The Interim Audit Findings for West Midlands Combined Authority

Year ended 31 March 2023

Contents

Your key Grant Thornton team members are:

Grant Patterson
Key Audit Partner
E grant.b.patterson@uk.gt.com

Helen Lillington
Senior Audit Manager
E helen.m.Lillington@uk.gt.com

Daniel Fisher
Assistant Manager
E daniel.t.fisher@uk.gt.com

This Audit Findings presents the interim observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and will be presented to the Audit, Risk and Assurance Committee on 4 December 2023. A final version will be issued once all audit work is complete.

Grant Patterson

Name: Grant Patterson
For Grant Thornton UK LLP
Date: 24 November 2023

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 Council 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.

1. Headlines

This table summarises the key 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 position of the Authority and the group and Authority's income and expenditure for the year; 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.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Our audit work was completed using a hybrid working pattern during July-November. Our findings are summarised on pages 6 to 22.

To date we have not identified any adjustments that impact on the Authority's reported financial position, however it is likely that a material adjustment will be required to the balance sheet, in respect of the treatment of the pension asset.

Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our work is substantially complete, subject to the following outstanding matters:

- Investments,
- Creditors,
- Group boundary confirmation,
- Pensions,
- Grants,
- REFCUS (Revenue Expenditure Financed from Capital Under Statute),
- Minimum Revenue Provision,
- Review of the final set of financial statements; and
- Receipt of management representation letter {see appendix G}.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our work on the Authority's value for money (VFM) arrangements is complete and the Auditors Annual Report is a separate item on the agenda.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work. A draft of our report has been shared with Officers and is included in the papers for ARAC to comment on.

We can report that our draft conclusions are that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources but we have identified some areas for improvement that are currently being discussed with Officers.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

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

We expect to certify the completion of the audit upon the completion of our work on both the Authority's VFM and financial statements.

Significant matters

The finance team published accounts in line with their internal timetable of 30 June 2023, however a full set of working papers were not available to support these in line with the agreed timescale for the audit visit. This caused delays in sample selection, particularly around journals, where the information provided to the audit team initially was incorrect, and this resulted in abortive audit work.

As reported in our 2021/22, given the level of grant funding the Authority receives, one of the key audit challenges faced was obtaining reasonable and appropriate audit evidence in relation to grants income and expenditure and particularly its linkage to REFCUS (Revenue Expenditure Financed from Capital Under Statute). We made recommendations and met with the finance team with the aim of having improved arrangements in place for 2022/23. Due to the late sign off of the 2021/22 financial statements and capacity constraints within the finance team the Authority was unable to make progress in this area. We worked with officers to try and find a more streamlined solution to gaining audit assurance this year, but due to the complexity of the reporting arrangements, and differing levels of understanding within the finance team, this has not been possible, and additional work has been necessary by both the finance team and the audit team to gain the levels of assurance needed. A fee variation is proposed to cover the costs of this additional work. It remains critical for the finance team to commit to simplifying the process and fully documenting this in time for the preparation of the 2023/24 financial statements.

Further information on these matters are included on page 17 in this report.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Authority for their support in working with us to conclude the 21/22 and progress towards completion of the 22/23 audit to enable a return to a more normal timetable for 2023/24.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with Audit Risk and Assurance Committee (ARAC).

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the West Midlands Combined Authority business and is risk based, and in particular included:

- An evaluation of the Authority's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based
  on a measure of materiality considering each as a percentage of the Authority's gross revenue expenditure to assess the significance of the component and to determine the planned audit response.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have updated our audit approach from that outlined in the original plan to include additional documentation of the payroll system following it's change in the current financial year. Given that payroll accounts for less than 10% of the entity's total expenditure, we have not identified this as a significant risk.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the ARAC meeting on 04 12 2023, as detailed in Appendix H. These outstanding items include:

- Investments,
- Creditors,
- Group boundary confirmation,
- Pensions,
- Grants,
- REFCUS,
- Minimum Revenue Provision,
- Review of the final set of financial statements; and
- Receipt of management representation letter {see appendix G}.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. The delays to the 2021/22 financial statements audit have had a knock-on impact on the audit of the 2022/23 financial statements. With the same key people supporting finalisation of 2021/22 and preparation of 2002/23 the capacity in the finance team to enable key changes around grant income to be made was significantly impaired.

In addition, the quality of working papers and evidence provided to correctly recognise and accounts for, and then support, transactions appears to have declined from prior years, resulting in errors being identified, and further extended testing needing to be undertaken to gain the necessary assurance. As a result of fee variation is proposed.

2. Financial Statements

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.

We set out in this table our determination of materiality for West Midlands Combined Authority and group. Following receipt of the draft financial statements we have determined not to amend any of the materialities set at the planning stage of our audit.

