Audit Findings

Year ending 31 March 2018

West Midlands Combined Authority

21 June 2018

Contents

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Headlines

This table summarises the key issues arising from the statutory audit of West Midlands Combined Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the Authority's financial statements give a true and fair view of the Authority's financial position and Authority's expenditure and income 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 Statement of Accounts, 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 on site during May and June. Our findings are summarised on pages 4 to 12. We have identified one adjustment to the financial statements, but this is by way of reclassification only, and does not impact on the reported surplus of £481k in the Statement of Comprehensive Income and Expenditure. The audit adjustment is detailed in Appendix A. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Risk & Assurance Committee (ARAC) meeting on 21 June 2018, as detailed in Appendix C. These outstanding items are listed on page 4. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that West Midlands Combined Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 13 to 16.
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 • certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We do not expect to be able to certify the conclusion of the audit as we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. As the Pension Fund has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements. Additionally, we are yet to commence our work on the Whole of Government Accounts which also prevents us from certifying the conclusion of the audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

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’).

On 8 December 2017, in line with the Accounts and Audit Regulations 2015, the WMCA Board amended the Constitution to delegate the accounts approval process to the Audit, Risk & Assurance Committee (ARAC). We therefore consider ARAC are those charged with governance.

The contents of this report have been discussed with management. As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (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 for the preparation of the financial statements.

Audit approach

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

- An evaluation of the Authority's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

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 21 June 2018, as detailed in Appendix C. These outstanding items include:

- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- submissions relating to the Whole of Government Accounts.

Summary continued

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.

Our assessment of the value of materiality, performance materiality and trivial matters has been adjusted to reflect the gross expenditure in the draft financial statements as at 31 March 2018. For the purposes of our audit plan, they were based on the gross expenditure as at 31 March 2017. We detail in the table below our assessment of materiality for West Midlands Combined Authority.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	4,643,000 (updated from 4,527,000)	We determined materiality for the audit of the Authority's financial statements as a whole to be £4,643,000, which is 1.8% of the Authority's gross operating expenses. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.
Performance materiality	3,482,000 (updated from 3,395,000)	We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the financial statements. Our consideration of performance materiality is based upon a number of factors: • No significant audit findings were identified by the predecessor auditors • We are not aware of a history of significant deficiencies or a high number of deficiencies in the control environment • There has not historically been a large number or significant misstatements arising as a result of the financial statements audits at the Authority • Senior management and key reporting personnel in the finance function has remained stable from the prior year audit
Trivial matters	232,150 (updated from 226,350)	We determined the threshold at which we will communicate misstatements to the Audit Committee to be £232,150.
Materiality for specific transactions, balances or disclosures	100,000	In accordance with ISA320 we have considered the need to set lower levels of materiality for sensitive balances, transactions or disclosures in the accounts. We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to the reader of the accounts.

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Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a 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.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • 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 Therefore we do not consider this to be a significant risk for West Midlands Combined Authority.
2	**Management override 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. The Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** We have: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtained a full listing of journal entries, identify and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks continued

	Risks identified in our Audit Plan	Commentary
3	**Valuation of pension fund net liability** The Authority's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Auditor commentary** We have: • reviewed the pensions prepayment paid by the Authority to the Pension Fund in April 2017 and are satisfied it was subject to due process and has been accounted for in the financial statements correctly • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out • undertook procedures to confirm the reasonableness of the actuarial assumptions made • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary PwC were engaged by the Audit Commission (and subsequently the NAO) as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS). They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police and Fire schemes as at 31 March 2018. We use this report to inform our assessment of the valuation of the pension fund liability in the Authority's accounts. We have compared the assumptions used by the Authority's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable. The liability as at 31 March 2017 was £57.166m. This has reduced during the year by £6.953m to £50.213m. The value of the net pension liability in the balance sheet is not equal to the pension reserve of £55.377m. We are satisfied that this is appropriate, as the difference is due to the prepayment of £5.164m referred to above. Our audit work has not identified any issues in respect of the pension fund net liability.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
1	**Employee remuneration** Payroll expenditure represents a significant percentage of the Authority's operating expenses. As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	**Auditor commentary** We have: • evaluated the Authority's accounting policy for recognition of payroll expenditure for appropriateness; • gained an understanding of the Authority's system for accounting for payroll expenditure and evaluated the design of the associated controls; • obtained the year-end payroll reconciliation and ensured amount in accounts can be reconciled to ledger and through to payroll reports, investigating any significant adjusting items as appropriate. • agreed payroll related accruals to supporting documents and review any estimates for reasonableness. Our audit work has not identified any issues in respect of employee remuneration.
2	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage of the Authority's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**Auditor commentary** We have: • evaluated the Authority's accounting policy for recognition of non-pay expenditure for appropriateness; • gained an understanding of the Authority's system for accounting for non-pay expenditure and evaluated the design of the associated controls; • tested a sample of payments immediately prior to and after the year end to ensure that appropriate cut-off has been applied, and therefore that the expenditure has been recognised in the correct period. Our audit work has not identified any issues in respect of operating expenses.

