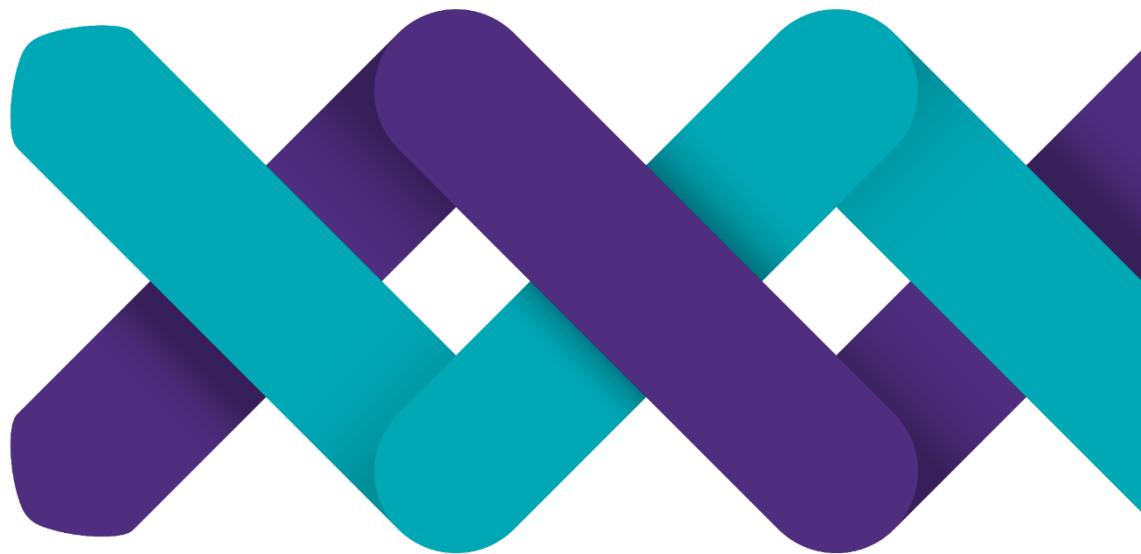


# Audit Update Report

West Midlands Combined Authority  
Year ending 31 March 2020

8 October 2020



# Update to the Draft Audit Findings Report

## Financial Statements Audit

We presented our draft Audit Findings Report to the July Audit, Risk and Assurance Committee. The report included a number of areas where work remained on-going. This update reports the progress made in those areas.

### Progress on outstanding items

Page 3 of our draft Audit Findings Report highlighted 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 auditor of the West Midlands Pension Fund,
- Completion of group audit 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.

The paragraphs below set out the progress made in these areas.

### Land Fund

We have prepared, and shared with officers a separate paper in relation to the Land Fund. This outlines the audit team's rationale for concluding that the land purchased (and costs associated with remediation work) should be held as inventories on the balance sheet. The draft Audit Findings Report identified the likely adjustments to be made to the draft financial statements, and these adjustments will be made to the final set of financial statements.

### Assurances from the pension fund auditor

The audit of the West Midlands Pension Fund is nearing completion, and we anticipate receiving the necessary assurances in the week commencing 19 October. This will enable us to complete our work in this area. The impact of Covid-19 on valuations at year end has resulted in the Fund reporting on material uncertainty disclosures made by its independent valuers in relation to directly held property within the Fund. As a result the audit opinion on the pension fund will include an emphasis of matter in relation to this material uncertainty.

As well as having an impact on disclosures within pension funds, this issue could also have an impact on disclosures required by the Authority. This is because the Authority will have a share of these property assets through its investments in the Fund. It is likely that the share will be material for the Authority, and therefore we are working with officers

on the likely disclosure needed in the Authority's financial statements to highlight the material uncertainty in relation to the pension fund valuation. This will then in turn lead to an Emphasis of Matter paragraph within the audit opinion, to draw attention to the material uncertainty in relation to the pension fund valuation. This is in line with many other authorities in the sector, and reflects the unusual circumstances of the current year audit. This would not affect our opinion that the statements give a true and fair view of the Authority's financial position and its income and expenditure for the year. Such a paragraph is added to indicate a matter which is disclosed appropriately in the Authority's financial statements but which we consider is fundamental to a readers' understanding of the financial statements.

### Completion of Group procedures

Our group procedures related to both MML and WM5G. The auditors of MML, have provided clearance on the group procedures, with the exception of going concern. The work undertaken has not raised any issues that impact on the group audit. As the group procedures do not include an assessment of going concern, we have asked officers to ensure that specific reference is made to the going concern of this subsidiary when completing their update of the going concern assessment for the group.

The auditors of WM5G have now concluded their work, and issued an unmodified opinion on the financial statements. They have not identified any issues that would impact on the group opinion. Following a detailed review of the outturn of WM5G we have determined that benchmarks that were forecast to be material at the planning stage of the audit are no longer material based on the final position and therefore we have not reviewed the working papers of the other auditor in detail.

### Going concern

As we highlighted in July, this is an area of work that will remain ongoing up to the point of signing the financial statements, as auditing standards require us to consider the likelihood of the entity continuing for a period of 12 months after the date of signing the opinion. We are working with officers to update the assessment, however as set out previously, we do not consider that this would cast significant doubt on the entity's ability to continue as a going concern.

### Operating expenditure

We have completed our testing in this area, and not identified any issues that require reporting. Part of this work included reviewing the proposed changes in relation to the accounting estimates, for both the Athlete's Village and investment programme accruals. The net impact of this was an adjustment of £5.1m. We have concluded that the amendments suggested by officers are appropriate.

### Final set of financial statements and letter of representation

By the nature of these tasks, these will be completed just prior to signing the opinion, which we anticipate will be the first week of November.

# Update to the Draft Audit Findings Report

## Value for Money

We identified three significant risks to the value for money conclusion. These were as follows:

- Investment Programme Delivery
- Governance of WM5G
- Delivery of Adult Education Workstream

We reported on two of these three, however noted that we were unable to conclude on the Governance of WM5G as we were awaiting completion of the internal audit report in this area.

Internal audit concluded on this and reported to ARAC in September. The report gave substantial assurance and raised no recommendations, and therefore we can conclude that there are appropriate arrangements in place around this risk.

## Independence

Grant Thornton UK LLP has been appointed by the Department for Transport (DfT) to carry out work in connection with the reconciliation exercise for Light Rail Revenue Grants (LRRGs) distributed to four Combined Authorities / Passenger Transport Executives and one local authority.

A Grant Thornton team separate to the audit team will prepare an analysis of the LRRG paid to West Midlands Combined Authority (WMCA) and its wholly-owned subsidiary Midland Metro Limited (MML) which operates the Midland Metro network. The analysis will determine whether further grant is payable to WMCA and onto MML or whether grant needs to be reclaimed.

We recognise that as WMCA's auditor there is the potential for perceptions of a conflict of interest in undertaking this work i.e. if it identifies areas that should have been picked up through audit work on the Authority's accounts. To mitigate this risk, and following discussions with the Authority's Finance Director, we have established a tripartite agreement which permits the report prepared for the DfT to be shared directly with the Authority. We are therefore satisfied that our independence is maintained.

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