

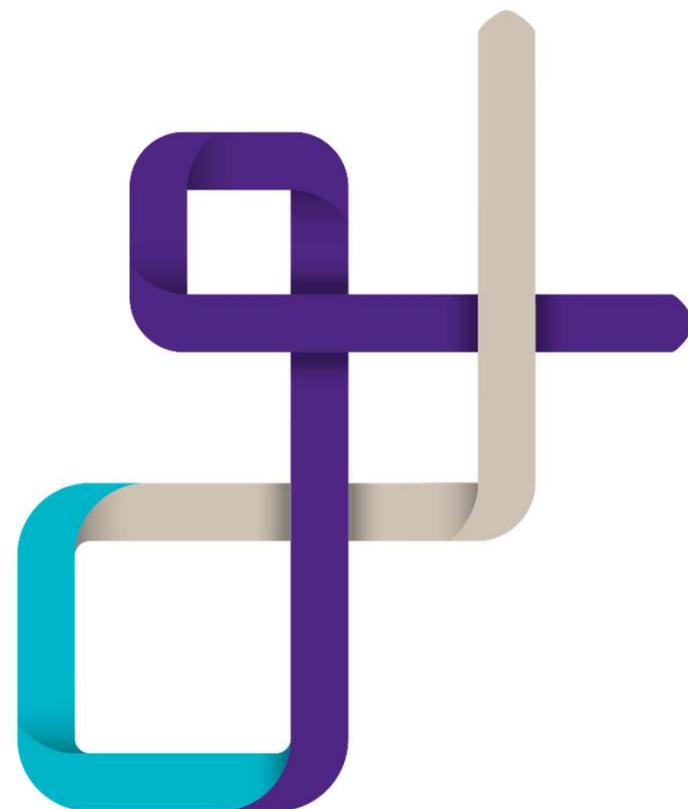
External Audit Plan

Year ending 31 March 2019

West Midlands Combined Authority

West Midlands ITA Pension Fund

14 January 2018



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority and Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

Our Team



Grant Patterson, Engagement Lead

As your engagement lead, Grant will have the ultimate responsibility for the delivery of your audit service. He will lead our relationship with the Authority and Pension Fund and take overall responsibility for delivering high quality audits, which meet the highest professional standards while adding value.



Nicola Coombe, Audit Manager for West Midlands Combined Authority

As the engagement manager, Nic is responsible for overseeing the delivery of our service and managing the audit process in respect of the West Midlands Combined Authority.



Terry Tobin, Audit Manager for West Midlands ITA Pension Fund

As the engagement manager, Terry is responsible for overseeing the delivery of our service and managing the audit process in respect of the West Midlands ITA Pension Fund.

Both Terry and Nic will work with relevant officers and our on-site teams to ensure the smooth planning and delivery of the audits. They will oversee the on-site teams and discuss any issues with you during the audit process as well as any questions you may have throughout the year.

Purpose

This document provides an overview of the planned scope and timing of the statutory audits of West Midlands Combined Authority ('the Authority') and West Midlands ITA Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled the Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Authority and the Fund. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audits

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority, group and Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Risk and Assurance Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit, Risk and Assurance Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the Authority and Fund's business and is risk based.

