

# Auditor's Draft Annual Report on West Midlands Combined Authority

2022/23

28 November 2023



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. 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.



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Executive summary






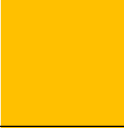


## Value for money arrangements and key recommendations


Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Combined Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

West Midlands Combined Authority ('the Combined Authority') is entering an unprecedented period of opportunity and growth under its new 'trailblazer' devo deal and other investment, including from the revised HS2 programme. Alongside this comes some heightened risks that will need to be managed including some financial fragility among the Combined Authority's member Councils and particularly Birmingham City Council.

As auditors we are required to report their commentary on the Combined Authority's arrangements under specified criteria and 2022/23 is the third year that we have reported our findings in this way. Each year we build upon our knowledge and understanding of the Combined Authority and as part of our work, we considered whether there were any risks of significant weakness in the Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our conclusions are summarised in the table below. The number of improvement recommendations has increased year on year, the majority being in the governance and 3Es criteria. Overall, this is not indicative of a deterioration arrangements but more a reflection that the size and complexity of the Authority continues to grow as government channels more funding through it and therefore these need to continue to adapt and evolve to meet the new challenges and requirements. Our recommendations aim to assist in the process. This will be especially so under the proposed Single Settlement agreement, where for the first time, a region will be treated as if it were a government department, enabling the region to prioritise, target and decide how funding is spent in key areas from the next spending review onwards.

Criteria	2021/22 Auditor Judgment	2022/23 Auditor Judgment
Financial sustainability	 No significant weaknesses in arrangements identified and no improvement recommendations made	 No significant weakness identified but one improvement recommendation raised
Governance	 No significant weakness identified but one improvement recommendation rolled forward from 2020/21	 No significant weakness identified but four improvement recommendations raised
Improving economy, efficiency and effectiveness	 No significant weakness identified but one improvement recommendation raised	 No significant weakness identified but three improvement recommendations raised



- No significant weaknesses identified or improvement recommendation made.
- No significant weaknesses identified, but improvement recommendations made.
- Significant weaknesses identified and key recommendations made.

# Executive summary



## Financial sustainability

The Combined Authority exhibited strong financial performance in 2022/23, finishing the year with a positive £2.8m variance to budget. The Combined Authority is forecasting a break-even year-end position for 2023/24. The Authority was able to replenish reserves during 2022/23 through transfers of the surplus to reserves, although the reserves level is low compared to net revenue spend and we have raised a recommendation in this regard.



## Governance

During 2022/23, the Combined Authority had adequate risk management arrangements in place, guided by the Strategic Risk Management Framework. We have raised an improvement recommendation regarding the presentation of the strategic risk register. The Combined Authority has an adequate and effective internal audit function to provide opinions on the adequacy and effectiveness of the Authority's governance, risk management, and control processes. We have raised a recommendation regarding the need to update the Code of Conduct. The Audit, Risk and Assurance Committee (ARAC) at the Combined Authority provides an independent and high-level focus on the adequacy of governance, risk, and control arrangements. We have raised recommendations regarding the membership of the ARAC.



## Improving economy, efficiency and effectiveness

The Combined Authority has delivered several successes in 2022/23, most notably its contribution to the delivery of the Commonwealth Games. During the 2022-23 financial year, the performance monitoring system has been updated to better connect reporting of performance and finances. The organisation is in the process of gearing up for the challenge. The Authority's Plan for Growth, Investment Prospectus, Net Zero Five Year Plan, and the new Local Transport Plan demonstrate its readiness to drive change. The Combined Authority does not have a formal procurement strategy in place and there is a lack of reporting of procurement performance to committee level, both of which we have raised recommendations in relation to.





# Use of auditor's powers

We bring the following matters to your attention:

2022/23

## Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.

We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.

## Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public interest report.

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not make an application to the Court.

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue any advisory notices.

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not make an application for judicial review.

# Securing economy, efficiency and effectiveness in the Authority's use of resources

All Combined Authorities are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Authority's responsibilities are set out in Appendix A.

Authorities report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



## Financial sustainability

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



## Improving economy, efficiency and effectiveness

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

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Board and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Risk and Assurance Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Authority's Annual Governance Statement and other publications



Our commentary on the Authority's arrangements in each of these three areas, is set out on pages 7 to 22.

# Financial sustainability



## We considered how the Authority:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

The Combined Authority exhibited strong financial performance in 2022/23, finishing the year with a positive £2.8m variance to budget and is forecasting a break-even year-end position for 2023/24, subject to a cost saving within the Transport division along with additional funding being secured alongside the trailblazer devolution deal, announced in March 2023. A special feature of the devolution deal includes a Single Settlement agreement, where for the first time, a region will be treated as if it were a government department, enabling the region to prioritise, target and decide how funding is spent in key areas from the next spending review onwards. The Authority was able to replenish reserves during 2022/23 through transfers of the surplus to reserves, although the reserves level is low compared to net revenue spend and we have raised a recommendation in this regard.

## 2022/23 financial performance

As of the end of March 2023, the financial position of the Mayoral Office was generally consistent with the budget. The final financial result for the Combined Authority for 2022/23 was better than expected, with a positive variance of £2.8m from the budget. The favourable variance has been realised through savings in the original concessions budget arising from reduced patronage and fare levels within Transport, as well as there being £1.1m of savings within Accessible Transport due to reduced contractual payments and lower costs against budget due to a reduction in service demand. These savings are in spite of the negative variance of £1.9m within the Metro Services budget, due to a rise in Midlands Metro Limited (MML) operating costs of £4.2m during the year. This cost increase was, however, somewhat mitigated by the receipt of grant income from the Local Transport Fund and savings on insurance premiums.

The Portfolio budgets show a positive variance of £1.1m compared to budget, due to savings resulting from unfilled staff positions and lower-than-budgeted external advisory expenses.

£000's	Actual	Budget	variance
Total Funding	375,277	352,833	22,444
Total Expenditure	369,573	352,833	(16,740)
<b>Net Expenditure (before earmarked reserves)</b>	<b>5,704</b>	<b>-</b>	<b>5,704</b>
Transfer to earmarked reserve (2023/24) Capital Pressures	2,400	-	(2,400)
Transfer to earmarked reserve (2023/24) Transport Events	500	-	(500)
<b>Net Expenditure (after transfers to earmarked reserves)</b>	<b>2,804</b>	<b>-</b>	<b>2,804</b>
Transport	1,697	-	2
Portfolios	1,107	-	1,107
Investment Programme	-	-	-
Mayoral Office	-	-	-
<b>Total Surplus / (Deficit)</b>	<b>2,804</b>	<b>-</b>	<b>2,804</b>

Source: 2022/23 Outturn Report  
Table 1: 2022/23 Outturn

# Financial sustainability (continued)

The reported outturn of a £2.8m surplus for the Combined Authority includes the use of all budgeted reserves for both the Transport and Portfolios, as well as proposed appropriations to earmarked reserves, totalling £21.4m net. The appropriations are a precautionary measure for risk mitigation and to provide additional financial resilience. The surplus has been transferred to the Authority's General Reserves, resulting in a remaining unearmarked general fund balance of £4.4m as of 31 March 2023.