Other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

	Issue	Commentary	
1	**Land and buildings valuation** • As noted in the financial statements the Authority carries its land and buildings and land held for future expansion at fair value. Periodically, external surveyors are used, and the last full independent survey was carried out as at 31 March 2014. Between independent surveys desktop reviews are carried out by the external valuers at the Balance Sheet date. • The Authority's valuers, Bruton Knowles, have valued three assets, which the Authority consider to be material. • The Authority is planning a full revaluation in 2018/19. The desktop review was undertaken to provide assurance to the Authority that the carrying value was not materially different to the current value. The outcome of this year's desktop review was that the valuation of those assets is £3,681k.. The value that these assets are held at in the balance sheet was previously £3,185k. As the difference is only £496k, the Authority are not proposing to make an adjustment, and are continuing to hold the assets at the lower value.	We have considered the approach taken in conjunction with the following: • The valuation reached by the valuers is based on a series of assumptions, which the Authority note as part of its critical accounting judgements, estimates and assumptions note, are estimates and are therefore subject to some sensitivity. • Because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. • However, the materiality threshold of our audit as noted on page 5 is £4,643k. Our threshold of trivial matters is £232k. As such, this difference is much closer to the trivial end of the spectrum than the material and indicates that current estimate is not materially misstated. • A full (i.e. non-desktop) valuation is being undertaken by the valuers for the year ending 31 March 2019.	**Auditor view** • Following our considerations, we are not minded to challenge the approach taken by the Authority.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue grants and other funding income is recognised on an accruals basis where there is reasonable assurance that the income will be received and all attached conditions have been complied with. • Income other than grant and funding income, which all arises within the United Kingdom and is stated net of VAT, represents income arising from bus station departure charges, the provision of timetable information, rental income and advertising revenues. Income is recognised to the extent that reliably measured economic benefits will flow to the Authority and includes estimated in respect of services provided and rental income which have not been invoice at the period end.	We have considered the following: • Appropriateness of the policy under the relevant accounting framework • Extent of judgement involved, including the range of possible outcomes and potential financial statement impact of different accounting policy choices • Adequacy of disclosure of accounting policy • Benchmark against industry practice We have nothing to bring to the Committee's attention in this regard.	(Green)
Judgements and estimates	• Key estimates and judgements include: – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Other provisions	We have considered the following: • Appropriateness of policy under relevant accounting framework • Extent of judgement involved • Potential financial statement impact of different assumptions • Range of possible outcomes – including where the Authority sits within that range • Adequacy of disclosure of accounting policy • Benchmark against peers/industry practice We have covered the assumptions in relation to the pension fund liability on page 7. In respect of the other estimates and judgements we have nothing else to bring to the Committee's attention.	**(Green)**

Assessment

- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

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
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with ARAC. 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.
2	**Matters in relation to related parties**	• If there have been transactions between related parties, there is a requirement to disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure would be made separately for each category of related parties and would include: [IAS 24.18-19] ◦ the amount of the transactions ◦ the amount of outstanding balances, including terms and conditions and guarantees ◦ provisions for doubtful debts related to the amount of outstanding balances ◦ expense recognised during the period in respect of bad or doubtful debts due from related parties • We have recommended that the Authority enhance their disclosures in Note 38 of the draft financial statements to ensure that all the bullet points in the above requirements have been met. We understand that this will be addressed in the revised financial statements. • We have not identified any related party transactions which have not been disclosed.
3	**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.
4	**Written representations**	• A standard letter of representation, including reference to the adjusted misstatement noted on page 16, has been requested from the Authority, which is included in the ARAC papers.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation request(s) to all the Authority's bank, investment and loan counterparties. This permission was granted and the requests were sent. All requests were returned with positive confirmation.
6	**Disclosures**	Our review of the financial statements identified the following disclosure issues: • The draft financial statements separately disclosed earmarked reserves from the other general fund balances. There is no requirement to show these separately but there is a requirement to show a total of all general funds balances (ie including earmarked reserves). • Within Note 16 an employee was shown in the £140,000 - £144,999 banding, when they should have been classified within the £135,000 - £139,999 banding. • The analysis of creditors in Note 26 totalling £40,943k was inconsistent with the total value of creditors, being £41,013k. The analysis therefore needs to be reworked. All of these matters have been addressed in the updated financial statements