Headlines

Group Accounts	The Authority has determined it is required to prepare group financial statements that consolidate the financial information of Midland Metro Limited.
Significant risks	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <p>West Midlands Combined Authority</p> <ul style="list-style-type: none">• Management override of controls• Valuation of the pension fund net pension liability• Group accounts <p>West Midlands ITA Pension Fund</p> <ul style="list-style-type: none">• Management override of controls• Valuation of Level 3 investments (primarily the insurance buy-in) <p>We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.</p>
Materiality - Authority	We have determined planning materiality to be £4.6m (PY £4.6m) for the group and Authority, which equates to approximately 1.8% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.2m (PY £0.2m).
Materiality – Pension Fund	<p>We have determined materiality at the planning stage of our audit to be £4.9m (PY £4.9m) for the Fund, which equates to approximately 1% of your net assets as at 31 March 2018.</p> <p>We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.246m (PY £0.246m).</p>
Value for Money arrangements (Authority Only)	<p>Our risk assessment regarding the Authority's arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none">• Developing the capability and capacity of the Authority to support delivery of its strategic objectives• Preparedness for the West Midlands Fire Authority to come within the Combined Authority's remit
Audit logistics	<p>Our interim visit will take place in February and March and our final visit will take place in May and June. Our key deliverables are this Audit Plan and our Audit Findings Report.</p> <p>The scale fee for the Authority's audit as set by PSAA is £35,805, but we are proposing a fee of £46,500 (PY: £46,500) for reasons set out on page 16. This has been discussed with the Authority's section 151 Officer but is subject to approval by PSAA.</p> <p>Our proposed fee for the Pension Fund is £16,170 (PY: £21,000) for the Fund.</p> <p>Both fees are subject to management meeting our requirements set out on page 17.</p>
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Key matters impacting our audit of the Authority

External Factors		Internal Factors	
<p>The wider economy and political uncertainty</p> <p>The scale of change at the Authority is significant. The permanent leadership team are now all in place, although there are vacancies and turnover.</p> <p>Assuming the order is agreed by Parliament it is anticipated that as of 1 April 2019 the West Midlands Fire Authority will be integrated with the West Midlands Combined Authority.</p> <p>A further development being considered (and currently out for public consultation) is the integration of the Police and Crime Commissioner so that it too, will come under the remit of the Mayor.</p>	<p>Changes to the CIPFA 2018/19 Accounting Code</p> <p>The most significant changes relate to the adoption of:</p> <ul style="list-style-type: none"> IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model. IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition. 	<p>New audit methodology</p> <p>We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation and more easily incorporate our knowledge of the Authority into our risk assessment and testing approach.</p>	<p>Consolidation</p> <p>In prior years the accounts of Centro Properties Limited, Midlands Development Capital Limited, Midland Metro Limited, Midland Metro (Two) Limited, Network West Midlands Limited, West Midlands Development Capital Limited which are subsidiaries of the WMCA and its associate, West Midlands Rail Limited have not been consolidated with those of the Authority because the companies were either dormant and do not hold any assets or liabilities or are not material.</p> <p>While we have not yet had the formal group boundary consideration from the Authority, we are aware from discussions that consolidation of Midland Metro Limited is likely due to the level of expenditure expected as at 31 March 2019.</p>

Our response

<p>We will consider:</p> <ul style="list-style-type: none"> the arrangements the Combined Authority has in place to develop the capacity and capabilities to help it deliver its strategic objectives and the preparedness of the Combined Authority to receive the West Midlands Fire Authority within its governance structure as part of our work in reaching our Value for Money conclusion. your arrangements for managing and reporting your financial resources and whether your financial position leads to material uncertainty about the going concern of the group and will review related disclosures in the financial statements. 	<ul style="list-style-type: none"> We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops. As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code. 	<ul style="list-style-type: none"> You will see changes in the terminology we use in our reports that will align more closely with the ISAs We will ensure that our resources and testing are best directed to address your risks in an effective way. 	<ul style="list-style-type: none"> For the purposes of audit plan, we are assuming that Midland Metro Limited will be consolidated into the group accounts, based on anticipated levels of expenditure. Our proposed approach to this component as part of the group structure is set out on page 9. We will maintain a watching brief and continue to liaise with the finance team to ensure that if further changes to the group boundary are identified that the consolidation is extended to include further entities as necessary.
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Key matters impacting our audit of the Fund

Factors

SI 493/2018 – LGPS (Amendment) Regulations 2018

Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated Funding Strategy Statements.

