



Audit, Risk & Assurance Committee

Date	4 December 2023
Report title	Annual Accounts 2022/23 for West Midlands Combined Authority
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 has been considered by	N/A

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Approve the annual accounts for 2022/23.
- (2) Note the Audit Findings Report for 2022/23 presented by Grant Thornton.
- (3) Note that Grant Thornton propose to issue an unqualified audit opinion for the accounts.
- (4) Approve the signing of the letter of representation by the Executive Director of Finance and Business Hub as set out in Appendix G of the Audit Findings Report.
- (5) Approve that the Chair of Audit, Risk and Assurance Committee be authorised to sign off any further changes required to the Statement of Accounts for 2022/23 prior to publication.
- (6) Subject to no further issues being raised by Grant Thornton, approve that the Mayor and the Executive Director of the Finance and Business Hub be authorised to sign the accounts on behalf of WMCA.
- (7) Note the Auditor's Annual Report on West Midlands Combined Authority for the year ended 31 March 2023.
- (8) Approve publication of the Auditor's Annual Report on the Combined Authority's website.

1.0 Purpose

1.1 This report has been prepared to enable the Audit, Risk & Assurance Committee to approve the annual accounts for West Midlands Combined Authority (WMCA) for the financial year ended 31 March 2023. WMCA's draft Audit Findings Report is also presented (Appendix 1) along with WMCA's Auditor's Draft Annual Report (AAR) for the year ended 31 March 2023, which summarises the key findings arising from the work carried out by the external audit team at Grant Thornton is also presented (Appendix 2). The AAR provides a commentary on the results of Grant Thornton's work to the Authority and to external stakeholders.

2.0 Background

2.1 The draft accounts for 2022/23 were shared with members of the committee when the audit process commenced on 3 July 2023.

2.2 A detailed briefing and review of the annual accounts was undertaken with the Chair of Audit, Risk & Assurance Committee and WMCA Finance to provide assurance that the accounts presented reflected WMCA's activities for the 2022/23 financial year.

2.3 The majority of the audit process has now been completed without any significant issues to report and the following are attached for review and approval:

- i) West Midlands Combined Authority financial report 2022/23 (Appendix 1)
- ii) Grant Thornton Audit Findings Report (including Letter of Representation - Appendix G) (Appendix 2)
- iii) Grant Thornton Auditor's Draft Annual Report (Appendix 3)

3.0 Annual Accounts

3.1 The West Midlands Combined Authority Board has received regular financial monitoring updates throughout 2022/23. The final outturn position for 2022/23 was reported to West Midlands Combined Authority Board on 9 June 2023.

3.2 The audit process is now substantially complete, and Grant Thornton will present their findings (Appendix 1) to the committee with their proposal to issue an unqualified audit opinion on the accounts. The Narrative Report, Annual Governance Statement and consideration of events after the Balance Sheet date will need to cover the period up to the date of publication and will therefore need to be kept under review until the accounts are formally published. Authority is therefore sought for approval of the final updated Narrative Report, Annual Governance Statement and any required amendments to the accounts for 2022/23 to be delegated to the Chair of Audit, Risk and Assurance Committee.

3.3 In relation to the commentary in the Audit Findings Report around valuation of WMCA's pension fund (page 11), work in relation to the accounting treatment of the pension fund asset remains ongoing. This is the first time that some authorities have found themselves with a surplus on the pension fund following the actuarial valuation. Based on early work, it is now considered unlikely that WMCA will be required to recognise a net pension asset on its balance sheet as at 31 March 2023.