	Group Amount (£)	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	£9.3m	£9.2m	Benchmarked to approximately 1.4% of the Authority's gross expenditure in the prior year at both the group and the Authority level. We have determined this to be the level of misstatement which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
Performance materiality	£6.5m	£6.4m	This is determined by applying 70% to headline materiality. There has not historically been a large number of significant misstatements arising as a result of the financial statements audit at the Authority, however we have reduced the benchmark used this year to reflect the challenges experienced with timeliness of working papers and the complexity of the audit trail.
Trivial matters	£460k	£460k	This is determined by applying 5% to headline materiality.
Materiality for senior officer remuneration	£23,800	£23,800	We believe these disclosures are of specific interest to the reader of the accounts. We have applied our headline materiality percentage of 1.4% to the total senior officer remuneration value from the prior year.

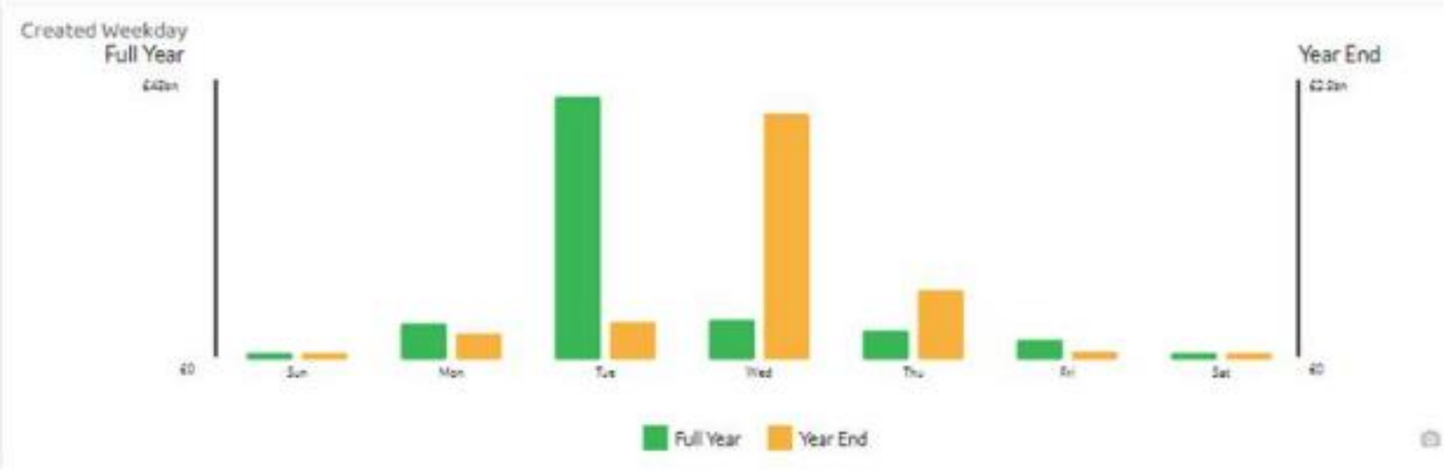
2. Financial Statements: Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary	Relevant to Authority and/or Group
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • 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 was planned as the presumed risk was rebutted. We have conducted general audit procedures on the Authority’s revenue streams and no matters have arisen from that which indicate we need to revisit our rebuttal.	Risk relates to both the Group and the Authority.
The expenditure cycle includes fraudulent transactions (rebutted)	Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: • "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". 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. We rebutted this presumed risk for West Midlands Combined Authority because: • 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. We therefore did not consider this to be a significant risk for West Midlands Combined Authority. No specific work was planned as the presumed risk has been rebutted. We have conducted general audit procedures on the Authority’s expenditure streams and no matters have arisen from that which indicate we need to revisit our rebuttal.	Risk relates to both the Group and the Authority.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Authority and/or Group
Management over-ride of controls	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. 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. We: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. The Authority processed 74,192 journals each containing multiple lines of data in respect of the year ending 31 March 2023, with a value in excess of £69 billion. 5.8% of these by number occur at year end and they make up nearly 6% of the value, with the majority linked to a handful of users. While we generally anticipate an increase in activity at year end, auditing standards require us to consider year- end journals and therefore we consider them separately. The chart below is taken from our 'inflo' software which we use to analyse the transactions posted by the Authority during the year. They are included to demonstrate the volume of such transactions and why therefore we review them as part of our response to this significant risk. 	Risk relates to both the Group and the Authority.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary	Relevant to Authority and/or Group
Management over-ride of controls (continued)	Our testing of estimates, judgements and journals has not identified any evidence of management override of controls. However, the initial data provided to the audit team was incorrect, raising questions relating to the control environment and how the system operated. This resulted in the audit team re-evaluating the risk associated with journals and raising the risk, which resulted in additional testing. Our work on journals to date has not identified any errors, however we have identified a number of areas where the control environment could be strengthened: • The system documentation provided highlighted that back posting of journals was not possible, however we identified cases where this had occurred. • There were unusual transaction dates in the journal transactions, with dates both before and after the financial year. • There was a lack of understanding in the finance team on the transactions types that were manual journals and automated journals. • There are a large number of superusers that have posted transactions in the year • Cashbook journals have been posted with the incorrect GL transaction type. A recommendation has been included in the action plan.	Risk relates to both the Group and the Authority.
Valuation of the pension fund net liability.	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 due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. 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. We: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and • requested 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.	**Risk relates to the Authority only.**