The transfers to reserves have been supported through savings, including Concessions savings of £11.5m and unutilised grant funding from the current year, which have been transferred to transport reserves as a measure to safeguard against potential future risks relating to the transport network. The WMCA Board had previously approved the transfer of Concessions savings in support of the 2023/24 Transport Budget. Additionally, £4.8m has been set aside as a contingency for capital pressures, of which £2.4m was already reported in the Financial Monitoring Report to the Board in January. There have been other transfers to reserves amounting to £1.9m, with £1m earmarked to fund deferred activity in 2023/24. An Enabling Services surplus of £2.7m has arisen from a robust Treasury management strategy and interest rate changes on investment income, but this surplus is subject to market conditions and is not guaranteed to continue. Finally, £0.5m has been allocated for the funding of upcoming Transport events, which was already reported in the January report for the WMCA Board.

## 2023/24 budget and performance

The Authority approved a balanced budget during its meeting on 10 February 2023, where it was clarified that the figures provided were only indicative and would be revised once there was clarity on the 2022/23 outturn position. This update has now taken place, and the capital budgets have been re-phased to reflect the outturn position, capital financing pressures, new grants of £17.7m received by the Authority, as well as resource capacity and practical delivery expectations.

The capital budget for 2023/24 is £591.9m, which is £213.3m lower than the indicative capital budget reported at the February meeting, but £246.7m higher than the 2022/23 outturn. Notably, the main increases from the outturn position are seen in the Investment Programme (£107.3m), City Region Sustainable Transport Settlement (CRSTS) (£89.2m), and Housing (£47.9m).

As of this stage in the financial year, there are no significant variances to report. However, the Authority remains vigilant in monitoring risks, particularly those related to the national economic outlook, including pay and price inflation and global supply issues. Additionally, there are ongoing revenue risks associated with the West Midlands transport network, estimated to be around £30m. Like last year, these risks are being closely monitored, and any updates on the emerging funding for the region, along with their implications, will be reported in each financial report throughout the year. The WMCA also reports on any mitigations taken to reduce or manage these risks.

## The medium term

The Medium Term Financial Plan (MTFP) was first presented to the WMCA Board in May 2022. It was then revised during the summer, with input from the Mayor, Portfolio Leaders, and Constituent Authorities. The most recent version was presented to the WMCA Board in October 2022 and indicates that there are significant funding gaps from years 2024/25 to 2028/29 (£36.2m rising to £100.1m – see Table on next page). The Authority is also planning to use £9.7m of Earmarked reserves of £346m to meet the £12m shortfall in the 2023/24 budget.

Additionally, the proposed funding solutions to close the gap include a 5% increase in Transport Levy, to support Transport operations, cash-flat Member contributions, one-off utilisation of reserves, and the use of the 2023/24 Business Rates Growth share to support the budgetary position. In addition, WMCA pledged to achieve £3m of efficiency savings within its Transport functions. This funding solution acknowledges that constituent authorities were grappling with significant budget pressures and funding challenges, which prevented them from considerably increasing their contributions.

WMCA's officers have been collaborating with the UK government to secure all potential sources of additional funding, including the funds secured through the trailblazer devolution deal. Per the MTFP, the goal is to find a one-year funding solution that will achieve a balanced budget for 2023/24. However, financial pressure is expected in the medium term, with a range of £36.2m in 2024/25 to £100.1m by 2028/29 which the Combined Authority was addressing subject to negotiations with the Government.

The latest update regarding funding, discussed at the meeting with the Mayor and Portfolio Leaders in November 2023, relates to the Combined Authority's securing of an additional £250m revenue funding for 5 years for 'Transport Network Stabilisation'.

This was announced by HMG on 4 October as part of the £36bn Network North plan following the cancellation of the northern leg of HS2. WMCA officers are in dialogue with HMG officials on the precise requirements for the funding draw down and we note that HMG require these funds will need to deliver Network improvements rather than plug existing funding pressures.



# Financial sustainability (continued)

£m	MTFP					TOTAL
	24/25	25/26	26/27	27/28	28/29	
Total gap	36.2	69.5	89.9	94.6	100.1	390.3
WMCA Actions - Operational efficiencies and windfall from treasury gains	(7.4)					(7.4)
<b>Gap after WMCA Actions</b>	<b>28.8</b>	<b>69.5</b>	<b>89.9</b>	<b>94.6</b>	<b>100.1</b>	<b>382.9</b>
annually	(6.0)	(12.2)	(18.8)	(25.7)	(33.0)	(95.7)
Additional revenue funding	(22.8)	(57.3)	(71.1)	(50.0)	(48.8)	(250.0)
<b>Total additional funding</b>	<b>(28.8)</b>	<b>(69.5)</b>	<b>(89.9)</b>	<b>(75.7)</b>	<b>(81.8)</b>	<b>(345.7)</b>
<b>Residual gap/(surplus)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18.9</b>	<b>18.3</b>	<b>37.2</b>

Source: Update to Mayor and Leaders 3 November 2023  
Table 2: The medium term budget gap

There are well publicised financial pressures among constituent member councils of the Combined Authority, including Birmingham, Coventry and Dudley. The Authority has worked closely with the leaders at Birmingham City Council, following the issuing of the Section 114 notice in September 2023 and have documented and assessed the current financial exposure to the Combined Authority as a result of this, although there are likely to be more pressures that are not known at this stage.

Developing a sustainable bus transport strategy poses a significant challenge to the Combined Authority due to the national issue of fewer customers post-Covid, yet still the same pressures to provide a comprehensive service, particularly to more rural communities. The economic pressures on the bus service provider market, including higher costs and smaller margins, exacerbate these challenges. These issues require innovative solutions and collaboration between stakeholders to ensure a sustainable and effective bus transport system that meets the needs of both passengers and service providers.

## Reserves

The £2.8m surplus recognised in 2022/23 has been transferred to the Authority's General Reserves, resulting in a balance of £4.4m as of 31 March 2023.

During the year, there was a £21.4m transfer between earmarked reserves, the detail of which is included 2022/23 section above. In addition, the MTFP includes one-off utilisation of reserves as a means of achieving a balanced budget in 2023/24.

When setting the 2023/24 budget the assumed General Reserve Balance was £1.6m (equivalent to 1.3% of the aggregate proposed 2023/24 Constituent Authority contributions). The year end position of £4.4m is therefore equivalent to 3.6% of the aggregate proposed 2023/24 Constituent Authority contributions. However, it does only represent 1.3% of gross expenditure budgeted for in 2023/24.

The Combined Authority's level of general reserves is considered to be low in comparison to its revenue expenditure. It is generally accepted that general fund reserves should be between 3% and 5% of expenditure. Based on the 2023-24 budget, the Combined Authority falls well below this level.

However, it is also important to note that the level of reserves at a Combined Authority does not assume the same level of risk as reserves at other local authorities due to the funding arrangement. The Combined Authority does recognise this risk as reported in the 2023/24 budget report, where the Director of Finance recognised the proposed General Reserve Balance was outside of the generally accepted range but noted that WMCA does carry earmarked reserves in order to ensure that existing commitments can be delivered. It was also noted that it would not be appropriate for WMCA to sit on extensive general reserves whilst Constituent Members face funding challenges of their own.

It is still important for the Combined Authority to have a level of reserves proportionate to its revenue spend in order to protect it against financial risk. This will become increasingly important once the Single Settlement is in place. We have therefore raised an improvement recommendation encouraging the Combined Authority to continue to direct efforts towards building up its general reserve balance as the reserves provide an important financial cushioning against future uncertainty in revenue budgets.

# Financial sustainability (continued)

## Capital

As at the end of March 2023, the Capital Programme had actual costs totalling £345.2m, giving a positive variance to budget of £245.7m, primarily within Transport (£155.7m) and Housing (£45.7m). The programme includes plans for the allocation of the £1.05bn WMCA received from the City Regional Sustainable Transport Settlement (CRSTS) Fund. CRSTS is a capital grant that enables WMCA to proceed with its comprehensive Capital Programme but does not provide any added revenue support for the ongoing operational expenses of the Transport network.

