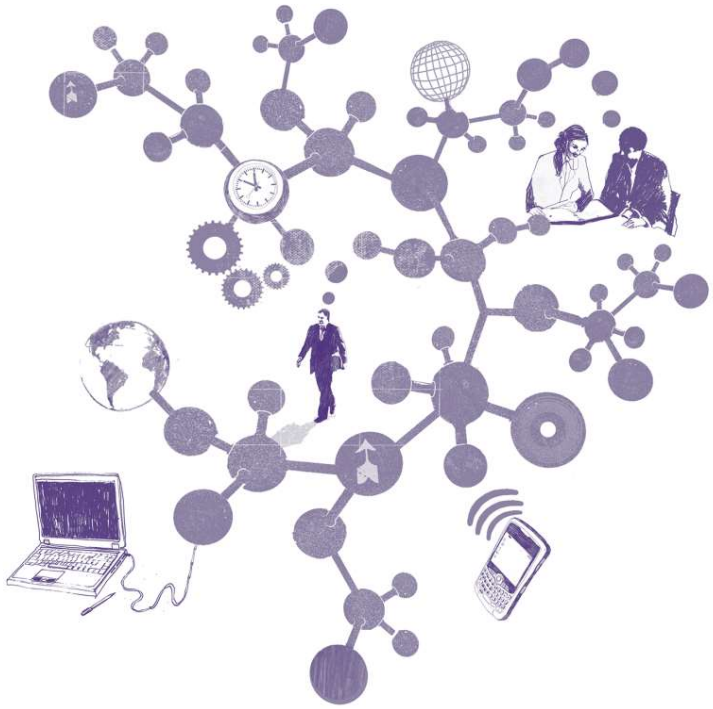
The Audit Findings for the West Midlands Combined Authority

Year ended 31 March 2017

2 July 2017



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16 June 2017

Dear Members of the Audit, Risk and Assurance Committee

Audit Findings for the West Midlands Combined Authority for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of the West Midlands Combined Authority this is the Board but we have determined that the Audit, Risk and Assurance Committee is the sub group with whom we would communicate), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Grant Patterson
Engagement Lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of the West Midlands Combined Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Authority acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Authority or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Authority and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to significantly alter our audit approach, which was communicated to you in our you in our Audit Plan dated 27 January 2017.

While the risks as identified in the plan remain the same as the risks reported on within this document, we note that:

- the Authority is now treating certain fares and ticketing transactions on a principal rather than an agency basis as was the case in previous years which has led to additional income and expenditure being disclosed in the Comprehensive Income and Expenditure Statement. This was in addition to the changes expected as the result of merger accounting and, as a result, we have had to undertake further specific testing in addition to what was originally anticipated.

- As a result this effected our judgement of materiality and testing strategy and we extended some of our sample sizes accordingly.

The results of this work are documented in section two.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- Obtaining and reviewing the management letter of representation
- Updating our post balance sheet events review, to the date of signing the opinion
- Submissions relating to the Whole of Government Accounts

Key audit and financial reporting issues

Financial statements opinion

We received draft financial statements at the commencement of our work. The majority of the working papers followed shortly thereafter.

We have identified a number of adjustments to the draft financial statements, however none of these affect the Authority's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded a deficit of £708k; the audited financial statements show the same. We have also recommended a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Authority's financial statements are:

- **Amendments** - we have made a number of adjustments to the financial statements and disclosure notes. For further detail see pages, 19, 25 and 26.
- **Comprehensive Income and Expenditure Statement (CIES)** – due to changes in the presentation of particular items of income and expenditure for this year there are differences between the comparative figures showing in this year's accounts and those from the prior year audited accounts. These are explained further at page 15.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements.

Other financial statement responsibilities
As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Authority's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Controls

Roles and responsibilities
The Authority's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Authority.

Findings
Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further details of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

The way forward

Matters arising from the financial statements audit and our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Finance.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Head of Finance and the finance team.

Acknowledgement

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

Grant Thornton UK LLP
June 2017

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that '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'.

As we reported in our audit plan, we determined overall materiality to be £2,835k (being 1.8% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and revised our overall materiality to £3,976k (being 1.8% of gross revenue expenditure). This is because our original materiality level was based on the 2016/17 budget and on receipt of the draft financial statements it was noted that the outturn expenditure was significantly higher. The difference was due predominantly due to differences in internal reporting, which is often on a net basis, and the required gross accounting for the same items in the financial statements.