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	**Commentary**	**Relevant to Authority and/or Group**
Valuation of the pension fund net liability (continued)	We have completed all of our work in this area, with the exception of: • gaining assurance from the pension fund auditor. The pension fund auditor has confirmed that their assurance letters are likely to be issued within the next two weeks. • work in relation to the accounting treatment of the pension fund asset under *IFRIC 14 - IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.* This is the first time for the sector that some local authorities find themselves with a surplus on the pension fund following the actuarial valuation, and therefore need to comply with IFRIC 14. The draft financial statements, recognised that not all information was available from the actuary at the time of financial statement completion to comply with IFRIC 14, and therefore the draft accounts as published would need to be amended. The application of IFRIC 14 is a sector wide issue and is one where we have worked closely with other stakeholders to ensure a pragmatic and consistent view of application is taken. CIPFA issued guidance in this area on 21 November 2023. Based on early work, it is unlikely that the Authority will be required to recognise a net pension asset on their balance sheet, but this work remains ongoing.	Risk relates to the Authority only.

2. Financial Statements: Key findings arising from the group audit

On receipt of the draft financial statements, the audit team identified that there was an immaterial difference between the single entity financial statements and the group financial statements. As a result, we have not sought assurances from the component auditors on the financial statements as consolidated. To confirm the validity of this assessment, we have undertaken work on the group boundary and reviewed the consolidation adjustments for reasonableness. This work is not yet complete, with information outstanding from the finance team. We will provide a verbal update at the committee.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £4.991m	The majority of the value associated with Land and Buildings, as disclosed in Note 14 is in relation to the property at 16 Summer Lane. Land and buildings are revalued at least every five years at current value and a full valuation was carried out as at 31 March 2019. These are not specialised land and buildings and are therefore required to be valued at existing use in value (EUV) at year end. The Authority has engaged Bruton Knowles to complete a desktop valuation carried out between valuations for indications of material changes. This year, saw Bruton Knowles carry out a desktop valuation to confirm there were no material changes to the valuation used. Given this balance, this is not considered a material accounting estimate for the purposes of the accounts preparation but reported to members for completeness.	We have considered the estimate applied by management and the use of their expert, Bruton Knowles. • The valuation methodology applied is consistent with the prior year and professional standards. • The disclosure in the financial statements at Note 14 is adequate.	Light purple
Inventories - £7.77m	The Land Fund is a capital grant made to the Authority for it to use to assembly land and fund the subsequent remediation and/or servicing for residential development, or to utilise as investment in third party housing projects to drive delivery. The intended use of the assets is for housing development and demolition and/or remediation works are required to be carried out in order to bring derelict sites back into use. The asset isn't complete until it is full remediated and the land, once remediated, is not expected to be used by the Authority during more than one period. Therefore, it does not meet the definition of Property, Plant and Equipment. Given this balance, this is not considered a material accounting estimate for the purposes of the accounts preparation but reported to members for completeness.	We have considered the estimate applied by management and the use of their expert, Bruton Knowles. • The valuation methodology applied is consistent with the prior year and professional standards.	Light purple

Assessment

- ● [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate

Net pension liability (surplus) – £59m

IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.

IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Summary of management's approach

For the first time, the Authority, like many similar local authorities have recorded a surplus position on its balance sheet. This brings the Authority into the scope of IFRIC 14.

The Authority uses Hymans Robertson LLP to provide actuarial valuations of the Authority's assets and liabilities derived from the Local Government Pension Scheme in which it participates, (which is the West Midlands Pension Fund, administered by the City of Wolverhampton Council).

A full actuarial valuation is required every three years. The latest full valuation was completed in March 2022. A roll forward approach is used in intervening periods, which utilises key assumptions, such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the pension fund asset, small changes in assumptions can result in significant valuation movements.

Audit Comments

- We have no concerns over the competence, capabilities and objectivity of the actuary used by the Authority.
- We have used the work of PwC, as an auditor's expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the West Midlands Pension Fund valuation as it applies to WMCA. Whilst no specific range was given for Hyman Robertson's Life expectancy assumptions we have compared them to other actuaries. For non-pensioners the estimates are consistent with other actuaries. For pensioners (both male and female) the estimates are towards the lower end used by other actuaries but are not so far out of line that they are of concern.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.75%	4.75%	🟢
Pension increase rate	3%	2.95% - 3%	🟢
Salary growth	4%	3.5% - 5.5%	🟢
Life expectancy – Males retiring today	20.3 years	Not given	🟡
Life expectancy – Males retiring in 20 years	22.9 years	Not given	🟡
Life expectancy – Females retiring today	22.7 years	Not given	🟡
Life expectancy – Females in 20 years	25.8 years	Not given	🟡

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.