The Transport Programme has been divided into six sub-programmes, with the Investment Programme being the largest, having a budget of £196.5m for the full year, including all Rail, Sprint, and Metro extension schemes. As at the end of March, the actual costs for the Investment Programme were £58.9m lower than the budget. The main variances are within the Metro Programme, amounting to £35.4m, and the Rail Programme, totalling £20.9m. The variances in the Metro Programme are due to rescheduling of design approvals and some procurement activities, while the Rail project has faced operational issues at each site, which have affected progress.

In respect of Midland Metro, delivery of the Wolverhampton Interchange scheme to extend the Midland Metro light railway system was commissioned at a cost of £33.3m. Programme management and delivery is the responsibility of Midland Metro Alliance (MMA), a consortium of design experts and rail construction specialists, established by, and working in conjunction with WMCA to deliver the infrastructure on its behalf.

Financial monitoring by WMCA identified that the costs of work significantly exceeded the budget provision without the required approvals from WMCA to the sum of c.£9.6m and resulted in a breach of the organisation's financial regulations.

The Authority commissioned an independent investigation. No evidence of any wrongdoing was found with improvement recommendations focussing on ways in which governance might be improved to reduce the risks of further overspends. Following a review of the findings and recommendations made, officers considered that it would be sensible to review these alongside a number of other reviews carried out by Transport for West Midlands and a recognition that in recent years a number of projects have exceeded the approved budget due to scope changes and/or construction challenges which have emerged on site.

It was therefore agreed that a high-level internal review of the Governance and Monitoring arrangements should be undertaken, to facilitate due diligence and effective programme management control measures are in place for the Transport for West Midlands (TfWM) capital programme. TfWM is currently going through a process called TfWM Reimagined, which is making significant changes to the directorate, and which it is expected will address many of the issues raised in the various reviews. It is intended that the internal review would pull together all of the issues raised, and work with officers in the directorate to ensure that they are all being addressed.

It is not uncommon for there to be changes in scope and cost of transport projects but there does need to be an appropriate approval process. The variation against TfWM's original capital budget of £296m is relatively small at c3% and the Authority's arrangements did identify the breach. The Authority has reported through ARAC how it is taking action to improve arrangements going forward. We have therefore not raised an improvement recommendation but will follow up on actions taken as part of our 2023/24 work.

The Housing Portfolio's variance is mainly attributed to delayed projects in the Brownfield Housing Fund (BHF) and BLPDF Pipeline. These projects have not been presented for approval to the Investment Board, or moved from approval to signed funding agreements, due to various reasons such as the economic climate, national policy changes (such as planning), land negotiations, and inability to secure relevant planning permissions or resolve construction and energy cost issues. Examples of such projects include Telford Station Quarter (£2.4m), Shard End (£2.5m) and Icknield Port Loop (£2.1m). Additionally, there has been a review of costs on Phoenix Park (£4.3m) due to cost inflation, which will be presented to the Investment Board in 2023/24. Furthermore, uncommitted funds related to the Phoenix 10 project in the Land and Property Investment Fund, managed outside the Housing and Land Portfolio, totalling £5.5m, have been deferred to future years.

## Conclusion

The Combined Authority exhibited strong financial performance in 2022/23, finishing the year with a positive £2.8m variance to budget. The Combined Authority is forecasting a break-even year-end position for 2023/24. The Authority was able to replenish reserves during 2022/23 through transfers of the surplus to reserves, although the reserves level is low compared to revenue spend and we have raised a recommendation in this regard.

# Improvement recommendations

## Improvement Recommendation 1

The Combined Authority continues to direct efforts towards building its general reserves balance to its target within a reasonable timeframe.

## Summary findings

The Combined Authority's level of general reserves is considered to be low in comparison to its revenue expenditure. It is generally accepted that general fund reserves should be between 3% and 5% of expenditure. Based on the 2023-24 budget, the Combined Authority falls well below this level at around 1.3% of gross expenditure budgeted for in 2023/24.

However, it is also important to note that the level of reserves at a Combined Authority does not assume the same level of risk as reserves at other local authorities due to the funding arrangement i.e. many schemes and services are directly grant funded but there are those, mainly in the transport sector, where demand led risks continue to exist and can impact upon contributions required from constituent authorities. The 2022/23 year end position of a £4.4m General Reserve Balance is equivalent to 3.6% of the aggregate proposed 2023/24 Constituent Authority contributions.

It is still important for the Combined Authority to have a level of reserves proportionate to its revenue spend in order to protect it against financial risk. This will become increasingly important once the Single Settlement is in place. We have therefore raised an improvement recommendation encouraging the Combined Authority to continue to direct efforts towards building up its general reserve balance towards the generally accepted range of 3-5% of expenditure as these reserves provide an important financial cushioning against future uncertainty in revenue budgets.

## Criteria impacted

Financial sustainability

## Management comments

As reported to June 2023 WMCA Board, WMCA transferred £21.4m into earmarked reserves at the end of 22/23. Over the last 2 years, WMCA has taken the approach to build up earmarked reserves for revenue risks rather than transferring surpluses into the general reserve. The MTFP has identified transport funding pressures as the most significant risk to the authority budgets, £11.5m of the year end transfer was onto a transport risk reserve recognising this risk and has been committed in the current financial year to support ongoing pressure in the bus network. Therefore while WMCA accepts that the general reserves balance is low and will endeavour to increase this as funds become available, it should be noted that the Authority does feel that it has made provision for revenue risks as funds have become available.

Progressing the actions management has identified to address the recommendations made will support the Authority in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Governance



## We considered how the Authority:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

The Combined Authority is in the process of developing its governance arrangements to accommodate a bigger organisation, with more projects, more direct delivery and fundamental changes to the way that they are funded going forward. While to date, the Authority has received money and fundraising powers in the context of a multitude of specific grants for specific use, going forward, under the single settlement proposals within the new devolution deal, it will have much more control and freedom to allocate funding based on regional rather than national priorities. This will require significant cultural and operational change over the next few years.

The Combined Authority has made a good start to this process, but it will require time and focus over the next few years. The proposed assumption of Police and Crime Commissioner (PCC) powers being integrated into the Combined Authority's operations next year is a good example of the need for promptness and focus in this area. We recommend that the Combined Authority act promptly to develop and embed the new governance arrangements that will be needed for its new functions and responsibilities, to enable new devolution funding to start being converted into programmes for delivery.

### Risk management

The Combined Authority had appropriate risk management arrangements in place during 2022-23. The Strategic Risk Management Framework guides risk management at the organisation. This was last updated in November 2021. The Strategic Risk Management Framework outlines the Combined Authority's arrangements to identify strategic risks, understand them, record them within the risk management system and assess and score them. Risks are scored using a 5x5 scoring matrix, calculated by multiplying likelihood by impact. The Combined Authority uses risk registers to record risks and these are in operation at project level all the way up to strategic level.

The Combined Authority reports strategic risks to the Audit, Risk and Assurance Committee (ARAC) at each meeting (at least four times per year). The latest available strategic risk register from October 2023 reported 21 risks. We consider this to be a sizeable number of risks being reported at strategic level. We raise an improvement recommendation for the Combined Authority to reconsider how many risks are being reported for ARAC. Too high a number of risks does not incentivize members to focus on the priority areas and risks the most important risks being overlooked.

