Grant Thornton

The Draft Audit Findings for West Midlands Combined Authority

Year ended 31 March 2020

14 July 2020

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Midlands Combined Authority ('the Authority') and the preparation of the group and Authority's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Authority and group. The Authority focused on identifying key operational and strategic risks, using new interim working practices to ensure that functions can continue during 'lock down'. Our experience of working with the finance function has demonstrated that while functions continue to operate, these are inevitably taking more time to complete than in a normal year. The most significant impact of Covid-19 has been the negative impact on income streams, particularly in relation to bus, rail and tram travel. Officers are working through the implications of this on the financial position, in what is an environment that continues to evolve.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an Audit Plan addendum on 28 April 2020. In that addendum we reported an additional financial statement level significant risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Authority and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the balances within the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have had to undertake additional levels of testing to ensure that the information provided hasn't been manipulated prior to being sent to the audit team.
Financial Statements	Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Authority's financial statements: • give a true and fair view of the financial position of the group and Authority and the group and Authority's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	The Authority published its unaudited accounts on 18 May 2020 which was still significantly ahead of the pre Covid-19 preparation date of 31 May 2020. Our audit work was completed remotely during May and June. Our findings are summarised on pages 5 to 18. We have identified adjustments to the financial statements that have resulted in a £2.3m adjustment to the Authority's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix A. Our work is substantially complete subject to the following outstanding matters: • Resolution of the technical query in relation to the accounting treatment of the Land Fund • Receipt of the assurances from the pension fund auditor • Completion of group procedures • Review of management's assessment of going concern • Completion of testing of operating expenditure • Review of the final set of financial statements, and • Receipt of management representation letter (see appendix C) We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Midlands Combined Authority ('the Authority') and the preparation of the group and Authority's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, 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, and • 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. Our findings are summarised on pages 20 and 21.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have: • not exercised any of our additional statutory powers or duties, and • completed the majority of our work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Summary

Overview of the scope of our audit

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (ISA UK) and the Code of Audit Practice ('the Code'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 *ISA UK 260 - Communication with Those Charged with Governance* and the Code. Its contents have been discussed with management.

Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures were required for both WM5G Limited and Midlands Metro Limited (MML).
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 13 January 2020, to reflect our response to the Covid-19 pandemic.

Conclusion

We have substantially completed our audit of your financial statements and subject to the outstanding queries as highlighted on page 3 being resolved, we anticipate issuing an unqualified audit opinion in mid September 2020.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. We have revised materiality based on the final position in the draft financial statements, however the benchmarks applied have remained the same.