4.0 The Auditor's Annual Report

- 4.1 As part of their obligations to comply with the National Audit Office's Code of Audit Practice, Grant Thornton are required to report annually on their audit findings in respect of WMCA's statutory accounts as well as their assessment of the Authority's overall value for money arrangements. The full Auditor's Draft Annual Report is set out in Appendix 3.
- 4.2 No significant weaknesses have been identified and eight improvement recommendations have been made. The number of recommendations has increased year on year reflecting that the size and complexity of the Authority continues to grow, as government channels more funding through the Authority.
- 4.3 The National Audit Office's guidance requires an assessment under three areas:
- (1) Financial sustainability;
 - (2) Governance; and
 - (3) Improving economy, efficiency and effectiveness.
- 4.4 In respect of financial sustainability, the report notes that the Combined Authority exhibited strong financial performance in 2022/23, finishing the year with a positive £2.8m variance to budget. The Combined Authority is forecasting a break-even year-end position for 2023/24. A special feature of the Trailblazer Deeper Devolution Deal includes a Single Settlement agreement, where for the first time, a region will be treated as if it were a government department, enabling the region to prioritise, target and decide how funding is spent in key areas. The Authority was able to replenish reserves during 2022/23 through transfers of surplus to reserves, although the reserves level is low compared to net revenue spend and Grant Thornton have raised a recommendation in this regard.
- 4.5 In respect of governance arrangements, the report notes that during 2022/23, the Combined Authority had adequate risk management arrangements in place, guided by the Strategic Risk Management framework. Grant Thornton have raised an improvement recommendation regarding the presentation of the strategic risk register.
- 4.6 The report notes that the Combined Authority has an adequate and effective internal audit function to provide opinions on the adequacy and effectiveness of the Authority's governance, risk management and control processes. Grant Thornton have raised a recommendation regarding the need to update the Code of Conduct.
- 4.7 The report also notes that the Audit, Risk and Assurance Committee provides an independent high-level focus on the adequacy of governance, risk and control arrangements. Grant Thornton have raised recommendations regarding the membership of ARAC.
- 4.8 In respect of improving economy, efficiency and effectiveness, the report notes that the Combined Authority has delivered several successes in 2022/23, most notably its contribution to the delivery of the Commonwealth Games. During the 2022/23 financial year, the performance monitoring system has been updated to better connect reporting of performance and finances. The Authority's Plan for Growth, Investment Prospectus, Net Zero Five Year Plan and the new Local Transport Plan demonstrate its readiness to drive change. The Combined Authority does not have a formal procurement strategy in place and there is a lack of reporting of procurement performance to committee level, both of which Grant Thornton have raised recommendations in relation to.

- 4.9 All improvement recommendations have been accepted and the Combined Authority's responses are noted in the report.
- 4.10 In respect of their opinion on the financial statements, the report notes that Grant Thornton intend to issue an unqualified opinion on the Authority's financial statements following the meeting of the Audit, Risk and Assurance Committee.
- 4.11 The Finance team and Grant Thornton are working together to ensure that the audit process for the year ended 31 March 2024 will progress at a faster pace enabling the audited Statement of Accounts to be published in time for the statutory publication deadline of 30 September 2024.
- 4.12 It is pleasing to note that the report highlights no adjustments that impact the Authority's reported financial position are required, however, it is likely that an adjustment will be required to the balance sheet, in respect of the treatment of the pension asset as guidance on the application of accounting standard IFRIC 14 to local government pension schemes clarifies.
- 4.13 Following consideration by the Committee, the Auditor's Annual Report for the year ended 31 March 2023 will be published on West Midlands Combined Authority's website.

5.0 Financial Implications

- 5.1 The financial implications are covered within the body of this report and the attached annual accounts reflect the results for the year ended 31 March 2023.

6.0 Legal Implications

- 6.1 Production of these accounts is a statutory requirement.

7.0 Equalities Implications

- 7.1 Alternative formats for these accounts are available upon request.

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 Appendix 1 - West Midlands Combined Authority Financial Report 2022/23
- 11.2 Appendix 2 - Grant Thornton The Audit Findings Report for West Midlands Combined Authority - Year ended 31 March 2023
- 11.3 Appendix 3 – Grant Thornton Auditor's Draft Annual Report on West Midlands Combined Authority 2022/23