Assessment

Light purple

Assessment

- ● [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £5.909m	The Authority is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £5.909m, an increase of £3.6m from 2021/22.	This has been an area of discussion with management, and our findings are reported on page 18.	Light purple We remain of the view that not charging MRP on loans to third parties is inconsistent with the current MRP guidance but we are assured that the Authority has acted prudently and the current differences are not material (see page 18 for details)

Assessment

- ● [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating		
IT system	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure
Business World	ITGC assessment design and implementation effectiveness only	🟢	🟢	🟢	🟢
Sageline	ITGC assessment design, implementation and operating effectiveness	🟢	🟢	🟢	🟢

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

2. Financial Statements: matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
Complexity of the audit trail and working papers to support the financial statements.	• The key recommendation last year in relation to the complexity of the audit trail and working papers, particularly with regard to grant income, has not been actioned due to resource constraints in the finance team following the late audit sign off of the 2021/22 financial statements and the same personnel being required to support the 2022/23 closedown as well as looking to improve processes. We worked with officers to try and find a more streamlined solution to gaining audit assurance this year, but due to the complexity of the reporting arrangements, and differing levels of understanding within the finance team, this has not been possible, and additional work has been necessary by both the finance team and the audit team to gain the levels of assurance needed. It remains critical for the finance team to commit to simplifying the process and fully documenting this in time for the preparation of the 2023/24 financial statements. Currently, detailed understanding of the system appears to rest with one key individual, which also presents a risk to the Authority. • Difficulties were experienced with picking the samples for both debtor and creditor balances, with initial listings not being provided at transactional level. Further breakdowns were requested prior to sampling being able to take place. • The Authority has invested in its finance team, but quality control arrangements are focussed on one or two people which means that there remain bottlenecks in the process at the Authority for providing responses to sample queries, with information requested taking a number of weeks to be returned to the audit team. Progress has been reported to the Deputy s151 officer on at least a weekly basis and escalated to the s151 as required. • While generally, the evidence returned to the audit team has been of an appropriate quality, some key samples, in particular, journal evidence, has needed to be returned in full due to the quality of the evidence provided.	To enable the audit to be completed in a shorter timescale a full review of the process for compilation of the financial statements needs to be undertaken by the finance team. This needs to focus on the ledger being used to produce the financial statements, creating less reliance on intermediate spreadsheets and/or work arounds. Supporting information for balances within the financial statements ideally needs to enable a direct drill down to transaction level for all balances, specifically grant income and REFCUS. Audit has become increasingly complex, as has the nature of the transactions that the Authority are involved with. To understand and challenge transactions and assumptions we need to directly engage with officers in other departments who can explain processes or give context to decisions taken. Encouraging greater ownership of the financial accounts process outside of the finance team can help to ensure information is provided right first time in a reasonable timescale, without the need for an extensive quality control process. **Management response** We are committed to simplifying the process for compiling the financial statements with a focus on using the ledger to produce all financial statements. We were able to simplify the compilation of the Comprehensive Income and Expenditure Statement ahead of compiling the 2022/23 statements and will now focus on all other balances including grant income and REFCUS. We are also committed to raising awareness and encouraging greater ownership of the financial accounts process outside of the finance team to ensure accurate information is provided right first time and within a reasonable timescale. We will be building further capacity within the finance team to ensure that this important work is resourced effectively.