Guaranteed Minimum Pension (GMP)

- Pension funds are continuing to work through the GMP reconciliation process.
- In January 2018 the government extended its “interim solution” for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss. However, we will obtain management’s assessment of the impact of these new standards as part of our audit work.

The Pensions Regulator (tPR)

tPRs Corporate Plan for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and tPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

GAD recommendation

The GAD Section 13 Report published on 27 September 2018 included a specific recommendation in respect of the WMITA PF. The report referred to the ITA Pension Fund retaining a risk from the majority of fund liabilities being backed by a single private sector employer and being closed to new entrants GAD acknowledged that the Authority and employer had made substantial efforts by paying significant contributions to mitigate this risk but noted that there was not currently a plan in place which would achieve the solvency aim of Section 13. We have been having on-going discussions in respect of guarantees and employee covenants for some time. We do not consider the issue raised in the GAD report to currently provide a significant risk to the going concern assumption in the Fund’s or Authority’s accounts. The Authority, via the West Midlands Pension Fund, is currently preparing a response to GAD’s recommendation.

Our response

- We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary.

- We will continue to monitor progress being taken by the Authority to respond to GAD’s recommendation for having a plan in place to ensure that the Fund continues to meet pension obligations in the event of no future employer contributions being available.

Audit approach

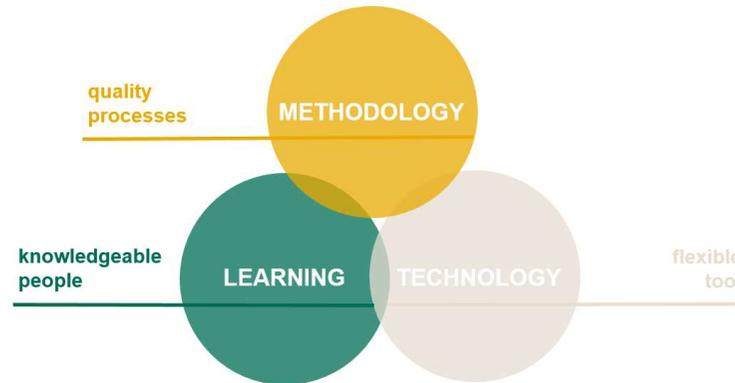
Use of audit, data interrogation and analytics software

LEAP



Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also use other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian



Business process management

- Clear timeline for account review:
 - disclosure dealing
 - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Info



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor of West Midlands Combined Authority we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The group audit does not include West Midlands ITA Pension Fund.

Group considerations

- There are 8 components considered within the group boundary associated with the West Midlands Combined Authority

Wholly-owned subsidiaries

- Midland Metro Limited is a company limited by shares and runs the metro operations. It is anticipated that this subsidiary will be consolidated within the financial statements of the Combined Authority for the first time for the year ending 31 March 2019
- West Midlands Development Capital Limited is a company limited by shares and is the manager of Land Remediation & Collective Investment funds

The risk assessment of these subsidiaries as they pertain to the group audit are set out overleaf and on pages 10 to 12.

Associates

- West Midlands Rail limited is a company limited by guarantee and is the manager of the West Midlands rail franchise. The Combined Authority has only 50% of the voting rights. The Authority has determined it does not have control but does have significant influence.

The risk assessment of the company as it pertains to the group audit is set out overleaf and on pages 10 to 12.

Investment

- The Combined Authority has a 5.3% stake in West Midlands Growth Company Limited. This is accounted for under the equity method and as such does not form part of the consolidation considerations.

Currently dormant interests

- Midland Metro (TWO) Limited, Network West Midlands Limited and Midlands Development Capital Limited are all wholly-owned subsidiaries of the Combined Authority but are all currently dormant (ie not trading) and therefore will not be consolidated.

Discontinued interests

- Centro Properties Limited was dormant at the beginning of the financial year but was dissolved on 3 April 2018 and therefore will not be consolidated.