It was also noted that the Comprehensive Income and Expenditure Statement (CIES) had been restated from the previous year. In order to avoid under-testing, we revised our materiality to exclude the impact of this restatement. The restated issues have then been subject to separate testing.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £198k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

	Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Related Parties	Disclosure of external audit fees
Explanation	Due to public interest in these disclosures and the statutory requirement for them to be made.	Due to public interest in these disclosures and the statutory requirement for them to be made. Related party transactions have to be disclosed if they are material to the Authority or to the related party	Due to public interest in these disclosures and the statutory requirement for them to be made.
Materiality Level	£10,000	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes into account what is material to both the Authority and the related party.	£5,000

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including West Midlands Combined Authority, mean that all forms of fraud are seen as unacceptable.	Capital grants made to other local authorities, totalling £45,759k in 2016/17, had been included in expenditure on transport services within the Cost of Services. We did not agree with this treatment, as described on pages 15 and 16 regarding the changes in presentation from the prior year. The Authority has therefore amended the financial statements accordingly. Revenue and expenditure relating to administration of ticketing schemes have been disclosed on a gross basis, in the financial statements for the first time. This change is also described in more detail on pages 15 and 16. Our audit work has not identified any other issues in respect of revenue recognition.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have undertaken a: • review of accounting estimates, judgments and decisions made by management • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of unusual or significant transactions in year	Our review and testing of journal controls has identified four instances of users posting self-authorised journals during the 2016/17 financial year. The remainder of this testing, and testing of individual journal entries has not identified any other significant issues or instances of management override of controls. We have raised a recommendation in the Action Plan at Appendix A to ensure that journals are not posted and authorised by the same individual. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
The expenditure cycle includes fraudulent transactions Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets. For your Authority, we have concluded that the greatest risk of material misstatement relates to the completeness of operating expenses and creditor balances.	We have undertaken: • a review of management's processes and assumptions for the calculation of accounting estimates and judgments and other decisions made by management • testing of unusual journal entries back to supporting documentation • a review of any unusual or significant transactions in year	As described on page 10, revenue and expenditure relating to administration of ticketing schemes have been included in the financial statements on a gross, rather than net basis, for the first time this year. Testing performed on these balances has not highlighted any issues. This change is described in more detail on pages 15 and 16. Our audit work has not identified any other issues in respect of expenditure recognition.
Transfer of assets and services to a newly formed local government entity On 16 June the West Midlands PTE and ITA (together, Centro) ceased to exist, and the West Midlands Combined Authority was formed. The Authority have confirmed that this will be accounted for as a transfer by merger, which requires disclosure to be made of the positions of Centro and the WMCA before and after the transition. These disclosures will require accurate cut-off arrangements at 16 June 2016.	We have: • documented and evaluated the process in place at transition to ensure that the recorded position of Centro at 16 June 2016 was accurate. • performed detailed testing on any significant or unusual transactions occurring before the cessation of the Centro bodies. • incorporated checks into our revenue and expenditure testing to determine which body transactions have been recorded against. • performed detailed tests of cut-off for both revenue and expenditure at 16 June 2016. • performed analytical procedures on the revenue and expenditure recorded in year to check for any indication of inconsistency. • ensured that the disclosure meets the requirements of the CIPFA Code of Practice.	Our audit work has identified the following issues in respect of the disclosure of the transfer by merger: • The carrying value of the net liabilities at 16 June 2016 was misstated at £43,770k when it should have been £41,982k. This has been corrected. • The pre-merger gross income and gross expenditure were both stated net of ticketing costs. In order to be consistent with the CIES, an additional £6,290k of both income and expenditure has been included in pre-merger and excluded from the post-merger figures. • This disclosure also required adjustment for the issue relating to the classification of capital grants made to other authorities described on pages 10, 15 and 16. In addition, the financial statements have been amended to include the decision to prepare accounts on the basis of a transfer by merger as a critical judgement, as it is fundamental to their preparation.

Audit findings against significant risks (continued)