2. Financial Statements: matters discussed with management (cont'd)

Significant matter	Commentary	Auditor view and management response
Calculation of Minimum Revenue Provision (MRP)	During the audit of the 2021/22 financial statements, we concluded that the MRP policy that the Authority was following was not in accordance with the current statutory guidance, as MRP was not being made for loans to third parties on the basis that the principal repayments would meet the liability. As at the 31 March 2022, the difference the audit team estimated was not material with a potential undercharge of £8.3m. In reviewing the position this year, the audit team has confirmed that the MRP policy in place for 2022/23 at the Authority remains unchanged from the prior year, and therefore the MRP policy remains non-compliant with the current statutory guidance. Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in statutory guidance, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans alongside Expected Credit Loss estimates. Government has not yet issued a full response to the consultation but the proposals are consistent with the Authority's current policy. The audit team and the Authority have estimated the amount of MRP undercharged on the capital loans based upon the loan repayment periods would be £9.6m, which is above headline material. However, the Authority also notes that regulation 25(1)(b) also permits it to calculate MRP based upon the useful life of the assets in relation to which the third party expenditure is incurred. This would reduce the MRP charge to c£1.5m, which is below our audit materiality. We have challenged the reasoning of management as to why they consider it prudent to not provide any MRP on these capital loans. They have provided evidence that all loans are currently being paid in line with the agreed terms, there is a first charge security in place, and there is an expected credit loss provision of £5m in the financial statements, which means that there is limited risk that the Authority would not be able to service the loans, which is what the MRP is designed to do. The guidance also notes that authorities must always have regard to it, but having done so, may in some cases consider that a more individually designed MRP approach is justified.	From our discussions and the evidence provided we are comfortable that the Authority have considered prudence when setting its MRP policy. Whilst we remain of the view that not charging MRP on these loans is inconsistent with the current guidance we are assured that the Authority have acted prudently and the current differences are not material. We recommend that the position is regularised once the guidance is updated. **Management response** We have provided evidence to provide assurance that all relevant loans are being paid in line with the agreed terms and highlighted the expected credit loss provision of £5m recorded in the accounts as at 31 March 2023. We have also confirmed that we hold first charge on all relevant loans to further demonstrate that our approach is prudent. We are therefore comfortable that we have provided sufficient MRP and that the current differences are not material. We confirm that we will regularise our position once the statutory guidance is updated.
Errors identified in the creditor testing	Using a statistical sampling methodology, we picked a sample of 38 creditor payments for testing. From that initial sample of 38 we identified 10 items that were not genuine creditors. These could be grouped as follows; • One where the balance had been accrued for despite the invoice being paid • Four items that related to a delay in processing credit card payments • Five items that appear to be duplicate payments, refunds or returned payments. Given the volume and value of the fails, the initial sample did not provide sufficient assurance that the creditor balance isn't materially misstated and therefore further work was required. The Authority have not been able to provide sufficient evidence that the errors are isolated or have characteristics that there is a suitable sub population to test, therefore a further sample of 38 items has been selected. Work is still in progress on this additional sample, however, further fails have been identified.	At the time of writing this report we are still awaiting information from the finance team in order to complete the testing and evaluate the errors. Based on the timeline agreed for this evidence to be provided we should be in a position to conclude on this by the time of the committee meeting and will provide a verbal update. **Management response** At the time of writing we have completed the majority of the work required on the additional sample of 38 items and will respond accordingly once the audit team has formed a view on the accuracy of the creditor balance.

2. Financial Statements: other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Risk and Assurance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. We have identified three councillors where an up-to-date annual return had not been provided. While we are aware that the Code requires only changes to be reported on an annual basis, it is good practice that an annual confirmation is made by all Councillors and senior officers. We have included a recommendation in the action plan in relation to this.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Authority, including specific representations in respect of the Group, equal pay and MRP which is set out at Appendix G.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the Authority's bank, investments and loan counterparties. This permission was granted and the requests were sent. We are still awaiting a number of confirmations, and we have asked management to chase the institutions where these are outstanding, before we undertake the necessary alternative procedures.
Accounting practices	We have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. With the exception of our views on MRP, our review found no material policy omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided. As highlighted previously, we have discussed the accounts production process and quality of the supporting working papers with management and have made a recommendation to improve these for future years.

2. Financial Statements: other communication requirements

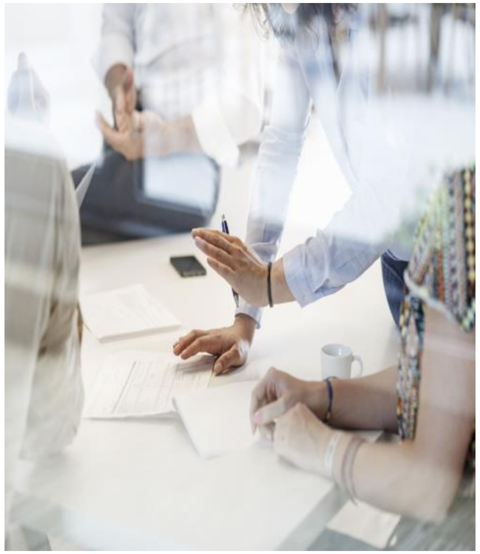
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 for accounting will apply where the entity'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, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We identified one inconsistency on the staffing analysis table within the narrative report, and officers have agreed to amend for this in the final set of financial statements. We plan to issue an unmodified opinion in this respect – refer to Appendix H
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Work is not required as the Authority does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2022/23 audit of West Midlands Combined Authority in the audit report, as detailed in Appendix H.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM: our procedures and conclusions

We have completed our VFM work. A draft of our report has been shared with Officers and is included in these papers for ARAC to comment.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We can report that our draft conclusions are that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources but we have identified some areas for improvement that are currently being discussed with Officers.

4. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms).
In this context, we disclose the following to you.

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.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the West Midlands Combined Authority. The following non-audit services were identified as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Non Audit related			
Review of bus and light rail operator grant applications for the DfT. One of the submissions is for Midland Metro via the Combined Authority.	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.

A 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.