The strategic risk register includes the title of a risk, its related cause and effect, control measures in place, a RAG rating and further actions required to mitigate the risk. However, risks are not mapped to their relevant corporate objective or allocated to a named senior officer. There is also no outline of the direction of travel for each risk. We have raised an improvement recommendation to enhance the presentation of the strategic risks in these areas.

### Internal audit

The Combined Authority has an adequate and effective internal audit function in place. This was in place during 2022/23. The Internal Audit function of the Combined Authority is to provide the Chief Executive and the Audit, Risk and Assurance Committee with an opinion on the adequacy and effectiveness of the Authority's governance, risk management and control processes.

The Internal Audit function has, historically, been provided by the Wolverhampton Council Internal Audit team, until 2022-23, where the decision was made to bring the Internal Audit function in-house. At the time of our review, a new Head of Audit, Information and Governance is being recruited for, with interviews ongoing, with a view to making an appointment in late 2023.

To bridge the gap, Internal Audit Liaison officer Lorraine Quibell has been overseeing the smooth function of Internal Audit, with three agency staff working with her to complete the internal audit testing required.



# Governance (continued)

The 2022/23 audit plan contained 18 audits in total, with 12 having been completed giving a 66% completion rate.

Based on the work of the Combined Authority's Internal Audit function undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Combined Authority by other providers as well as directly by Internal Audit, a provisional opinion of 'reasonable assurance' has been provided. This states that the Combined Authority has adequate and effective governance, risk management and internal control processes.

In 2022-23, 12 Internal Audit reviews were carried out. Of these, 10 were assessed as 'substantial' or 'satisfactory' levels of assurance with two assessed as 'limited', an increase on the one 'limited' assessment in 2021-22. The audit of Procurement Exemptions and IR35 Compliance concluded that there was 'limited' assurance.

Regarding Procurement Exemptions, WMCA's published contract procedure rules were found to be out of date and did not correlate with the actual processes and procedures set out in the Purchasing Procedures and Contract Manual. Additionally, there appeared to be no monitoring undertaken of multiple exemption requests for the same supplier. Testing also identified that suppliers were recorded using different names therefore making it difficult to identify duplicate suppliers. Finally, purchasing card data was not accessible to Procurement in order to identify potential spends that have bypassed the exemption process.

Regarding IR35 compliance, levels of non-compliance were identified where WMCA IR35 processes had not been followed. The WMCA Agency Protocol was dated prior to 2017 and had not been updated to include the current working practices and the requirements since the introduction of IR35. Further, WMCA's process for identifying and capturing workers for assessment for IR35 had not been updated since 2017. No IR35 Policy is in place or updates to the Board on changes in legislation or guidance. Finally, a complete register / central record had not been kept up to date of IR35 employment status checks undertaken to evidence compliance with IR35 legislation.

We consider that the coverage has been adequate and have no concerns about their effectiveness.

As the Combined Authority's internal audit provider, Wolverhampton Council was responsible for managing the external assessment for compliance with Public Sector Internal Audit Standards (PSIAS). The Authority was last assessed in 2018/19, when it was concluded it was compliant. The reviews are required at least every five years therefore the next review is due in the next year, once new arrangements are finalised.

The responsibility for counter fraud is led by the monitoring officer, who can instruct the Internal Audit function to investigate any incidences of potential fraud. The Combined Authority is a member of the National Fraud Initiative and is required by law to protect the public funds it administers.

The Combined Authority has a Whistleblowing policy, Anti-Fraud and Corruption policy and a Code of Conduct for the Mayor and members in place (the detail of which was provided as part of 2020-21 audit). The Whistleblowing policy and Anti-Fraud and Corruption policy were last reviewed on 30 November 2022 and 1 December 2022 respectively, whereas the Code of Conduct was last updated on 23 December 2020.

We recommend that the Code of Conduct is reviewed for appropriateness in the current financial year, due to the length of time that has passed since the last review.

## Audit committee effectiveness

The purpose of the Audit, Risk and Assurance Committee (ARAC) is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements at the Authority. The committee's role in ensuring that there is sufficient assurance over governance, risk and control gives greater confidence to the Board that those arrangements are effective.

Membership is prescribed in its Terms of Reference contained within the Authority's constitution as two from local LEAs and a member or substitute from each Constituent and Non Constituent body. Including the Independent Chair ARAC is currently comprised of 11 members.

CIPFA's recommendation in *Audit Committees: Practical Guidance for Local Authorities and Police* (2022) is authorities should strive to have no more than eight members, placing the Combined Authority over the suggested range. CIPFA recognises that committees of this size should allow sufficient breadth of experience but is small enough to allow the training and development of a dedicated group.

We understand that the size and composition of ARAC is driven by the original 2016 establishment order and the subsequent constitution. As we have reported in previous reports ARAC has struggled with quoracy. Through the efforts of officers and the Independent Chair this has improved during 2022-23. However, a smaller committee could further help mitigate this risk and bring the Combined Authority in line with best practice as highlighted by CIPFA. We have therefore raised an improvement recommendation that the Combined Authority seek to revise the membership of the Audit Committee to bring it in line with CIPFA guidance.

# Governance (continued)

CIPFA guidance also emphasises the importance of the separation of executive roles and the membership of the Audit Committee. Where an authority has a cabinet system of governance, which in effect is what is in place at the Combined Authority with its Board and committee structure, including a member of the Board on the committee is discouraged. We have compared the membership of the ARAC with the members of the Board to ensure a clear separation. We can confirm that no members of the Board are also members of the ARAC, in line with the guidance.

We recommend that the Combined Authority enshrine in its Constitution the separation of roles and, in line with CIPGFA's guidance, also institute the rule that a period of two years should elapse before a Councillor who previously held a senior policy role joins ARAC. Inclusion in the constitution will ensure clarity of process should any confusion/debate arise in the future. Separation of executive roles and ARAC allows members of ARAC greater independence in their roles and assists in maintaining a nonpolitical approach.

The chair of the ARAC is an independent, non-executive member, with the other members being councillors of constituent member councils or representatives from Local Enterprise Partnerships. CIPFA guidance and the Redmond Review (2020) recommend that committees include two-coopted independent members. We recommend that the Combined Authority considers the merits of appointing another appropriately qualified independent member to ARAC. The injection of an external view can often bring a new approach to committee discussions and provides an element of continuity outside the political cycle (though this would be more salient at an authority that had annual changes/elections).

To discharge its responsibilities effectively, CIPFA guidance recommends the committee meet at least four times a year. The Combined Authority reiterate this by including in the Constitution that the Committee will meet at least four times a year. In both 2021-22 and 2022-23, the ARAC met four times.

CIPFA guidance recommends that authorities report annually on how the Audit Committee has complied with the position statement, discharged its responsibilities and include an assessment of its performance. At present, whilst minutes are taken to each Board meeting the Combined Authority does not produce an annual self-assessment on the effectiveness of ARAC. We have raised an improvement recommendation to that effect.

## Leadership & decision-making

The WMCA Board is the main decision-making body. Reports are presented to the Board. All reports are presented in a standard format and include the requisite amount of detail.

There is also a well-established structure of other committees including:

- Transport Delivery Committee
- Investment Board
- Audit Risk & Assurance Committee (ARAC)
- Overview & Scrutiny

Each of these committees/Boards receives standard format reports for scrutiny and decision making.

The Combined Authority's Constitution sets out the terms of reference for the running of the Authority and was last updated on 26 April 2017. We recommend that the Constitution is reviewed to ensure it remains compliant with the most up-to-date legislation and organisational changes, especially when the Single Settlement is finalised.