Group audit scope and risk assessment

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
West Midlands Combined Authority	Yes	Full	<ul style="list-style-type: none"> See pages 10 to 12 where the identified risks pertaining to the Authority are detailed 	Full scope UK statutory audit performed by Grant Thornton UK LLP.
Midland Metro Limited	No	Specified	<ul style="list-style-type: none"> See pages 10 to 12 where the identified risks pertaining to the Group are detailed 	<p>While we have not yet had the formal group boundary consideration from the Authority it is anticipated that the accounts for the year ending 31 March 2019 of Midland Metro Limited will be consolidated within the Combined Authority's group accounts.</p> <p>The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor audit documentation and meeting with appropriate members of management.</p>
West Midlands Development Capital Limited	No	AP	None	While we have not yet had the formal group boundary consideration from the Authority, we are aware from discussions with officers that consolidation of these components are unlikely on the grounds of materiality. We will perform analytical review procedures to ensure this continues to be appropriate.
West Midlands Rail Limited	No	AP	None	

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<p>The revenue cycle includes fraudulent transactions (rebutted)</p>	<p>Group, Authority and Fund</p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority and the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • 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 and West Midlands ITA Pension Fund, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for West Midlands Combined Authority and West Midlands ITA Pension Fund.</p> <p>In terms of this risk and how it relates to the Group we have also determined that the risk of fraud arising from revenue recognition can be rebutted because we do not consider there to be a risk of material misstatement in the accounts of Midland Metro Limited due to fraud in revenue recognition. We also believe, given the subsidiary's close relationship with the Authority, that the the above bullet points also apply from a Group perspective.</p>	<p>Response not required as risk rebutted.</p>

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group, Authority and Fund	<p>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. .</p> <p>The Group/Authority and Fund faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as one of the most significant assessed risks of material misstatement for both the Group/Authority and Fund.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Group accounts	Authority	<p>The Authority will be preparing group accounts for the first time as at 31 March 2019, as it will be incorporating the results of Midland Metro Limited into its group.</p>	<p>We will:</p> <ul style="list-style-type: none"> • carry out sufficient work to assure ourselves over the material accuracy of Midland Metro Limited's financial statements as reflected in the group financial statements, liaising with the component auditor as appropriate, as set out on page 8. • identify the controls put in place by management over the consolidation process. We will also assess whether these controls are implemented as expected and whether they are sufficient to mitigate the risk of misstatement and ensure that all required disclosure are made. • review and test the consolidation working papers and agree to supporting evidence.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Group and Authority	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£50 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management (including those under delegated arrangements) to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in June 2019.

Significant risks identified (continued)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<p>The valuation of Level 3 investments is incorrect</p>	<p>Fund</p>	<p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We have identified the valuation of Level 3 investments as a risk requiring special audit consideration. The Prudential buy-in is the only material, directly held, 'hard to value' investment held by WM ITA Pension Fund and this will be valued by the Fund's actuary (Barnett Waddingham).</p>	<p>We will:</p> <ul style="list-style-type: none"> gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided by these types of investments. We will use our in-house experts, the Grant Thornton valuation team, to assist us in doing this. We will review the assumptions and calculations to provide assurance that the valuation is reasonable. consideration the competence, expertise and objectivity of any management experts used. review the qualifications of the expert (Barnett Waddingham) to value Level 3 investments at year end and gain an understanding of how the valuation of these investment has been reached.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in June 2019.

Other matters

Other work

The Fund is administered by the Authority, and the Fund's financial statements form part of the Authority's financial statements.