These services are consistent with the West Midlands Combined Authority policy on the allotment of non-audit work to your auditors. All services have been approved by ARAC. None of the services provided are subject to contingent fees.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff that would exceed the threshold set in the Ethical Standard.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
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 findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		●
Non-compliance with laws and regulations		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

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.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

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.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified five recommendations for the Authority as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	Complexity of the audit trail and working papers to support the financial statements.	A full review of the compilation of the financial statements needs to be undertaken by the finance team. This needs to focus on the ledger being used to produce the financial statements, creating less reliance on intermediate spreadsheets and work arounds. **Management response** We are committed to simplifying the process for compiling the financial statements with a focus on using the ledger to produce all financial statements. We were able to simplify the compilation of the Comprehensive Income and Expenditure Statement ahead of compiling the 2022/23 statements and will now focus on all other balances including grant income and REFCUS to ensure reduced reliance on intermediate spreadsheets and work arounds.
High	The system for the management and monitoring of grant income is complex, and not well understood by all members of the finance team. There is a high degree of reliance on spreadsheets, which work well for the management accounts, but do not provide sufficient assurance for the financial statements. There is a risk, that knowledge is concentrated with one or two key members of staff, and this provides little resilience on such an important area of the funding for the Authority.	The system for management and monitoring of grant income, should be reviewed and simplified. As a minimum the existing system should be clearly documented. Further members of the finance team should be identified to gain an understanding of the processes and how these translate into the entries within the financial statements. **Management response** We are committed to simplifying the management and monitoring of grant income and documenting the new process. A grants working group comprising colleagues from across the Finance and Business Hub will resume its important work in December 2023 following completion of the financial statements audit. We are also strengthening resource in the finance team to ensure that all audit findings recommendations are implemented as quickly as possible.
High	Working papers in key areas were not of the quality required, resulting in the need for a number of clarification and follow up queries and additional time being needed on the audit. While quality control arrangements were in place, they often created bottlenecks in the provision of audit evidence, and this did not always reduce the number of queries returned.	Training should be provided to all finance staff on what constitutes appropriate audit evidence for the auditor. Both the training provided, and the closedown plan should emphasise the importance of officers producing sufficient working papers to support year end transactions during closedown. **Management response** We will ensure that all staff involved in the audit process receive training on what constitutes appropriate evidence to ensure the evidence provided is right first time and bottlenecks are eliminated.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	As part of our review of journal transactions we identified a number of areas where the control environment could be strengthened.	The control environment in relation to journals should be reviewed and appropriately documented, so there is a clear understanding of the system. The review should include the number of people that have 'superuser' access to post journals. **Management response** The journals process will be reviewed and documented ahead of preparation of the financial statements for 2023/24.
Low	We have identified three councillors where an up-to-date annual return had not been provided.	While we are aware that the Code requires only changes to be reported on an annual basis, it is good practice that an annual confirmation is made by all Councillors and senior officers. **Management response** We confirm that annual confirmation will be sought from all Councillors and senior officers going forward.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of West Midlands Combined Authority 2021/22 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 note 2 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	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.	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.
✓	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. 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.	Appropriate working papers were provided as part of the planning of the audit.
✓	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. 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.	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. Our testing in this area identified no issues.
In progress (see page 18)	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 who consider there to be an undercharge of £8.3m on MRP.	No changes have been made to either the Authority's accounting policy, or the statutory guidance. In conjunction with the Authority we have quantified the undercharge this year as being in the range £1.5m to £9.6m dependent upon the methodology used. Management remain comfortable that they have provided sufficient MRP, and will continue to review this as part of the medium term financial planning. From our discussions and the evidence provided we are comfortable that the Authority have considered prudence when setting its MRP policy. We recommend that the position is regularised once the guidance is updated (see page 18).

Assessment

✓	Action completed
X	Not yet addressed

C. Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	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.

Assessment

✓ Action completed

X Not yet addressed

D. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

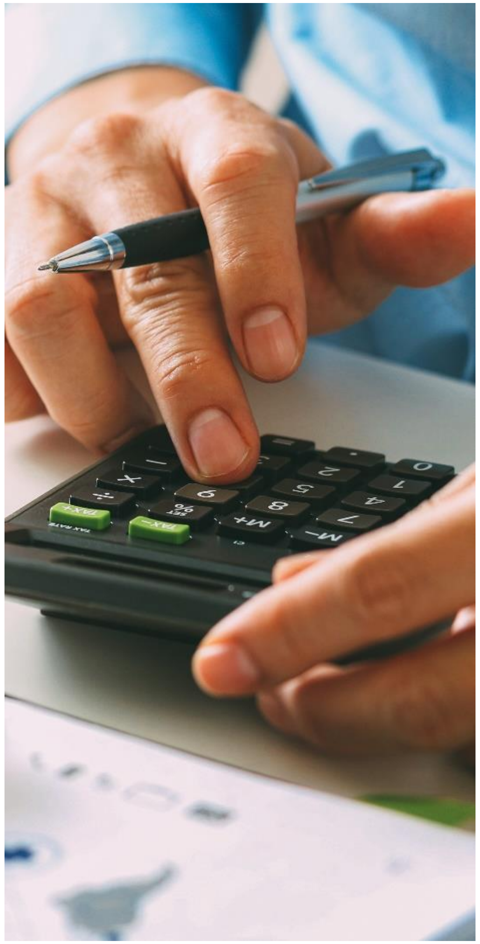
We have not identified any adjusted misstatements that impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure/issue/Omission	**Auditor recommendations**	**Adjusted?**
Presentation and disclosure	Our review of the accounts highlighted minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The proposed minor adjustments were agreed with officers and changes will be made to the draft accounts submitted for audit.	✓
Note 34 - Events after the reporting period	The Mayor has formally written to the Home Secretary asking for his responsibilities to be extended to include policing. If granted, this would mean the role of police and crime commissioner would be abolished and functions would transfer into the Authority after the election in May 2024. Given the likely impact on the Authority and the financial statements in future years, some additional narrative should be added to this note.	
Note 19 - Cash and Cash equivalents	Our requests for third party confirmation identified a balance on a Lloyds bank account that had not been disclosed. The amount was trivial from an audit perspective, and had arisen as the account had been kept open to avoid a maturity/redemption fee. Seldom used bank accounts can present a risk, and arrangements should be put in place to make sure these are regularly monitored for activity.	