The latest update, following the passing of the Levelling Up and Regeneration Bill in November 2023, was the request made by the Mayor to transfer West Midlands Police & Crime Commissioner powers to the Combined Authority. The Combined Authority see it as a vote of confidence in their financial management and governance procedures that the Government has agreed to the Trailblazer Devolution deal, Levelling Up and Regeneration Bill and merging of the PCC's powers. The Authority have set up working groups to understand and assess the governance requirements needed for this transition in 2024.

There is also requirement to revisit the priorities of the Combined Authority following the Government's decision, in October 2023, to cancel the northern leg of HS2. The West Midlands will now be at the end of the line, rather than in the middle and this will impact the influence of the development in the area and the financial and social implications that will come from this.

## Conclusion

During 2022/23, the Combined Authority had adequate risk management arrangements in place, guided by the Strategic Risk Management Framework. We have raised an improvement recommendation regarding the presentation of the strategic risk register. The Combined Authority has an adequate and effective internal audit function to provide opinions on the adequacy and effectiveness of the Authority's governance, risk management, and control processes. We have raised a recommendation regarding the need to update the Code of Conduct. The Audit, Risk and Assurance Committee (ARAC) at the Combined Authority provides an independent and high-level focus on the adequacy of governance, risk, and control arrangements. We have raised recommendations regarding the membership of the ARAC.

# Improvement recommendations

## Improvement Recommendation 2

The Combined Authority should review:

- its Constitution to ensure it remains compliant with the most up-to-date legislation and organisational changes, and
- the Code of Conduct to ensure it remains appropriate.

## Summary findings

The Combined Authority's Constitution sets out the terms of reference for the running of the Authority and was last updated on 26 April 2017. We recommend that the Constitution is reviewed to ensure it remains compliant with the most up-to-date legislation and organisational changes.

The Code of Conduct was last updated on 23 December 2020. The Code of Conduct is centred around the principles of selflessness, integrity, objectivity, accountability, openness, honesty and leadership and the Mayor and all members of the Combined Authority are required to sign it. We recommend that the Code of Conduct is reviewed for appropriateness in the current financial year, due to the length of time that has passed since the last review and any potential impact upon governance arrangements as a result of the Single Settlement and the assumption of PCC powers.

## Criteria impacted

Governance

## Management comments

A report dealing with governance arrangements when PCC functions are transferred into the Combined Authority's operations next year is on the forward plan and is due to be considered by the Board in February 2023. The Combined Authority's Constitution will be reviewed following the transfer of PCC functions to ensure effective integration of the new functions is considered in the review. The review will be completed ahead of Single Settlement in Spring 2025. The Code of Conduct will be reviewed during the remainder of this financial year to ensure that it remains appropriate.

# Improvement recommendations (continued)

## Improvement Recommendation 3

The Combined Authority should act promptly to develop and embed the new governance arrangements that will be needed for its new functions and responsibilities, to enable new devolution funding to start being converted into programmes for delivery.

## Summary findings

The Combined Authority is in the process of developing its governance arrangements to accommodate a bigger organisation, with more projects, more direct delivery and fundamental changes to the way that they are funded going forward. While to date, the Authority has received money and fundraising powers in the context of a multitude of specific grants for specific use, going forward, under the single settlement proposals within the new devolution deal, it will have much more control and freedom to allocate funding based on regional rather than national priorities. This will require significant cultural and operational change over the next few years.

The Combined Authority has made a good start to this process, but it will require time and focus over the next few years. The assumption of PCC powers being integrated into the Combined Authority's operations next year is a good example of the need for promptness and focus in this area.

## Criteria impacted

Governance

## Management comments

New governance arrangements are now being developed in consultation with the Executive Board and we will be seeking to work with Local Authorities, Chief Executives and Leaders to ensure that there is more effective engagement with our Constituent Authorities, and that all LA place based strategies and priorities can be considered appropriately alongside the Functional Pillars of the Single Settlement, the Outcomes Framework and the enhanced scrutiny and accountability requirements provided in the deeper devolution deal, the EDAF and the newly published Scrutiny Protocol.



# Improvement recommendations (continued)

## Improvement Recommendation 4

The Combined Authority should review its Strategic Risk Register to:

- reconsider how many strategic risks are being reported to the Audit, Risk and Assurance Committee, and
- map each risk to its relevant corporate objective, allocate each strategic risk to a named senior officer and outline the direction of travel for each risk.

## Summary findings

The Combined Authority reports strategic risks to the Audit, Risk and Assurance Committee (ARAC) at each meeting (at least four times per year). The latest available strategic risk register from October 2023 reported 21 risks. We consider this to be a sizeable number of risks being reported at strategic level as too high a number of risks does not incentivize members to focus on the priority areas and risks the most important risks being overlooked.

The strategic risk register includes the title of a risk, its related cause and effect, control measures in place, a RAG rating and further actions required to mitigate the risk. However, risks are not mapped to their relevant corporate objective or allocated to a named senior officer. There is also no outline of the direction of travel for each risk.

We have raised improvement recommendations to enhance the presentation of the strategic risk register.

## Criteria impacted

Governance

## Management comments

We will look to remove risks which are not or are no longer a significant strategic risk and will continue to share a Strategic Risk update including direction of travel for each risk with Executive Board and members of ARAC at each meeting to help focus attention on key messages relating to the most significant risks. Our existing unabridged Strategic Risk Register is cross-referenced to our Annual Business Plan performance reporting where performance concerns may affect our ability to bring strategic risk under control or where strategic risk may be having an affect on our business plan performance. Risks are currently allocated to a senior named officer in the unabridged version of the strategic risk register and this information will also be included in the Strategic Risk update to Executive Board and members of ARAC to enhance visibility going forward.

Progressing the actions management has identified to address the recommendations made will support the Authority in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations (continued)

## Improvement Recommendation 5

Regarding the Audit, Risk and Assurance Committee (ARAC), the Combined Authority should:

- seek to revise the membership of ARAC to seek to bring it in line with CIPFA guidance, within the constraints of the establishment order and the Constitution.
- enshrine in its Constitution the separation of roles and include that it will institute the rule that a period of two years should elapse before a Councillor who previously held a senior policy role joins ARAC in line with CIPFA's guidance.
- consider the merits of appointing another appropriately qualified independent member to ARAC, and
- report annually on how ARAC has complied with the position statement, discharged its responsibilities and include an assessment of its performance.

ARAC is currently comprised of 11 members. CIPFA's recommendation in *Audit Committees: Practical Guidance for Local Authorities and Police (2022)* is authorities should strive to have no more than eight members, placing the Combined Authority over the acceptable range. CIPFA recognises that committees of this size should allow sufficient breadth of experience but is small enough to allow the training and development of a dedicated group.

CIPFA guidance emphasises the importance of the separation of executive roles and the membership of the Audit Committee. Where an authority has a cabinet system of governance, as at the Combined Authority, including a member of the cabinet on the committee is discouraged. We have compared the membership of the ARAC with the members of the Cabinet to ensure a clear separation. We can confirm that no members of the cabinet are also members of the ARAC, in line with the guidance. Separation of executive roles and Audit Committee allows members of the Audit Committee greater independence in their roles and assists in maintaining a nonpolitical approach. We recommend that the Combined Authority enshrine in its Constitution the separation of roles and, in line with CIPFA's guidance, also institute the rule that a period of two years should elapse before a Councillor who previously held a senior policy role joins ARAC. Inclusion in the constitution will ensure clarity of process should any confusion/debate arise in the future.