Therefore, in addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities in respect of the Authority and the Fund, as follows:

- We read the Authority's Narrative Report and Annual Governance Statement and any other information published alongside the Authority's financial statements to check that they are consistent with the financial statements of the Authority and the Fund on which we give an opinion, and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in the Authority's Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on the Authority's consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about the Authority or Fund's 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Authority or Fund under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit of the Authority.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

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

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Matter	Description	Planned audit response
1	<p>Calculation and determination</p> <p>We have determined planning materiality (financial statement materiality determined at the planning stage of the audit) based on professional judgment in the context of our knowledge of the Authority and the Fund, including consideration of factors such as stakeholder expectations, financial stability and reporting requirements for the financial statements.</p> <p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – estimate the tolerable level of misstatement in the financial statements – assist in establishing the scope of our audit engagement and audit tests – calculate sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements 	<ul style="list-style-type: none"> • For the Authority, we have determined financial statement materiality benchmarked on a proportion of the gross expenditure of the group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £4.6m (PY £4.6m) for the Group and £4.6m (PY £4.6m) for the Authority, which equates to approximately 1.8% of your prior year gross expenditure for the year. • For the Fund, we have determined financial statement materiality benchmarked on a proportion of the Fund's net assets. In the prior year we used the same benchmark. Our materiality at the planning stage is £4.9m (PY £4.9m) which equates to approximately 1% of your actual net assets for the year ended 31 March 2018.
2	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements. We design our procedures to detect errors in specific accounts at a lower level of precision which we deem to be relevant to stakeholders.</p>	<ul style="list-style-type: none"> • For the Authority, we have determined a lower specific materiality level of £25k of the figures within the remuneration disclosure, on the grounds that we deem senior officer remuneration to be a sensitive area for the user of the accounts. • We have determined no lower specific materiality levels for the Fund.
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<ul style="list-style-type: none"> • We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of materiality
4	<p>Matters we will report to the Audit, Risk and Assurance Committee</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Risk and Assurance Committee any unadjusted misstatements of lesser amounts, other than those which are 'clearly trivial', to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<ul style="list-style-type: none"> • In the context of the group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.232m (PY £0.232m). • In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.246m (PY £0.246m). • If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Risk & Assurance Committee to assist it in fulfilling its governance responsibilities.

Value for Money arrangements

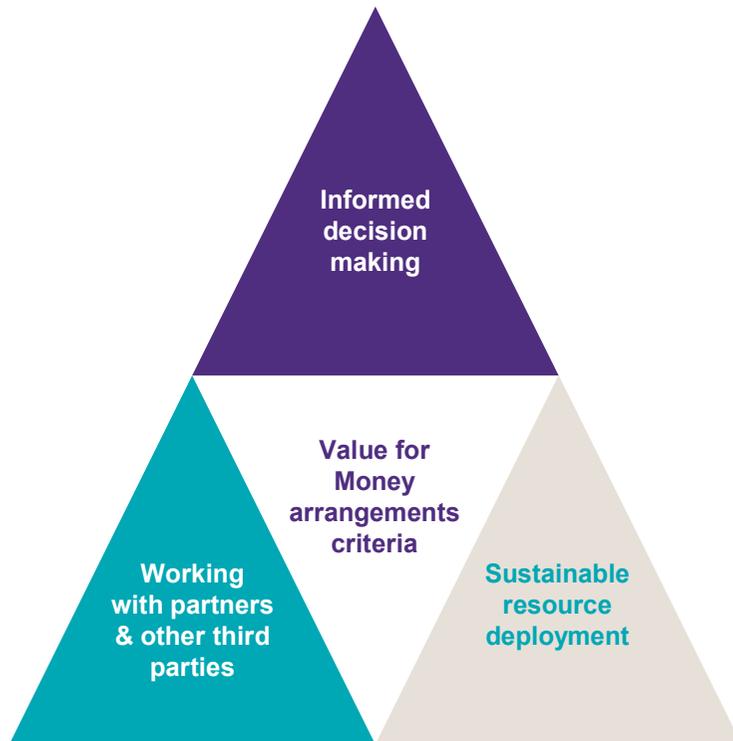
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, excluding Pension Funds, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

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:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Preparedness of the Combined Authority to receive the West Midlands Fire Authority within its governance structure

Further to the outcome of the Governance of the West Midlands Fire Service Public Consultation, the Combined Authority submitted the Governance Review, Scheme and consultation outcomes to the Home Office. Subject to the Order being approved in Parliament, the West Midlands Fire Service could come within the governance structure of the West Midlands Combined Authority from as early as 1 April 2019.