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Valuation of pension fund liability The Authority's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	We have: • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • undertaken procedures to confirm the reasonableness of the actuarial assumptions made. • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.	PwC were engaged by the Audit Commission (and subsequently the NAO) as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS). They produce a report to 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 2017. 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. We note that the assumptions used in relation to the rate of inflation (CPI), the rate of increase in pensions and the discount rate are outside the range of those expected of a typical employer. The assumptions applied are: • CPI inflation: 2.50% (average of rate used by other actuaries: 2.26% • Rate of increase in pensions: 2.50% (average rate used by other actuaries: 2.26%) • Discount rate: 2.40% (average rate used by other actuaries: 2.54%) We have discussed with our technical experts and liaised with the Authority's actuary, as to whether the individual variations, when taken together, enable us to conclude that management's assumptions overall are reasonable. We have received satisfactory responses from the actuary to our challenges and on this basis we conclude that management's estimation basis is reasonable and therefore that the valuation of the pension fund liability is not materially misstated.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Payroll expenditure represents a significant percentage of the Authority's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention: • Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • detailed testing on a sample of payroll expenditure for the year • trend analysis of employee costs throughout the year to identify any unexpected fluctuations	Our detailed testing of payroll transactions has not identified any issues in respect of employee remuneration costs incurred by the Authority. However, our audit work has highlighted the following items which were omitted from in the remuneration disclosures and the exit packages disclosure: • Four exit packages totalling £409k which were agreed before the end of the 2016/17 year. • Of the above, one should have been included in the senior officers' remuneration table in accordance with Schedule 1 of the Accounts and Audit Regulations 2015 • Five exit packages totalling £22k that were paid to employees at the end of their fixed-term contracts. These amendments have been made to the updated financial statements.
Operating expenses	Non-pay expenditure represents a significant percentage of the Authority's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs. We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention: • Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls • detailed testing on a sample of operating expenses incurred during the year • detailed testing on a sample of creditors, including after date payments, to ensure cut-off was appropriately applied	Our detailed testing of operating expenditure transactions has not identified any issues to bring to your attention.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Changes to the presentation of local authority financial statements	CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	We have undertaken the following work in relation to this risk: • documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure • reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice	As mentioned earlier in this report we noted that as part of the changes to the presentation of the Authority's financial statements, a number of amendments were made to the prior year comparatives. These are discussed in more detail on the next 2 pages. Our review of the restatement of the CIES for the purposes of 'Telling the Story' has not raised any issues. The three segments disclosed, being Transport Services, Combined Authority Services, and Economic Development, are in line with our understanding of the management of the Authority. We have reconciled the CIES to the general ledger with no issues, and have confirmed the consistency of the MIRS and the EFA with testing performed on other areas of the financial statements. We have also confirmed the consistency of the CIES and the EFA with management's internal reporting and decision making. Our testing has not identified any issues in respect of the new presentation.

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 entity's ability to continue as a going concern" (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that the going concern basis is appropriate for the 2016/17 financial statements.

Prior period adjustments

The Authority had revised its treatment of certain grant income and expenditure as well as its fares and ticketing income and expenditure. This has led to differences between the prior year comparatives shown in the current year accounts and the audited financial statements of the Centro group as at 31 March 2016. The differences are outlined in the table below and show a net impact on expenditure of £29,475k and a net impact on income of £29,475k. There is a net nil impact on the general fund.

Our consideration of this revised treatment is documented on page 16.

The draft financial statements did not include any disclosure of the details of these PPAs. Disclosure of the nature of, and reason for, any PPA is required by the Code, and so disclosures have been added to the financial statements as a result of our audit at Note 37 to the financial statements.

Expenditure	Cost of Services £'000	Taxation & Non-specific Grant £'000
Per the Centro group accounts as at 31 March 2016	**149,783**	**43,695**
DfT Grant Expenditure	43,695	(43,695)
Fares and Ticketing	29,475	-
Per the draft WMCA Accounts	**222,953**	**-**

Income	Cost of Services £'000	Taxation & Non-specific Grant £'000
Per the Centro group accounts as at 31 March 2016	**19,937**	**205,109**
Fares and Ticketing	29,475	-
District Schemes	(8,028)	8,028
Revenue Grants	10,520	(10,520)
Per the draft WMCA Accounts	**51,904**	**202,617**

Prior period adjustments (continued)