## Summary findings

The chair of the ARAC is an independent, non-executive member, with the other members being councillors of constituent member councils. CIPFA guidance and the Redmond Review (2020) recommend the committee includes two-coopted independent members. The injection of an external view can often bring a new approach to committee discussions and provides an element of continuity outside the political cycle (though this would be more salient at an authority that had annual changes/elections).

CIPFA guidance recommends that authorities report annually on how the Audit Committee has complied with the position statement, discharged its responsibilities and include an assessment of its performance. At present, the Combined Authority does not produce a self-assessment on the effectiveness of ARAC.

## Criteria impacted

Governance

## Management comments

We will review the Terms of Reference and membership and reporting arrangements of ARAC in the context of the guidance published by CIPFA in 2022 in consultation with members of the Committee in early 2024.

Progressing the actions management has identified to address the recommendations made will support the Authority in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Improving economy, efficiency and effectiveness



## We considered how the Authority:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

The Combined Authority can point to a number of successes from the 2022-23 financial year, including:

- Planning and delivering an award-winning, world-class transport programme for the Birmingham 2022 Commonwealth Games, which delivered over £870 million to the UK economy and 9,000 full time equivalent jobs. A record 1.5 million tickets were sold for Birmingham 2022, the largest multi-sport event hosted in England in the last 10 years.
- Launching a groundbreaking Housing, Property and Regeneration strategic partnership with Legal & General, which involved a commitment of £4bn over the next seven years. Furthermore, negotiating a housing and land deal worth up to £500m with HM Government.
- Launching a new Plan for Growth, an ambitious strategy for boosting growth, spreading opportunity and jobs, to help level-up the region, which included exceeding the target of securing £40m of apprenticeship levy transfer funds, ahead of schedule, with the funds used to support more than 3,000 apprentices to begin a new career.

## Performance reporting

The Combined Authority has arrangements in place to monitor and track performance. All combined authorities are subject to five-yearly gateway reviews which functions as an independent evaluation of performance. The last gateway review was performed in 2020 and noted positive progress.

The Combined Authority's plans are closely aligned with its Aims and Objectives/Strategy document. Aim 6.3 is:

"We will ensure our workforce have the skills and competencies to deliver our strategy by:

- Developing a clear and inclusive strategy for improving organisational competencies to address skills gaps between workforce profile and strategic objectives through coaching, mentoring, recruitment, training and leadership development in order to deliver our strategy
- Ensuring performance management insights are embedded within workforce planning activity to enable evidence-based decisions and increased productivity"

During the 2022-23 financial year, the performance monitoring system has been updated to better connect reporting of the performance and finances, linking them together to give senior leadership a more holistic view of the performance against the Aims and Objectives. The system is app-based and is accessed via Microsoft Teams making it easily accessible and usable. A Microsoft Power BI platform is then used to provide informative dashboards for management. It is the early days of its development with work focusing on allocating capital budgets to specific High-Level Deliverables and milestones which underpin the Aims and Objectives.

The Combined Authority has, via its new performance monitoring system, linked its finances to each of the aims and objectives and is now reporting on a monthly basis on progress against these. The Financial Monitoring arrangements, which include monitoring the revenue impacts of the Capital programme via regular financial reports and also updates on the investment programme, are reported as part of this.

# Improving economy, efficiency and effectiveness (continued)

The new performance management system has been rolled out by the Combined Authority, with the aim of implementing SMART (Specific, Measurable, Achievable, Realistic, and Timely) measures of performance across the organisation, focusing on the areas outlined below:

- Ensure that performance data is easily accessible and disseminated across teams to support decision-making based on evidence.
- Enhance the ABP (Annual Business Plan) dashboard to provide a more comprehensive overview of performance encompassing aspects such as finance, performance, and risk.
- Keep refining the organisational health dashboard to include metrics on people, finance, complaints, and customer feedback so that leaders can quickly identify trends and the overall direction of the organisation.

The Combined Authority's areas of strategic focus can be outlined in 6 key areas, identified as part of the #BetterConnected initiative launched in 2022:

- People – Connecting our people, sharing our experiences, understanding our values, and cross-cutting ways of working.
- Places – Connecting our people to places, combining our services for greater impact and sustainability.
- Partners – Connecting with partners to combine expertise in delivering relevant and excellent services.
- Processes – Connecting fair and transparent processes enabling work to flow across the organisation, bringing clarity to decision making.
- Information – Connecting our people, places, and services in gathering and sharing knowledge.
- Hybrid – Connecting our ways of working to meet people and organisational

Strategically, the Combined Authority's Plan for Growth, Investment Prospectus, Net Zero Five Year Plan and the new Local Transport Plan demonstrate that the Authority is primed and ready to drive change. Whilst acknowledging that it won't be easy, the Authority is working alongside their constituent member councils and other regional partners and the journey to a fairer, greener, better connected West Midlands is taking shape.

All officers interviewed as part of our review have been open, transparent and helpful. It is clear they are all committed to the organisation and take pride in its functions and set a good example for staff at all levels.

The Authority's "Aims and Objectives" strategy document gives a very clear view of the strategic vision of the Authority and our discussions and interviews with all senior management have indicated that they are fully focused on, and supportive of, the strategy.

## Procurement

The Combined Authority does not have a formal, documented procurement strategy in place. There are contractual standing orders and a flow chart which outlines the required approvals for different types and sizes of procurement contract and at what stage these should be sought, but no formal strategy. We recommend that the Combined Authority create a formal procurement strategy aligned to the Mayoral priorities.

The Combined Authority has established Contract Standing Orders in place, to ensure that the Authority, as a body using public resources, sets and follows the highest standards of financial control and stewardship. The Combined Authority's Contract Standing Orders provide the Mayor, members and officers with procedures to follow which ensure that the Authority's expected standards are met in terms of managing public money and assets. We recommend that the Contract Standing Orders that lie within the Constitution are updated to ensure that they align with the most up-to-date legislation and regulatory requirements (this was last updated in 2017).

Whilst the way procurement operates has not changed, there have been a number of upgrades to the procurement processes in the past year, including implementing a procurement- focused assurance process to streamline and rubber stamp the launching of tenders, establishing an intranet homepage for procurement to be used as a one-stop-shop for all procurement needs across the Combined Authority. Those engaging in procurement are encouraged to undertake CIPS training and gain a related professional qualification. A new social value policy has been introduced to be used on all Combined Authority procurement work going forward, with the vision to create, deliver and sustain greater community benefits through the use of social value within the region.



# Improving economy, efficiency and effectiveness (continued)

Additionally, financial standings checks have been introduced at the start of a tender, rather than at the end, which is how the process operated previously. Whilst this means there are more checks to be processed, the Authority know from the start whether it makes financial sense to proceed with the consideration of a certain supplier.

Whilst data on procurement is reported to the corporate management team as part of the internal audit process, there is a lack of clear reporting of procurement performance to committee level. We recommend that information on the procurement pipeline, tender progress and tender waivers (including number and size of waiver) are reported to committee level on at least a quarterly basis.

The procurement team are planning for 2024 in advance, with the Procurement Bill being passed which will come into effect in October 2024. The Head of Procurement has expanded the size of the procurement team in the current year (up to 24 members now) and has put forward a business case to further grow the team. This was based on our prior year recommendation regarding the need to improve the monitoring of contracts, which was due to a lack of capacity in the team.

## Partnerships

The relationship with the constituent member councils and commercial partners is integral to the successful delivery of Combined Authority projects/programmes and to successful collaborative working. The Combined Authority is uniquely positioned to successfully coordinate and negotiate. The Combined Authority provides assurance where constituent member councils have delivery responsibility to ensure the connection between local and regional priorities.