	Group Amount	Authority Amount	Qualitative factors considered
Materiality for the financial statements	£6.8m £4.7m (Planning)	£6.5m £4.6m (Planning)	• Materiality determined equates to approximately 1.8% of the Authority's total expenditure
Performance materiality	£5.1m £3.525m (Planning)	£4.9m £3.45m (Planning)	• This is determined by applying 75% to headline materiality. There has not historically been a large number of significant misstatements arising as a result of the financial statements audits at the Authority and key reporting personnel in the finance function have remained stable from the prior year audit and so there are no concerns this would increase aggregation risk.
Trivial matters	£340k £235k (Planning)	£325k £230k (Planning)	• This is determined by applying 5% to headline materiality
Materiality for Senior Officer Remuneration		£25k (No Change from Planning)	• We believe these disclosures are of specific interest to the reader of the accounts. We consider that using an absolute materiality value is appropriate, rather than applying a % of any other benchmark, because the magnitude of the disclosures does not vary greatly with the size of the organisation or any similar factors.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Covid– 19** **Group and Authority** The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, included and not limited to; • Remote working arrangements and redeployment of staff to critical from line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 18 May 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. Our audit work has not identified any issues in respect of Covid-19 specific risks. The Authority responded well to the challenge of remote working and were able to produce draft financial statements to a broadly similar timetable as in previous years which at 18 May 2020 was still significantly ahead of the pre Covid-19 production date of 31 May. We are aware that nationally, this is one of the first set of draft financial statements produced and audited. Given this early timescale, it has not been possible to fully finalise our work in areas of going concern or in respect of pension liability valuations. Management are currently updating their financial forecasts, and we have agreed that we will review those prior to issuing our opinion. In addition, the uncertainty around year end pension fund valuations, has meant that the assurances we seek from the auditor of the West Midlands Pension Fund will not be available until late August.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
2	**The revenue cycle includes fraudulent transactions (rebutted)** **Group and Authority** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having consider the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the Group and 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 the West Midlands Combined Authority (the Authority), mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Authority. 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 or WM5G Limited due to fraud in revenue recognition. We also believe, that the above bullet points also apply from a group perspective.	**Auditor commentary** Our audit work has not identified any issues in respect of improper revenue recognition. We have not altered our assessment as reported in the audit plan and therefore have no issues to report in this regard.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**Management override of controls** **Group and Authority** 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 Group and Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. 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 and the Authority	**Auditor commentary** We have; • Evaluated the design effectiveness of management controls over journals, • Analysed the journals listing and determined the criteria for selecting high risk unusual journals, • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration, • Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence, and • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work to date has not identified any issues in respect of management override of controls. At the time of writing we are: • awaiting some evidence from officers in relation to two journals, and • we are yet to undertake our review of the WM5G Ltd component auditor's (Cooper Parry) working papers which will allow us to conclude on whether there are any findings from a group perspective, but from our liaison to date there are no findings to report.
4	**Valuation of pension fund net liability** **Group and Authority** The Authority's pension fund net liability, as reflected in its balance sheet as the net pension liability, represents a significant estimate in the financial statements and group accounts. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£51 million at 31 March 2019) in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have; • Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls, • Evaluated the instructions issued by management to their management expert for this estimate and the scope of the actuary's work, • Assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation, • Assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability, • Tested the consistency of the pension fund asset and liability disclosures in the notes to the core financial statements with the actuarial report, • Undertaken procedures to confirm the reasonableness of the actuarial assumption made by reviewing the report of the consulting actuary (as an auditor's expert) and performed any additional procedures suggested with the report, and • Sought 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. Management obtained an updated actuary report to include asset valuations up to the 31 March 2020, to take account of the potential change in valuations due to Covid-19. The draft financial statements have been revised to take account of this updated actuary report. At the time of writing we await the assurances from the Pension Fund auditor.

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Midland Metro Limited	BDO LLP	We requested that BDO undertake procedures in relation to the following areas at MML. • Management override of controls: review of controls, analysis of journals and consideration of estimates applied • Testing of income and debtors • Testing of operating expenses and creditors balance, including consideration of whether appropriate cut-off has been applied • Testing of employee remuneration • Receipt of bank confirmations for balance as at 31 March 2020	• As at the time of writing we have not yet received the component auditors' report to the group auditor. • We have reviewed the workpapers of BDO, and following this review we are not aware of any findings that would need to be reported on a group basis. • We will verbally update the Audit, Risk and Assurance Committee during the meeting on 14 July and provide an updated Audit Findings Report in September to take account of our conclusions in this area thereafter.
WM5G Limited	Cooper Parry	We requested that Cooper Parry undertake procedures in relation to the following areas at WM5G. • Management override of controls: review of controls, analysis of journals and consideration of estimates applied • Testing of income and debtors • Testing of operating expenses and creditors balance, including consideration of whether appropriate cut-off has been applied • Testing of employee remuneration • Receipt of bank confirmations for balance as at 31 March 2020	• As at the time of writing we have not yet received the component auditors' report to the group auditor. • We have not yet reviewed the workpapers of Cooper Parry, however, we have not been made aware of any significant issues arising from the audit. • We will verbally update the Audit, Risk and Assurance Committee during the meeting on 14 July and provide an updated Audit Findings Report in September to take account of our conclusions in this area thereafter.