Other responsibilities under the Code

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

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, 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. No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to Appendix C
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**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. • As at the time of writing we are yet to receive the WGA group audit instructions but we anticipate no work being required due to the Authority not exceeding the expected threshold.
4	**Certification of the closure of the audit**	We do not expect to be able to certify the completion of the 2017/18 audit of West Midlands Combined Authority in our auditor's report, as detailed in Appendix C, pending the completion of our work on Whole of Government Account. Additionally, due to the pension fund annual report not being available as at the time of writing, we have yet to issue our report on the consistency of the pension fund financial statements

Value for Money

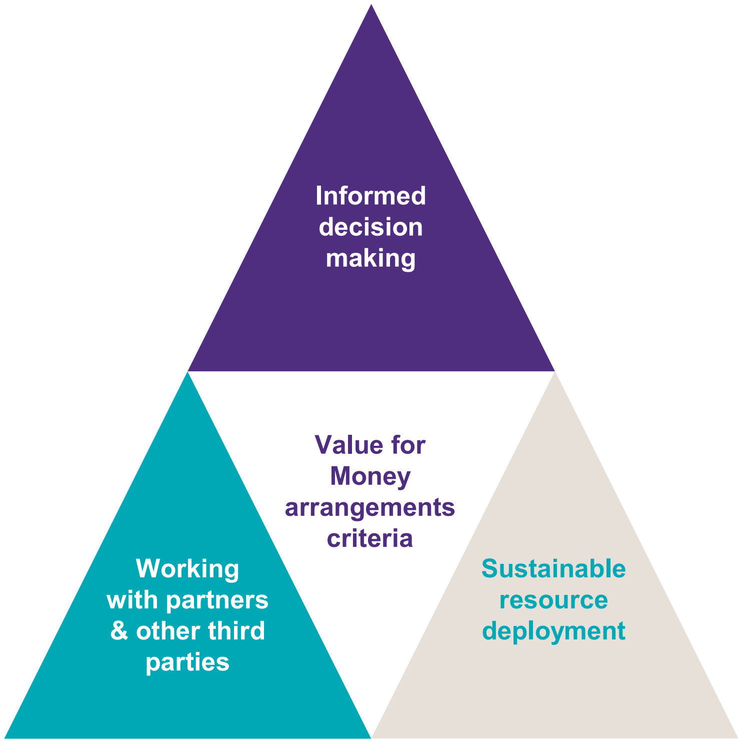
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2018 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 19 January 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk determines that arrangements are not operating effectively, we use the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Authority's arrangements. In arriving at our conclusion, our main consideration was the progress throughout the 2017/18 financial year of Combined Authority with regard to its governance arrangements.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on page 14.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- **the Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.**

The text of our report, which confirms this can be found at Appendix C.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Evolution of the governance arrangements

As noted in our prior year Audit Findings Report, the governance arrangements at the Authority are continuing to develop as the Authority itself evolves. Since last year the Authority has appointed its substantive senior management team which will pave the way for further evolution of governance arrangements. A second devolution deal to promote growth was announced in November 2017 and there are on-going discussions in respect of responsibilities for fire and rescue services in the region.

There is a risk that arrangements may not appropriately reflect the changing responsibilities of the Authority and heighten the risk of actual or perceived instances of inadequate governance.

Findings

In conducting our work, we have reviewed relevant Board and Combined Authority papers and held regular discussions with management and key officers about any changes to the governance structure as well as to understand how decisions are made and reported to the Board.

During the 2016/17 financial year the Authority made a number of changes to its governance structure to as it has developed from the Centro group. Key elements included:

- revising the Constitution including the Scheme of Delegation
- setting up a Committee to oversee audit, risk and assurance
- establishing a new Assurance Framework
- developing a Risk Management Strategy and risk register

Since then the Authority has continued to evolve and is starting to embed the above elements. Risk discussions have been formalised with directors on an ongoing basis. The Strategic Risk Register is developing further and is reviewed on a quarterly basis at Senior Leadership Team meetings. The ownership of the risk register is more established than as at 31 March 2017, at which time the senior leadership team, including the Mayor, were not yet in place. That they have been in a position as a team now, for approximately 5 months as at 31 March 2018, is reflected in the achievements noted in the Review of the Year section of the Narrative Report.

We are cognisant of the fact that the Authority is, at times, beholden to activities, requests and demands upon it that are outside of its control. Therefore it behoves the Authority to be as nimble and agile as possible in order to respond to these demands, and, where possible to be proactive as much as reactive.

