorities of the WMCA, these 4 seats are allocated to one member from each of the county areas (Shropshire, Staffordshire, Warwickshire and Worcestershire).

3.8 That it be noted that ARAC already considers Financial monitoring and External audit activities, these functions had inadvertently been omitted from the previous version shared with ARAC in July 2022 and have been restored as part of this update.

3.9 That ARAC be recognised as having responsibility for undertaking the role of the Standards Committee as detailed within the Constitution. Details of the related functions for this role have been included in this update.

4. Financial Implications

None

5. Legal Implications

None

6. Equalities Implications

None

7. Inclusive Growth Implications

Not applicable.

8. Geographical Area of Report's Implications

Not applicable.

9. Other Implications

Not applicable.

10. Schedule of Background Papers

Appendix 1 – Draft Terms of Reference

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Audit Risk and Assurance Committee

Terms of Reference

<p>Purpose</p>	<p>The Audit, Risk & Assurance Committee is a key component of the WMCA's corporate governance arrangements. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. The purpose of the committee is to provide independent assurance to the WMCA on the adequacy of the risk management framework and the internal control environment.</p> <p>It provides an independent review of the governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.</p>
<p>Accountable to</p>	<p>To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.</p> <p>To report to WMCA Board on a regular basis on the committee's performance in relation to the terms of reference, and the effectiveness of the committee in meeting its purpose.</p>
<p>Membership</p>	<p>Constituent Authorities x 7 Non-Constituent Authorities x 4 – representing Warwickshire, Shropshire, Staffordshire and Worcestershire GBSLEP representative x 1 Independent Member x 1</p>
<p>Chair</p>	<p>The committee is to be chaired by the independent member.</p> <p>The Vice Chair will be appointed by Committee members at the first meeting of the municipal year.</p>
<p>Voting</p>	<p>All members of the Audit, Risk & Assurance Committee will have one vote, except the Chair who is not eligible to vote and nor will exercise a casting vote.</p>
<p>Quorum</p>	<p>The quorum shall be two-thirds of its membership (nine members).</p>

<p>Frequency</p>	<p>The Audit, Risk & Assurance Committee will meet quarterly, or more frequently if required to deliver the work.</p>
<p>Servicing</p>	<p>Meetings of the committee will be serviced by the WMCA's Governance Services Team.</p>
<p>Functions</p>	<p>Governance, Risk and Control</p> <ul style="list-style-type: none"> • To review the WMCA's corporate governance arrangements against the good governance framework and consider annual governance and assurance reports. • To review the annual governance statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the WMCA's framework of governance, risk management and control. • To consider the WMCA's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements. • To consider the WMCA's framework of assurance and ensure that it adequately addresses the risks and priorities of the WMCA. • To monitor the effective development and operation of risk management in the WMCA. • To monitor progress in addressing risk-related issues reported to the committee. • To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions. • To review the assessment of fraud risks and potential harm to the WMCA from fraud and corruption. • To monitor the counter-fraud strategy, actions and resources. • To receive additional assurance reports from the Programme Assurance and Appraisal, Health & Safety, Data Protection and Equalities teams

Internal Audit

- To approve the Internal Audit Charter.
- To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
- To approve the internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
- To approve significant interim changes to the internal audit plan and resource requirements.
- To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.
- To consider reports from the Head of Internal Audit on internal audit's performance during the year, including the performance of external providers of internal audit services.
 - These will include:
 - Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work;
 - Regular reports on the results of the quality assurance and improvement programme;
 - Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.
- To consider the Head of Internal Audit's annual report:
 - The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement - these will indicate the reliability of the conclusions of internal audit;
 - The opinion on the overall adequacy and effectiveness of the WMCA's framework of governance, risk management and control together with the summary of the work supporting the opinion - these will assist the

committee in reviewing the annual governance statement.

- To consider summaries of specific internal audit reports as requested.

External Audit

- To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

- To receive detailed training in respect of the process associated with the preparation, sign-off, audit and publication of the Authority's annual statement of accounts.
- To monitor the on-going progress towards publication of the Authority's annual statement of accounts, ensuring the statutory deadlines are achieved.
- To obtain explanations for all significant variances between planned and actual expenditure to the extent that it impacts on the annual statement of accounts.
- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Authority.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Standards

- To promote and maintain high standards of conduct and ethical governance by Members and co-opted Members of the Authority.
- To appoint Sub-Committees with delegated power to consider investigation reports, to conduct hearings (including the

	<p>imposition of sanctions), to review decisions of the Monitoring Officer to take no action on a complaint, and to review findings of failure to comply with the Code of Conduct and action taken in respect thereof.</p>
<p>Review</p>	<p>Annually in June March</p>

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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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