From discussions with the Mayor and other senior leadership members, it is clear that a priority is made of working closely with partners and developing relationships. Whilst medium term uncertainty can make planning difficult and the political situation has the potential to interfere with working connections, day to day level relationships are strong - evidenced by the decisions and achievements in the year, including the devolution deal, new transport plan, single settlement deal and the partnership with Legal & General.

The key partnerships in operation between the Combined Authority and external providers relate to transport (approximately 50% of the Combined Authority's planned capital investment to 2025/26 consists of expenditure incurred by Transport for West Midlands in pursuance of the Investment Programme, Transforming Cities Programme and the Minor Works Programme) and adult education.

The Combined Authority is also part of the M10 network of Mayoral Combined Authorities. Through this network, the combined authorities can share learnings and draw on the experience of others. The Authority has arrangements in place to learn from other local government organisations to improve its performance. Many networks are in place with other councils and combined authorities, both formal and informal. Chief Executives, S73/S151 officers, HR directors and Strategy Directors all meet frequently and share ideas and learning.

## Conclusion

The Combined Authority has delivered several successes in 2022/23, most notably its contribution to the delivery of the Commonwealth Games. During the 2022-23 financial year, the performance monitoring system has been updated to better connect reporting of performance and finances. The organisation is in the process of gearing up for the challenge.

The Authority's Plan for Growth, Investment Prospectus, Net Zero Five Year Plan, and the new Local Transport Plan demonstrate its readiness to drive change. The Combined Authority does not have a formal procurement strategy in place and there is a lack of reporting of procurement performance to committee level, both of which we have raised recommendations in relation to.

# Improvement recommendations

## Improvement Recommendation 6

The Combined Authority should create a formal procurement strategy aligned to the Mayoral priorities.

### Summary findings

The Combined Authority does not have a formal, documented procurement strategy in place. There are contractual standing orders and a flow chart which outlines the required approvals for different types and sizes of procurement contract and at what stage these should be sought, but no formal strategy.

### Criteria impacted

Improving economy, efficiency and effectiveness

### Management comments

Procurement strategy to be developed, agreed and recorded in conjunction with the new Mayoral term during 2024.

## Improvement Recommendation 7

The Combined Authority should update the Contract Standing Orders that lie within the Constitution to ensure that they align with the most up-to-date legislation and regulatory requirements.

### Summary findings

The Combined Authority has established Contract Standing Orders in place, to ensure that the Authority, as a body using public resources, sets and follows the highest standards of financial control and stewardship. The Combined Authority's Contract Standing Orders provide the Mayor, members and officers with procedures to follow which ensure that the Authority's expected standards are met in terms of managing public money and assets. The Contract Standing Orders were last updated in 2017.

### Criteria impacted

Improving economy, efficiency and effectiveness

### Management comments

An update to the Contract Procedure Rules/ Standing Orders has already been identified, with a target date of Q1 2024 for a refreshed version to be submitted to the Executive Board for review and approval.

Progressing the actions management has identified to address the recommendations made will support the Authority in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations (continued)

<b>Improvement Recommendation 8</b>	The Combined Authority should ensure that information on the procurement pipeline, tender progress and tender waivers (including number and size of waiver) are reported to committee level on at least a quarterly basis.
<b>Summary findings</b>	Whilst data on procurement is reported to the corporate management team as part of the internal audit process, there is a lack of clear reporting of procurement performance to committee level.
<b>Criteria impacted</b>	Improving economy, efficiency and effectiveness
<b>Management comments</b>	Procurement performance reporting arrangements to be designed and agreed in 2024, in consultation with both the Director for Commercial and Investment Activities and the Executive Director of the Finance and Business Hub, whilst also factoring in and taking account of enhanced levels of procurement data capture and reporting with the upcoming roll out of the Procurement Act 2023 (due October 2024).

Progressing the actions management has identified to address the recommendations made will support the Authority in addressing the improvements identified from our work. We consider that the timescales provided by management are appropriate and encourage the Audit Committee to monitor progress of implementation to gain assurance over the arrangements in place. The range of recommendations that external auditors can make is explained in Appendix B.

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
<p>1 Where the Audit Risk and Assurance Committee (ARAC) is required to make decisions that impact upon deadlines and/or statutory requirements, assurances should be sought from members that they are able to be present or will send a substitute, so that the meeting will be quorate. The ability to make timely decisions is an important aspect of the Governance of the Authority, and being unable to make decisions can impact on the Authority's ability to meet statutory deadlines. The constitution is such that membership includes thirteen individuals, of which eleven are Councillors from the constituent and non-constituent bodies. For the meeting to be quorate and enable decisions to be taken, nine members need to be present. This is often challenging, creating the potential for delays in decisions being implemented. There is a clear acknowledgement from the Chair of ARAC of the issue of quoracy of the meetings. Regular reminders are sent to members and the likely impact of non-attendance is considered in advance of the meetings. However, there have still been meetings during the year, where quoracy hasn't been achieved.</p>	Improvement	June 2023		Partially	We have re-raised a recommendation to ensure that the Authority is focused on delivering improvements. See improvement recommendation No. 5.
<p>2 The Authority should consider its approach to contract monitoring to mitigate the potential risk that it may not be being carried out consistently or by staff who have the appropriate skillset or experience and therefore that maximum value is not being extracted from the Authority's current contracts. Contract monitoring as a function is currently carried out by budget holders. There is a risk that a lack of contract management expertise may mean that there is a risk to the Authority that maximum value is not being extracted from the Authority's current contracts and learning is not taken into future contract negotiations. Close management of contracts can lead to better value for money contracts in the future. It allows for deeper understanding of the contract, so that when it comes up for renewal it can be re-negotiated in a more advantageous way. Contract management is currently the responsibility of individual budget holders. With the increase in procurement expertise there is merit in considering how to mitigate the risk that not all budget holders will have the capacity, expertise or experience in this area to undertake this in the most effective way - including whether the contract management function could be more centralised.</p>	Improvement	June 2023			

# Opinion on the financial statements



## Grant Thornton provides an independent opinion on whether the Authority's financial statements:

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

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Authority in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

## Audit opinion on the financial statements

We intend to issue an unqualified opinion on the Authority's financial statements on following the meeting of the Audit Risk and Assurance Committee on the 4<sup>th</sup> December 2023.

The full opinion will be included in the Authority's Statement of Accounts for 2022/23, which will be available from the Authority's website once the audit is concluded.

Further information on the progress of our audit of the financial statements is set out overleaf.





# Opinion on the financial statements



## Timescale for the audit of the financial statements

We issued the audit plan in April 2023, and this was presented to the Audit, Risk and Assurance Committee (ARAC) on the 18th April. In order to issue the audit plan, we completed an interim planning visit in March 2023, and agreed fieldwork dates for the year end audit to commence from the 3rd July until the end of September.

The audit plan identified two risks requiring special audit consideration, these were;

- Management Override of Controls, and
- Valuation of the pension fund net liability.

The Authority provided draft accounts by the end of June, in line with the internally agreed timetable, but a month later than the deadline as outlined in the Accounts and Audit Regulations. This is indicative of the position in the sector, and not a unique position that the Authority is in.

There were delays in the production of the working papers to support the financial statements. Also, the Authority had been unable to address prior year recommendations in respect of simplifying audit trails as a result of resources being required to support finalisation of the 2021/22 audit and overall capacity of the Authority's finance team. This has impacted on the timescales to complete the 2022/23 audit, with the opinion anticipated to be given in December 2023.

Recommendations have been made for improvements to be made to both the method of production of the financial statements and the quality of the supporting working papers and evidence in time for the production of the 2023/24 financial statements.