Significant findings - 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 and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	
1	**Accounting for the Land Fund** The Land Fund is a ring-fenced capital grant from the Ministry of Housing, Communities & Local Government (MHCLG) of up to £100m awarded to the WMCA, as part of the £350m Housing Deal announced in March 2018. The fund is to be deployed by WMCA, monitored by Homes England on behalf of MHCLG, to deliver new homes on brownfield land where market failure can be demonstrated. 2019/20 is the first year where material transactions have taken place, and as a result management have proposed an accounting treatment for these transactions that the audit team have considered.	Officers provided the audit team with a paper considering the likely accounting treatment of the Land Fund. They reviewed the asset using the following sections of the Code; • 4.1 Property, Plant and Equipment, section 4.4 investment property, section 4.9 Non-current assets held for sale, and • 5.1 Inventories. Officers concluded that the asset created by the Land Fund should be classified as an asset under construction, as this asset class appears to be the most appropriate and depicts the nature and objectives of the Land Fund and CIPFA's 'Telling the Story'. The transactions have been included in Assets Under Construction in the draft financial statements.	**Auditor view** We have challenged the treatment of the Land Fund assets as Assets Under Construction (AUC). Our review of the Code, and accounting standards has suggested that the asset is more closely aligned to classification as Inventory. In particular, the nature of the asset is in our view more closely aligned with International Public Sector Accounting Standard (IPSAS 12), paragraphs 11 and 22 (see below). We recognise that this is an unusual transaction, and also that any accounting treatment agreed this year, sets a precedent for future years, and therefore we have sought the advice of our national technical team. We await the outcome of this consultation, and would intend to report this to the Audit, Risk and Assurance Committee during the meeting on 14 July and provide an updated Audit Findings Report in September to take account of our conclusions in this area thereafter. If the view was to remove the transactions from Assets Under Construction, this would impact on the balance sheet as follows; • Reduction in AUC - £12.4m • Increase inventories - £12.4m Additional disclosures would be needed for inventories in the financial statements and an accounting policy would need to be added.

Extracts from IPSAS 12

Inventories

11. Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many public sector entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. In the case of a service provider, inventories include the costs of the service, as described in paragraph 28, for which the entity has not yet recognized the related revenue (guidance on recognition of revenue can be found in IPSAS 9, *Revenue from Exchange Transactions*.)

22. For example, the allocation of costs, both fixed and variable, incurred in the development of undeveloped land held for sale into residential or commercial landholdings could include costs relating to landscaping, drainage, pipe laying for utility connection, etc.

Significant findings - 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 and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	
2	**Accounting estimates** The Authority have been one of the first Local Government bodies to close down their financial statements. As a result the Authority has made a number of estimates in relation to claims they were expecting to receive from other local authorities.	During late June, officers had receipt of information from other local authorities that indicated the original estimate made was likely to be materially misstated. • In the first instance, a claim of £16.5m was to be made in respect of costs for the Commonwealth Games Athlete's Village and this was to be included in the financial statements of Birmingham City Council. Officers of WMCA had chased this during the closedown of the accounts, but had not been able to obtain the latest position, and therefore accrued £6.5m, which was based on the best estimates. Following this claim being received, officers have decided to increase the creditor by £10m, to match the value of the claim made. • In the second instance, the year end reconciliation on the investment programme accruals, which happens every year, demonstrated a variance of £4.9m in relation to one scheme. In most years, variances identified are trivial, however this year, officers have decided to amend for this over accrual. The net impact of these changes is to reduce the creditors balance by £5.1m	**Auditor view** • At the time of writing officers have provided initial evidence to support these adjustments. Given their material nature we have requested further evidence to support these adjustments. • We will verbally update the Audit, Risk and Assurance Committee during the meeting on 14 July and provide an updated Audit Findings Report in September to take account of our conclusions in this area thereafter.
3	**IFRS 16 implementation has been delayed by one year** • Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases	Officers have removed reference to IFRS 16 in note 4 to the financial statements, following the guidance in CIPFA Bulletin 05	**Auditor view** • Audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – £3,472k	The majority of the value associated with Land and Buildings, as disclosed in Note 17 is in relation to the property at 16 Summer Lane. Land and buildings are revalued at least every five years at current value and a full valuation was carried out as at 31 march 2019. These are not specialised land and buildings and therefore required to be valued at existing use in value (EUV) at year end. The Authority has engaged Bruton Knowles to complete the valuation of properties as at 31 March 2020 on a five yearly basis, with desktop reviews carried out between valuations for indications of material changes. This year, saw Bruton Knowles carry out a desktop valuation to confirm there were no material changes to the valuation used.	We have considered the estimate applied by management and the use of their expert, Bruton Knowles. • The valuation methodology applied is consistent with the prior year and professional standards. • The disclosure in the financial statements at Note 17 is adequate. • The valuation report states that the valuation does not reflect any impact on values due to the current Covid-19 pandemic. We have considered this, in light of the type of asset and overall value compared to materiality and concur with the view of management that this does not present a material risk of misstatement.	● Green