D. Audit Adjustments (continued)



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The ARAC is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Our testing of debtors has identified that items have been over accrued.	1,630	(1,630)	1,630	(1,630)	Not material and a projected error
Overall impact	£1,630	(£1,630)	£1,630	(£1,630)	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Expenditure on midland metro projects of £1.63m that has been incorrectly capitalised	1,630	(1,630)	1,630	1,630	Not material quantitatively or qualitatively.
A BACs run was processed on 30/03/2022 for £1.339m. As this had not cleared the bank statement by the 31st March officers incorrectly made an adjustment for the cash amount back to creditors.	Nil	Dr Cash 1,339 Cr Creditors 1,339 Net nil impact	Nil	Nil	Not material quantitatively or qualitatively. Management do not agree that this is an error
Overall impact	£1,630	(£1,630)	£1,630	£1,630	

E. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	**As per audit plan (£) 2021/22**	**Proposed fee(£) 2021/22**	**As per audit plan (£) 2022/23**	**Proposed fee (£) 2022/23**	**Comments**
Scale fee	35,805	35,805	49,555	49,555	Scale fee increase for complexity and on-going audit quality requirements and inflation
Group Audit	6,875	6,875	6,875	6,875	
Raising the bar/regulatory factors	3,125	3,125	0		Merged within revised scale fee
Enhanced audit procedures for Net Pension Liability	3,125	3,125	0		Merged within revised scale fee
Increased audit requirements of PPE and accounting standards	625	625	0		Merged within revised scale fee
Additional work on Value for Money under the new NAO Code	15,000	15,000	15,000	15,000	
Increased audit requirements of ISA 540	1,800	1,800	1,800	1,800	
Increased Audit Requirements for Management Override of Controls (Journals)	2,000	2,000	2,000	2,000	
Increased Audit Requirements of ISA 315	0	0	1,000	1,000	
Increased requirements of Payroll Change of Circumstances	0	0	500	500	
FRC response – additional review, EQCR or hot review	3,000	3,000	0	TBC	Estimate for 22/23 audit plan, however subject to discussions with management. Variation will be needed for additional work on MRP
Enhanced audit procedures for infrastructure	2,500	2,500	0	0	Estimate for 22/23 audit plan, however subject to discussions with management.
Local Risk Factors – Grants and Audit trail	2,925	2,925	2,500	TBC	Estimate for 22/23 audit plan, however subject to discussions with management. Additional time will be needed above that already estimated
Pension valuation and revised IAS 19		6,000	0	0	As notified in letter dated 7 June 2023

E. Fees and non-audit services

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	**As per audit plan (£) 2021/22**	**Proposed fee(£) 2021/22**	**As per audit plan (£) 2022/23**	**Proposed fee (£) 2022/23**	**Comments**
Additional audit time for extended testing on debtors and creditors	0	0	0	TBC	Additional testing was undertaken on debtors following four errors being identified in the original sample. An extended sample was selected and this work has concluded, resulting in an extrapolated error of £1.6m. As outlined on page 19, following errors in the initial sample we have extended our testing, and that work remains in progress.
Additional audit time for extended testing on journals	0	0	0	TBC	As reported on page 10 initial data provided to the audit team was incorrect, raising questions relating to the control environment and how the system operated. This resulted in the audit team re-evaluating the risk associated with journals and raising the risk, which resulted in additional testing.
Additional work on IFRIC 14	0	0	0	TBC	This is the first time that IFRIC 14 has applied to local government bodies, and therefore additional procedures have been required.
Total proposed audit fees for variations and local risk factors (excluding VAT)	76,780	82,780	79,230	TBC	

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

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services	£0	£0
Non- Audit related services	£5,000	£5,000
Total non-audit fees (excluding VAT)	**£5,000**	**£5,000**

The fees reconcile to the financial statements.