We note from our review of the Narrative Report within the financial statements at Table 1 that as at February 2018 there were 105.5 vacancies being carried. Left unresolved, this is a risk to the Authority’s ability to continue to manage and absorb the increased levels of activity that are expected, especially with the ever widening remit of the Combined Authority expected over the coming 12 to 24 months. For example the Authority will see the West Midlands Fire and Rescue Services come within its governance structure as well as the transfer of the adult skills funding, which brings with it a budget of £112 million per annum. The Authority acknowledge this risk and are tracking vacancies as part of its recruitment drive. The latest tracker provided to us shows that approximately a third of the vacancies are currently appointed or being recruited to, with plans in place to fill the remainder across the course of the year.

The Authority recognise that it doesn’t necessarily have to do everything itself but can convene and blend where appropriate. As an example, it has commissioned Arcadis to carry out a controls and assurance review of the Investment Programme with a view to maximising delivery of benefits and outcomes, by recommending improvements to the Investment Programme governance. Arcadis has also undertaken an audit on the corporate risk management process, provided commentary and recommendations across the key themes of: Risk Strategy & Governance, Risk Management Process, Culture & People and Systems & Tools. Lessons learned from these reviews can then be applied to other areas, as with appropriate governance arrangements in place, alongside capacity, resourcing and capability sufficiency, the Authority will be able to mobilise quickly, whilst still being clear on purpose.

Auditor view

On the basis of the work performed we have concluded that the risk was sufficiently mitigated and we are therefore satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Independence and ethics

Independence and ethics

- 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. We have complied with the Financial Reporting Authority's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Authority'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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

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 Authority. The following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
None	N/A	N/A	N/A
Non-audit related			
Strategic Financial Management Development Programme: attendance of 1 delegate from the Authority	2,750	None identified	This was a workshop given to finance officers to provide them with skills to be able to work through their own issues and problems. No direct recommendations were made by Grant Thornton to the attendees to implement at their organisation and the work conducted is not relevant and will not be referred to as part of our audit of the financial statements or consideration of value for money arrangements. This piece of work was led by the Local Government Advisory Team who are separate from the audit team.

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

None of the services provided are subject to contingent fees.

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.

Adjusted misclassifications, disclosures and misstatements

The table below provides details of changes identified during the audit which have been made in the final set of financial statements highlighting the impact on the key statements and the reported net expenditure for the year where appropriate.

Misclassification amendment	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000 (2016/17)	Impact on total net expenditure £'000
The Authority have reconsidered the classification of their long-term deposits for the prior year in Note 21, Investments. In the prior year accounts £22,000k was shown as long-term investment. It has since been determined that this should be shown as short-term investments. This is a change in classification only and has no impact on the Authority's reported net asset or annual surplus/deficit position.	-	DR 22,000 ST Assets CR 22,000 LT Assets	-
Overall impact	**£-**	**£-**	**£-**

Disclosure omission	Detail	Auditor recommendations	Adjusted?
General Funds	The draft financial statements separately disclosed earmarked reserves from the other general fund balances. There is no requirement to show these separately but there is a requirement to show a total of all general funds balances (i.e. including earmarked reserves).	• We recommended that the Authority ensure that the accounts are amended to ensure that the total general fund balances are disclosed.	**Yes**
Officers' remuneration	Within Note 16 an employee was shown in the £140,000 - £144,999 banding, when they should have been classified within the £135,000 - £139,999 banding.	• We recommended that the banding be updated to accurately reflect this officer's remuneration	**Yes**
Creditors' analysis	The analysis of creditors in Note 26 totalling £40,943k was inconsistent with the total value of creditors, being £41,013k.	• We recommended that the analysis be reworked to ensure it matches the total value of the creditors balance	**Yes**

Impact of unadjusted misstatements

There were no unadjusted misstatements.

Fees

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

Audit Fees

	Proposed fee	Final fee
Authority Audit	£46,500	£46,500
Total audit fees (excluding VAT)	**£46,500**	**£46,500**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Non Audit Fees (see page 15)

Fees for other services	Fees
Audit related services:	
None	-
Non-audit services	£2,750
Strategic Financial Management Development Programme: attendance of 1 delegate from the Authority	
	£2,750

Audit opinion

We anticipate we will provide the Authority with an unmodified audit report

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

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of the West Midlands Combined Authority (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves, the Balance Sheet, the Cashflow Statement, and notes to the financial statements, 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; 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. 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 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.

Who we are reporting to
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 43 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.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information
The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 2 to 24, the Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, 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 of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources 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 or a material misstatement of the other information. 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 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 the 'Delivering Good Governance in Local Government: Framework (2016)' 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 matter 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 and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement 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 have reported a matter 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 have made 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 have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities set out on pages 16 and 17, 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 Director of Finance. The Director of Finance 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 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority'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 the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit, Risk & Assurance Committee is Those Charged with Governance.

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.

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 - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion
On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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 have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

AND

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

[Signature]

GRANT PATTERSON
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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[Date]

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