Assessment

- ● Red - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Amber - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Yellow - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Green - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £47,276k, revised to £39,902k	The Authority's total net pension liability at 31 March 2020 per the draft accounts was £47,276k. This was based on an estimated asset position. Following receipt of a revised actuary report to take account of the final asset position, this was amended to £39,902k. The financial statements have been amended in this regard. The Authority uses Barnett Waddingham LLP to provide actuarial valuations of the Authority's assets and liabilities derived from the Local Government Pension Scheme in which it participates, (which is the West Midlands Pension Fund, administered by the City of Wolverhampton Council). A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions, such as life expectancy, discount rates, salary growth and investment returns. Given the significant vale of the net pension fund liability, small changes in assumptions can result in significant valuation movements.	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 2019. 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.	Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.35%	
Pension increase rate	1.95%	1.85%-1.95%	
Salary growth	3.0%	1.5%-2.2% above CPI	
Life expectancy – Males from age 65	21.9	21-4-23.3	
Life expectancy – Females from age 65	24.1	23.7-24.7	

We have also reviewed the:

- Completeness and accuracy of the underlying information used to determine the estimate and the adequacy of disclosure of estimate in the financial statements and have no findings to bring to your attention in this regard.

We are yet to conclude on the following as we await the work of the pension fund auditor.

- Reasonableness of the Authority's share of LGPS pension assets.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 2 borrowings	The Authority have borrowings with the Public Works Loans Board, Barclays, and transferred debt (arising from the West Midlands County Council) comprising of PWLB debt and LOBOs. There are significant observable inputs to determine the value of these borrowings, being the discount rates calculated based on the contractual cash flows. Therefore these borrowings are disclosed as being Level 2: significant observable inputs.	We consider the approach taken by the Authority is reasonable and agree with the conclusions drawn.	Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process	Auditor commentary
Preparation of income and expenditure budgets for the year ended 31 March 2020 and for a further 3 years as part of the MTFS. Cashflow forecast to the end of the financial year.	Going concern is defined as 'the concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations' The Authority's financial statements are prepared on a going concern basis on the grounds that budgets are in place and are being measured and managed to ensure that liabilities can be met as and when they fall due. A detailed Business Plan for the Combined Authority is approved on an annual basis. Regular management reporting is produced for the Combined Authority indicating the trading performance of the business, which is reported to the WMCA Senior Leadership Team, Transport Delivery Committee, Programme Board and WMCA Main Board. The impact of Covid-19 has had significant negative impact on the income streams for the authority, particularly in relation to transport, and officers are currently working through the impact of this on the budget for the current year and MTFS.
Work performed	**Auditor commentary**
	We have reviewed the budgetary processes in place and would note the following: The West Midlands Combined Authority Delivery budget requirement for 2020/21 of £142m comprises of six elements: • £125.8m Adult Education spending to be funded from Adult Education Budget funding devolved by the Department for Education; • £8.3m to be funded from other devolution deal grants; • £4.6m to be funded from Constituent Authority fees; • £0.4m to be funded from non-Constituent Authority and observer fees; • £2.2m to be funded from other income; and • A transfer from reserves of £0.8m We have also reviewed the outturn report, and not a favourable variance of £4.397m against budget (excluding transfers to reserves). The proposal is to transfer £3.053m to the efficiency reserve to support the 2020/21 budget (as agreed in the 2020/21 budget) and then the remaining £1.2m to a Covid-19 reserve to help support expenditure that will be needed in the recovery phase of Covid-19. The general fund balance remains at £2.3m.
Concluding comments	**Auditor commentary**
	• We note that for 2020/21 the budget was balanced with the use of a transfer from reserves. Reserves can only be used once, and the level of reserves needs to remain under review, particularly in the current climate. • There continues to be a funding gap on the investment programme. We are aware that officers are reviewing and monitoring this. This is likely to be even more critical as plans for the Covid-19 recovery take shape. • While we wait to receive the further work undertaken by officers in relation to the MTFS following the impact of Covid-19, we do not consider that this would cast significant doubt on the entity's ability to continue as a going concern and therefore we agree that the Authority's conclusion to prepare the accounts on a going concern basis is appropriate.