This represents a significant change both to the remit of the West Midlands Combined Authority as well as to its governance arrangements. There is a risk that arrangements may not appropriately reflect changing responsibilities of the Authority and heighten the risk of actual or perceived instances of inadequate governance.

We will review relevant Board and Combined Authority papers and hold 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.



Developing Capacity and Capability

Given the evolution of the Combined Authority, as exemplified by the potential extended remit to include the Fire Authority (as well the Police and Crime Commissioner in future years), there is a risk that the Authority does not have the capacity or capability to continue to manage and absorb the increased levels of activity that are expected.

We will review relevant Board and Combined Authority papers and hold regular discussions with management and key officers to gain assurance that the Authority has an appropriate framework in place to assess its capacity and capability and ensure its establishment is fit for purpose.

We will continue our review of your arrangements throughout the course of our audit , including reviewing your Annual Governance Statement, before we issue our auditor's report.

Audit logistics, team & fees



Audit fees

The planned audit fees are £46,500 (PY: £46,50) for the financial statements audit of the Authority including its group accounts, and £16,170 (PY: £21,000) for the financial statements audit of the Fund, completed under the Code.

The latter of these is in line with the scale fees published by PSAA. In setting your fee, we have assumed that the scope of the audits, and the Authority and Fund and its activities, do not significantly change.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Combined Authority – additional fees proposed

Through our planning work and risk assessment of the Combined Authority in respect of the year ending 31 March 2019 we have identified the following:

- the Authority has grown, and will continue to grow, since its “Centro” days and is now much bigger and more complex
- The Authority is preparing for the Fire Authority to come under the Authority’s remit potentially from 1 April 2019, and also potentially the Police and Crime Commissioner in the year after

- the Authority’s wholly owned subsidiaries are now of such a size and/or importance that the finance team are preparing to consolidate at least one of the entities this year (MML), and potentially more from next year, which requires us to perform and audit of the group accounts and therefore constitutes additional work.

Because of the increased scope and associated risk, and the additional challenge that the Authority will no doubt be seeking from its external auditors, our view would be that a fee reduction at this time would not be commensurate with the current risks. The scale fee proposed by PSAA for 2018/19 is £35,805, which is a reduction on the prior year fee. The fee in respect of the 2017/18 audit was £46,500.

Our proposal would therefore be to maintain the fee at the current 2017/18 level.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section ‘Early Close’. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

* The date of the ARAC is to be confirmed as it is probable it will also need to authorise publication of the West Midland FRA’s 2018-19 accounts and that audit is planned to complete by July – see page 18

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts was brought forward to 31 July, across the whole sector. This was a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts was curtailed, while, as auditors we had a shorter period to complete our work and faced an even more significant peak in our workload than previously.

Your finance team worked well with us in order to complete our work and report the detailed findings from our audit work to the Authority's Audit, Risk & Assurance Committee as those charged with governance in our Audit Findings Reports on 21 June 2018 in anticipation of the financial statements being approved and signed at that time.

However, due to quoracy issues formal authorisation and approval to publish the financial statements (before which we cannot issue our opinion and which had been delegated to the Committee) had to be deferred to the WMCA Board at its meeting on 20 July 2018.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the deadline.

We would note that if the West Midlands Fire Authority is integrated into the WMCA from 1 April 2019 then the WMCA (and therefore the Audit, Risk and Assurance Committee) will be responsible for authorising its financial statements for publishing. The current audit timetable for the Fire Authority is slightly later than that for the WMCA therefore it is probable that all three audits will be reported to the July meeting of ARAC.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 17). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority and the Fund. No other services were identified.

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.



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