## Findings from the audit of the financial statements

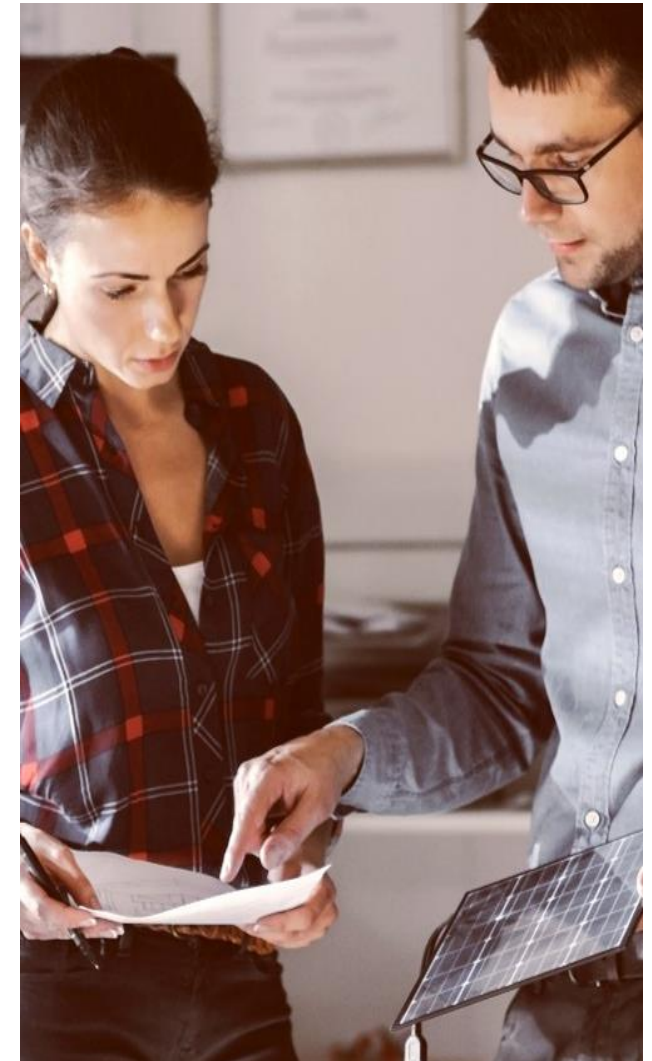
We designed testing to address the risks identified in our audit plan.

As at the date of drafting this AAR, 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 as guidance on the application of accounting standard IFRIC 14 to local government pension schemes clarifies.

The Authority are required to set aside an amount for the repayment of debt, the method for doing this is included in statutory guidance, and this is referred to as the Minimum Revenue Provision (MRP). As part of the financial statements audit, we concluded that the MRP policy that the Authority was following was not in accordance with the statutory guidance, as MRP was not being made for loans to third parties. An estimate of the MRP that has not been provided in year is £9.6m. Instead of making this provision, the Authority have a first charge security in place, and make a provision for the loans defaulting of £5m, although at this time, there is no evidence of defaults. There is clear evidence that the Authority has considered prudence when setting the MRP policy, but not followed the calculation method as outlined in the statutory guidance.

We also identified errors in both the debtors and creditors population and have discussed with finance officers ways in which systems could be improved to avoid similar errors in future years. Five recommendations have been made for management to implement prior to the closedown of the 2023/24 accounts.

More details are set out in the Audit Findings Report, which was presented to the Audit, Risk and Assurance Committee on 4<sup>th</sup> December 2023. Requests for this report should be directed to the Authority.



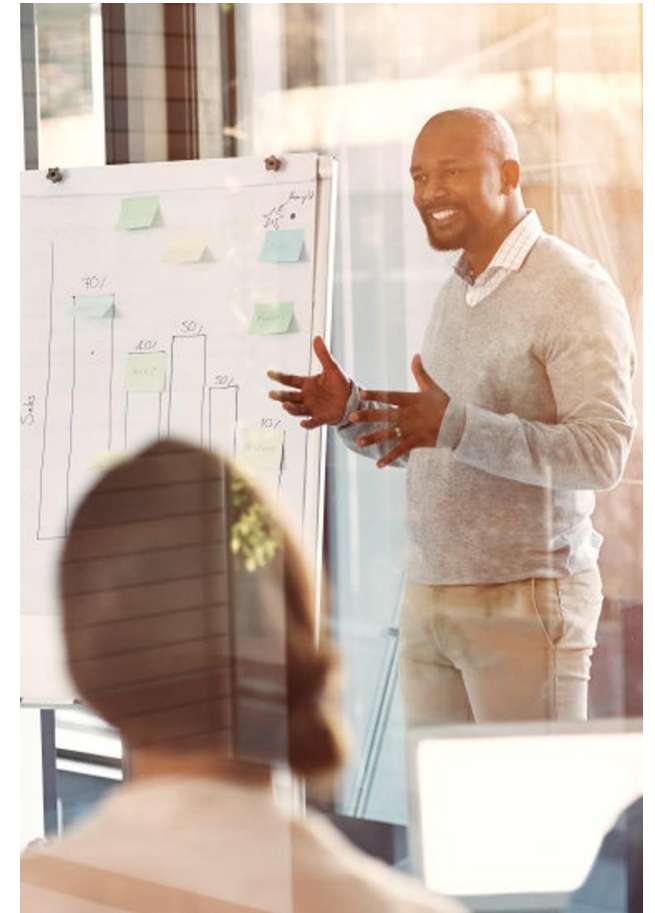
# Other reporting requirements



## Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Authority's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Specific, detailed, work is not required as the Authority does not exceed the threshold.



# Appendices

# Appendix A: Responsibilities of the Authority

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

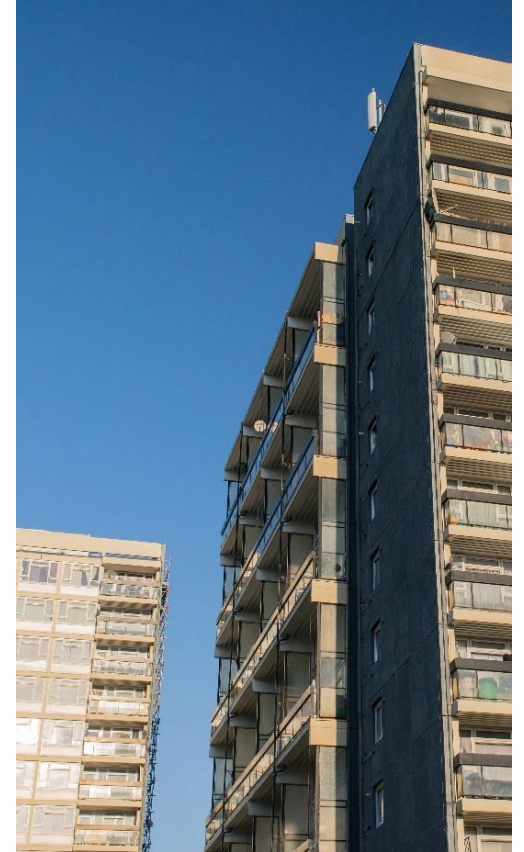
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Authority's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Appendix B:

## An explanatory note on recommendations

A range of different recommendations can be raised by the Authority's auditors as follows:

Type of recommendation	Background	Raised within this report	Page references
Statutory	Written recommendations to the Authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Authority's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Authority. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Authority, but are not a result of identifying significant weaknesses in the Authority's arrangements.	Yes	11,15,16,17,18,22 and 23