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 the Audit, Risk and Assurance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or 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 letter of representation has been requested from the Authority, including specific representations in respect of the Group, which is appended.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to all the Authority's bank, investment and loan counterparties. This permission was granted and the requests were sent. With the exception on two investments, we have received positive confirmation of the balances. For the two investments where positive confirmation was not received we have performed alternative procedures to gain assurances over these balances.
6	**Disclosures**	• Our review identified a small number of changes to the disclosures in the financial statements. These are listed at appendix A
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided.

Other responsibilities under the Code

	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 Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
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. However, the Annual Governance Statement will need to cover the period up to the date of publication and will therefore need to be kept under review.
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 intend to certify the closure of the 2019/20 audit of West Midlands Combined Authority in the audit report.

Value for Money

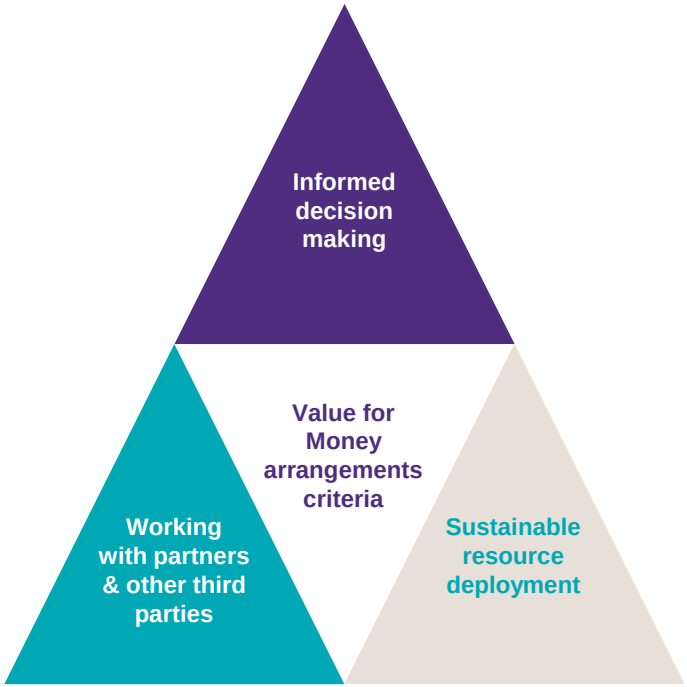
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 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 December 2020 and identified a number of significant risks 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 January 2020.

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.

Our work

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

We have focused our work on the significant risks that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were the progress the Authority had made throughout 2019/20.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 20 and 21.

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, and subject to the outstanding work being completed, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Key findings

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

	Significant risk	Findings	Conclusion
1	**Investment Programme Delivery** The Authority has identified the financial assumptions for the investment programme as a risk. This is being mitigated by a review of the governance and appraisal process associated with the investment programme. The spend to date remains behind forecast, and a cap has been placed on the programme at £801m to keep it within the current affordable limit based on income secured to date. We will review the Authority's arrangements for managing the Investment programme.	As noted by the initial risk assessment failure to deliver the Investment Programme may risk achievement of the overall strategic objectives of the Authority. Steps have been taken to leverage in more investment, but the £801m cap remains in place to ensure that the programme remains affordable. To help the Authority ensure that objectives were being met an enhanced assurance framework has been developed, and this was reported to ARAC in January 2020. Alongside the enhanced assurance framework, enhancements were also made to the performance management and reporting framework. This included a review of the dashboard used to report to the Investment Programme Board. The revised dashboard has since been implemented, with the first reporting to the meeting in April 2020. The Chair welcomed the greater clarity provided by this updated dashboard. As part of the enhanced assurance framework the intention would be to review all projects, including those within the capital programme. An update on this report was due to ARAC in April 2020, however due to the global events this has been delayed. Discussion with officers confirm that significant work is now needed in relation to the investment and capital programme as the Authority plans how it will support the Covid-19 recovery. Existing schemes are being reviewed to determine the risk associated with them and while new contracts are being entered into, the Authority have introduced an additional layer of scrutiny to them with a specifically designed checklist.	**Auditor view** • We have seen from our review of relevant Board and Combined Authority papers and regular discussions with management and key officers that work remains ongoing to review the Investment Programme and how this will impact on the ability of the Authority to deliver its strategic objective in the longer term. The changes to the economy as a result of Covid-19 are likely to have a significant impact on the nature of the projects in the programme. • Our review has identified that there are appropriate arrangements in place around this risk.