None of the above services were provided on a contingent fee basis

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Management Letter of Representation

West Midlands Combined Authority
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of West Midlands Combined Authority and its subsidiary undertaking[s], [insert name/s of consolidated entities] for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Authority financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Authority’s financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Authority and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Authority has complied with all aspects of contractual agreements that could have a material effect on the group and Authority financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of the pension fund liability and the measurement of financial instruments. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. During the year we evaluated our estimation process for [add estimation] and the following change/s to estimation process was/were made[…] We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Authority financial statements:

    vi. there are no unrecorded liabilities, actual or contingent

    vii. none of the assets of the group and Authority has been assigned, pledged or mortgaged

    viii. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed

G. Management Letter of Representation

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Authority financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Authority and its financial position. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. The prior period adjustments disclosed in note [X] to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment. We continue to believe that the group and Authority's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

   a. the nature of the group and Authority means that, notwithstanding any intention to cease the group and Authority operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

   b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

   c. the group and Authority's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Authority's ability to continue as a going concern need to be made in the financial statements

xvi. The group and Authority has complied with all aspects of ring-fenced grants that could have a material effect on the group and Authority's financial statements in the event of non-compliance.

xvii. We are satisfied that Authority's policy on the Minimum Revenue Provision (MRP) in respect of loans to third parties has had due regard to the statutory guidance and is prudent within the requirements of the statutory guidance.

xviii. We have considered whether the Authority is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no liability needs to be recognised on the grounds that:

   a. The Authority currently only has three live employment tribunal claims for equal pay, which are significantly below materiality. We are not aware of any further equal pay claims which have not yet been submitted.

   b. The Authority has a job evaluation process in place called Gauge. This is based on the National Joint Council for Local Government's Job Evaluation Scheme which ensures that work of equal value is allocated to the same salary banding and progression is determined by performance. The process and scheme are regularly updated to comply with equal pay legislation.

   c. We do not tend to have the type of roles that have a set allocation of work each day, to be completed in a set time, which may result in the individual leaving once the tasks are finished.

   d. The Authority offers flexible working; therefore overtime claims are minimal and in general will only be submitted by employees on fixed rosters if there is an occasion to cover absence or something similar.

Information Provided

xviii. We have provided you with:

   a. access to all information of which we are aware that is relevant to the preparation of the group and Authority's financial statements such as records, documentation and other matters;
   b. additional information that you have requested from us for the purpose of your audit; and
   c. access to persons within the Authority via remote arrangements, from whom you determined it necessary to obtain audit evidence.

G. Management Letter of Representation

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Authority, and involves:

  a. management;

  b. employees who have significant roles in internal control; or

  c. others where the fraud could have a material effect on the financial statements.

xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv. We have disclosed to you the identity of the group and Authority's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework, and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Authority's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by ARAC at its meeting on 4 December 2023.

H. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group with an unmodified audit report.

Independent auditor's report to the members of West Midlands Combined Authority

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of West Midlands Combined Authority (the ‘Authority’) and its subsidiaries (the ‘group’) for the year ended 31 March 2023, which comprise the Authority Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Authority Movement in Reserves, the Group Movement in Reserves, the Balance Sheets, the Cash Flow Statement, and Notes to the Accounts including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group’s expenditure and income and the Authority’s expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) (“the Code of Audit Practice”) approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the ‘Auditor’s responsibilities for the audit of the financial statements’ section of our report.

We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Responsible Finance Officer use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and the Authority’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor’s opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Responsible Finance Officer’s conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority’s and group’s financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority’s disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Responsible Finance Officer’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority’s and the group’s ability to continue as a going

H. Audit opinion

concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Responsible Finance Officer's with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Responsible Finance Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Responsible Finance Officer

As explained more fully in the Statement of Responsibilities [set out on page 27], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Responsible Finance Officer. The Responsible Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Responsible Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

H. Audit opinion

In preparing the financial statements, the Responsible Finance Officer is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003 and the Local Government Act 1972.

We enquired of management and the Audit, Risk and Assurance Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit, Risk and Assurance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- Journals processed by senior finance officers, as we would not expect them to be involved in the normal day to day operations of the general ledger
- Journals with blank descriptions, as this could indicated that there is not a legitimate reason for posting a journal.

Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on any journals posted by senior finance officers and those with a blank description,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of defined benefit pensions liability valuations, and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to defined benefit pensions liability. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

H. Audit opinion

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority’s engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector in which the group and Authority operates
- understanding of the legal and regulatory requirements specific to the Authority and group including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group’s operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Report on other legal and regulatory requirements – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in respect of the above matter.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

- We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:
- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

H. Audit opinion

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of West Midlands Combined Authority for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 [and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited]. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Name Grant Patterson Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Date:

I. Audit letter in respect of delayed VFM work

Mr M Smith
Chair of Audit, Risk and Assurance Committee
West Midlands Combined Authority
16 Summer Lance
Birmingham
B19 3SD

Dear Mark

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible can be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 December 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Grant Patterson
Engagement Lead and Key Audit Partner
For and on behalf of Grant Thornton UK LLP

grantthornton.co.uk