

West Midlands Combined Authority Audit Progress Report

Year ending 31 March 2023

28 September 2023



1. Overview

This section summarises the interim findings and other matters arising from the statutory audit of West Midlands Combined Authority ('the Authority') and the preparation of the financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Authority's financial statements give a true and fair view of the financial transactions of the Authority during the year ended 31 March 2023; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Prior Year Audit (2021/22)

The 2021/22 audit is substantially complete. We received the necessary assurances from the pension fund auditor on 8 September and this has enabled us to conclude our work on the triennial valuation. We will update our subsequent events work including a response to the question we raised in respect of Reinforced Aerated Autoclave Concrete (RAAC), and obtain the necessary assurances from officers in order to issue the opinion and certify the audit as closed shortly. We can confirm that we are proposing to issue an unqualified opinion.

Current Year Audit (2022/23)

Our audit work on the 2022/23 financial statements has been in progress since July in line with the timetable agreed with finance officers. Progress has been made but we are not in a position to issue a draft Audit Findings Report at this time. The following pages summarise the current position against the risks highlighted in our audit plan and findings we have identified to date.

The progress summary on the following pages needs to be considered in the context of the increasing complexity of the Authority and the continuing focus of more work being expected of auditors. The preparation of statutory financial statements and their independent audit is a key tenet of public accountability. As the Authority has grown in size it has evolved its systems but some areas such as projects with grant funding that can come from multiple sources and straddle multiple financial years and different partners are underpinned by complex spreadsheets. This makes audit trails complex and developing audit strategies and obtaining appropriate audit evidence more difficult. Our work in previous years and to date has not identified fundamental concerns about the integrity of the Authority's financial reporting but it is taking longer to gain the appropriate assurance.

We aim to complete the majority of our substantive audit work by the end of November. This assumes no new risks emerge and we continue to receive audit evidence in line with the agreed revised timeline. As a result, our Audit Findings Report will be reported to the Authority's December Audit, Risk and Assurance Committee. We are also aiming to present our Annual Auditor's Report on the Authority's value for money arrangements to the same meeting.

Findings of Audit Fieldwork (to date)

Significant Risk Areas

Status

Fraud in revenue and expenditure recognition (significant risk)

As part of our planning we considered the risk factors set out in ISA 240 and PN 10 in respect of fraud in both revenue and expenditure recognition. We have determined that the risk of fraud arising in both could be rebutted.

To date, we have no significant findings or control weaknesses to report.

Management override of controls (significant risk)

Journals is an area of focus in relation to our work on the significant risk of management override of controls. Following our understanding of the journals process we developed a testing strategy based on specific risk criteria which allowed us to select a sample of journals for testing.

Our work in this area remains ongoing, to date, we have no significant findings from our testing.. We are discussing if there maybe improvement areas in respect of some aspects of the control environment.

Valuation of the pension fund net liability (significant risk)

The pension fund net liability is considered a significant estimate due to the size of the number involved and the sensitivity of the estimate to changes in key assumptions. This year for the first time, the net position on the pension fund is an asset and therefore IFRIC 14 will apply for the first time.

As this is the first time that this situation has arisen in the public sector, guidance was not available at the time of the production of the draft financial statements. Guidance has been developing within the sector. As a Firm we have recently formed our own views and matters we would expect management to be considering and we will make officers aware of these. We are also aware that CIPFA is working on a Bulletin for practitioners. However, we cannot advise on the appropriate accounting treatment. We are working with officers to ensure that the treatment in the final version of the financial statements is consistent with the emerging guidance.

Follow up of Prior Year Recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Complexity of the audit trail and working papers to support the financial statements.</p> <p>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.</p>	<p>As previously mentioned some progress has been made in this area around income and expenditure transactions, however more work is needed to simplify the process in relation to accounting for grants.</p>
✓	<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>	<p>Appropriate working papers were provided as part of the planning of the audit.</p>
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 reviewed the governance around senior management expense claims and confirmed 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. This testing has not yet been concluded.</p>

Follow up of Prior Year Recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	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.	Management remain comfortable that they have provided sufficient MRP, and will continue to review this as part of the medium term financial planning. The audit team will review the provision for the 2022/23 as part of the financial statement audit, this work is not yet concluded.
✓	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. 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.	Officers have prepared a paper on the treatment of the loan in the 2023/24 financial statements.
✓	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.	Some duplication has been removed, however the document remains very long when compared to others, potentially making this less accessible to a reader of the accounts. The report is compliant, and the length of the report is a choice for the Authority.

Audit Deliverables

2022/23 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit, Risk and Assurance Committee setting out our proposed approach in order to give an opinion on the Authority's 2022/23 financial statements.</p>	April 2023	Completed
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the Authority's December Audit, Risk and Assurance Committee.</p>	December 2023 (revised from October 2023)	Not yet due
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	December 2023 (revised from October 2023)	Not yet due
<p>Auditors Annual Report</p> <p>The Code expects auditors to consider whether a body has in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. An annual commentary is required on these arrangements.</p>	December 2023	Not yet due
<p>Certification of the closure of the audit</p> <p>Following completion of all audit work for the financial year, we are required to certify the audit as closed.</p>	December 2023	Not yet due



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