Key findings continued

	Significant risk	Findings	Conclusion
2	**Governance of WM5G** WM5G has been set up as subsidiary company of the Authority to deploy 5G and fibre networks to areas with poor coverage. 5G is new technology and a new funding stream for the Authority. Our initial risk assessment has demonstrated that funding from central government is lagged, and therefore alternative sources of start-up funding is also needed. We will review the outcomes of the internal audit work that is planned in this area, and then consider if any further work is needed against the identified risk.	Our discussion with internal audit has identified that this work is due for reporting to the July ARAC, and therefore at the time of writing we have not seen a copy of the draft report.	**Auditor view** • We will review the work of internal audit and provide an updated Audit Findings Report in September to take account of our conclusions in this area thereafter.
3	**Delivery of Adult Education workstream** One significant new workstream for 2019-20 is the Adult Education Budget. The budget has £84m in relation to this, but the actual allocation is in the region of £120m. Given the introduction of this in the year we are keen to understand the arrangements in place for the delivery of this service. We will review the outcomes of the internal audit work that is planned in this area, and then consider if any further work is needed against the identified risk.	Given this is the first year of a new area of service delivery, both officers and members have been keen to understand how this service has been delivered and what improvements needs to be made going forward. A review of Board minutes confirms that there has been reporting through Overview and Scrutiny Committee. In April 2019, the Committee agreed a series of recommendations in relation to Adult Education. An update on the recommendations was reported in March 2020. There is clear evidence of progress being made in this area, with a reduction from over 400 providers to 94. This has enabled the Authority to work much more closely with the providers and ensure a clear focus on meeting priorities and getting better progression for learners. There is a much greater focus on encouraging learning that leads to improved employments chances. There is a clear plan in place for improvements in the service and to make the most of the new arrangements. Work remains ongoing against the detailed recommendations first made in April 2019 that were put in place from the initial review. Our discussions with officers and internal audit have confirmed that there remains an external investigation ongoing in relation to one provider. This is a joint investigation with the Education and Skills Funding Agency and is in line with the terms of the contract. As a result of this ongoing investigation the work of internal audit has been put on hold until the outcome of these reviews is known.	**Auditor view** • We have seen from our review of relevant Board and Combined Authority papers and regular discussion with management and key officers that work remains ongoing in terms of the delivery of the Adult Education workstream. • Our review has identified that there are appropriate arrangements in place around this risk.

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

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

Details of fees charged are detailed in Appendix 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. No non-audit services were identified which were charged from the beginning of the financial year to current date.

Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	Officers accrued for a claim in relation to the Athlete's village to the value of £6.5m. After the draft accounts were produced the claim was received for £16.5m. Given the material nature of the difference, officers have agreed to increase the creditor accrual by £10m.	10,000	10,000	10,000
2	The year end reconciliation on the investment programme accruals demonstrated a variance of £4.9m in relation to one scheme. Given the value officers have decided to amend for this over accrual.	(4,900)	(4,900)	(4,900)
3	The authority received a revised IAS19 valuation report which updated the value of the net pension liability from £47,276k to £39,902k	(7,374) (but reversed through MIRS)	7,374	(7,374)
	Overall impact	**(£2,274)**	**(£2,274)**	**(£2,274)**

Impact of unadjusted misstatements

There are no unadjusted misstatements to report.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1	We identified a transaction amounting to £280k during our cut-off testing which had not been accounted for in 2018/19 but was relating to that financial year.	DR grant income 280 CR grant income 280	-	-	This was not adjusted on the grounds of materiality and that it has a net nil impact.
	Overall impact	**-**	**-**	**-**	

Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
Note 13 – Grants received in advance	A grant was incorrectly allocated, and therefore the Future Mobility Zones in the draft financial statements needs to increase by £10m to £18.265m, with a corresponding reduction in the Transforming Cities Fund to £28.674m	✓
Note 7 – Transport services	On the final transport outturn, the allocation of reserves movements and revenue contribution to capital between categories was changed. £1,007k was removed from Rail and Metro Services, with £210k removed from Policy and Strategy and Elected Member Services and £287k removed from Network Resilience. This was reallocated to Concessions (£914k), Bus Services (£228k) and Finance charges (£362k). The net impact was nil.	✓
Note 9 – Investment programme	The narrative in the note states that the prior year balances have been restated. To demonstrate that this is not a material misstatement officers have agreed to amend the narrative to reflect that the totals remain unchanged.	✓
Note 35 – PBSE disclosures	Officers have agreed to add some additional narrative in respect of Covid-19	✓
Note 33 – Contingent liabilities and guarantees	Following new information coming to light officers have agreed to amend the wording to the following; Following the merger, the Authority is discharged from the excess liabilities of Preston Bus Limited which is guaranteed by Preston City Council but remains liable to meet any excess liabilities of West Midlands Travel Limited (WMTL) if National Express Group plc is unable to meet their guarantee. In the event that WMTL exit the pension fund (either directly or through the guarantee arrangement with National Express Group plc) without fully discharging its liabilities, the Authority will subsume the assets and liabilities of WMTL pension fund with its own assets and liabilities in the WMPF. The market value for WMTL is only available at each triennial valuation and was valued at a deficit of £92.5m at the last triennial valuation as at 31 March 2019.	✓
Note 28 – Pension Schemes	The narrative at the beginning of the note refers to 2020/21, officers have agreed to amend to demonstrate the position in 2019/20.	✓
Note 17 - PPE	A disclosure note was omitted that relates to the rolling valuation cycle. Officers have agreed to include this note in the revised set of financial statements.	✓
Note 18 - Investments	One loan of £1.013m was reclassified from long term to short term as there was an error on the working papers in relation to the termination date of the loan.	✓
Note 2 – Significant accounting policies	The draft financial statements include a policy for soft loans. The balance is not material and therefore the policy has been removed.	✓

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non-audit services.

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

The proposed fees reconcile to the financial statements, where they are shown in Note 16 as £47k.

Additional fees proposed

The impact of Covid 19 has resulted in an additional significant risk to the audit and the issuing of an audit plan addendum. This has resulted in additional work to that originally planned and reported in the audit plan communicated in January 2020. Further to this, we have also incurred additional costs to resolve a technical issue in relation to the land fund. We will review the total additional costs incurred and discuss a proposed fee variation with the Finance Director once the work has concluded. This would constitute a fee variation, and would be subject to approval from PSAA.

Management Letter of Representation

West Midlands Combined Authority
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of West Midlands Combined Authority and its subsidiary undertakings for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the Authority financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

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

Group Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Authority's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the group and parent Authority financial statements are fairly presented in accordance therewith.

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

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

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vi. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Authority has been assigned, pledged or mortgaged

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

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

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

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

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

xi. The group and parent Authority financial statements are free of material misstatements, including omissions.

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

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

Management Letter of Representation

xiv. We believe that the group and parent Authority's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Authority's needs. We believe that no further disclosures relating to the group and parent Authority's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and parent Authority's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

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

xvii. All transactions have been recorded in the accounting records and are reflected in the group and parent Authority's financial statements.

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

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

a. management;

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

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

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

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

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

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

Annual Governance Statement

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

Narrative Report

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

Approval

The approval of this letter of representation was minuted by the Audit, Risk and Assurance Committee at its meeting on 14 July 2020.