Issue	Commentary
DfT Grant Expenditure	The WMCA receive capital funding from the Department for Transport in year, for distribution among the other authorities in the Midlands. These grants are distributed at the discretion of the Authority, and are therefore considered to be capital grants made. The Code requires that taxation and non-specific grant income and expenditure includes all capital grants and contributions. Therefore the Authority has moved these transactions to be shown below the Cost of Services line. This has led to an adjustment of £43,695k within the CIES. There is no impact on the general fund.
Fares and Ticketing	Where an authority is acting as a principal, transactions should be included in their financial statements, following the relevant section of the Code. In contrast, where an authority is acting as an agent, transactions should not be reflected in their financial statements. Historically, the Centro group treated fares and ticketing as an agency transaction, only recognising commission income earned, and a debtor or creditor for amounts owed from or owing to operators at year end. The Authority has reassessed this position in 2016/17, and consider that there are two schemes for which they are actually acting as principal. Income and Expenditure for Transport Services in the financial statements have therefore been grossed up to include transactions for these schemes, which are nBus and nNetwork.
District Schemes Income	This £8,028k is made up of capital grants that are spent on revenue support costs for development projects in the capital programme (treated as Revenue Expenditure Funded from Capital under Statute [REFCUS]). The Authority reassessed the treatment of all of its grants during the financial year, and determined that they be moved to taxation and non-specific grant income, in line with the Code requirements mentioned above. We are satisfied that this reallocation is reasonable.
Revenue Grant Income	This £10,520k is revenue grants received by the Authority for transport provision. Historically these items had been included as non-specific grants, but they have now been moved into Cost of Services. We acknowledge that the Authority has evolved significantly over the last 12 months, and while merger accounting has been employed (which therefore presents the accounts as if the entity has always existed), the activity being undertaken by the Authority has changed and will continue to change as the devolution agenda progresses. For instance, the Centro group carried out activity solely with regard to Transport, but since the creation of the Combined Authority, activities are now broadening (ie through their three commissions: Mental Health, Land, and Productivity and Skills). Therefore grants that were previously considered to be non-specific, as they did not relate to a specified project, are now limited to spend on transport when the Authority provides other services. We are therefore satisfied that this reallocation is reasonable.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Authority's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue grants and other funding income is recognised on an accruals basis where there is reasonable assurance that the income will be received and all attached conditions have been complied with. • Income other than grant income, which all arises within the United Kingdom and is stated net of VAT, represents income arising from bus station departure charges, the provision of timetable information, rental income and advertising revenues. Income is recognised to the extent that reliably measured economic benefits will flow to the Combined Authority and includes estimated in respect of services provided and rental income which have not been invoice at the period end.	We have considered the following: • Appropriateness of policy under relevant accounting framework • Extent of judgement involved, including range of possible outcomes and potential financial statement impact of different accounting policy choices • Adequacy of disclosure of accounting policy • Benchmark against industry practice We have nothing to bring to the Committee's attention in this regard	● (Green)
Judgements and estimates	• Key estimates and judgements include: – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Other provisions	We have considered the following: • Appropriateness of policy under relevant accounting framework • Extent of judgement involved • Potential financial statement impact of different assumptions • Range of possible outcomes – including where the Authority sits within that range • Adequacy of disclosure of accounting policy • Benchmark against peers/industry practice We have covered the assumptions in relation to the pension fund liability on page 12. In respect of the other estimates and judgements we have nothing else to bring to the Committee's attention.	● (Green)

Assessment

● Red - Marginal accounting policy which could potentially attract attention from regulators
● Amber - Accounting policy appropriate but scope for improved disclosure
● Green - Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

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Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director of Finance, s151 officer has a reasonable expectation that the services provided by the Authority will continue for the foreseeable future. Members concur with this view. For this reason, the Authority continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Authority's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● (Green)
Other accounting policies		We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice. The Authority's accounting policies are appropriate and consistent with previous years where relevant.	● (Green)

Assessment

- Red - Marginal accounting policy which could potentially attract attention from regulators
- Amber - Accounting policy appropriate but scope for improved disclosure
- Green - Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	We have previously discussed the risk of fraud with 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**	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	A standard letter of representation has been requested from the Authority, which is included in the Committee papers.
5.	**Confirmation requests from third parties**	We requested from management permission to send a confirmation requests to all of the Authorities banks and investment counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6.	**Disclosures**	Our review of the draft financial statements found the following disclosure issues: • No disclosure was included to explain the reason for, and impact of, the prior period adjustment in the CIES. • Exit packages in relation to senior officers were omitted from the senior officers' remuneration table. Exit packages in relation to other employees were omitted from the remuneration bandings. These exit packages were also all omitted from the exit packages disclosure. • The valuation of Bromsgrove Station was included in the Property, Plant and Equipment disclosure as an addition of £7,065k, rather than an upwards revaluation. • Additional narrative disclosure has been added to Notes 20 and 30 to ensure clarity around the nature of the Authority's borrowings, and that adequate detail regarding the methodology for calculating the fair values is presented in accordance with the Code and IFRS13. These disclosures have now been included. See pages 25 and 26 for all misclassifications and disclosures identified.

Other communication requirements (continued)

	Issue	Commentary
7.	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a number of areas. We have not identified any issues we would be required to report by exception in the following 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 information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Authority acquired in the course of performing our audit, or otherwise misleading.
8.	**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 the Authority does not exceed the specified group reporting threshold we will not be required to perform any additional procedures for the purposes of the WGA consolidation.

Internal controls

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	● (Amber)	**Proactive Reviews of Logical Access** During the audit of the design effectiveness of IT general controls, we identified that User accounts and associated permissions on all application systems are not formally and proactively reviewed for appropriateness. This condition poses the following risks to the Authority: • Gaps in user administration processes and controls may not be identified and dealt with in a timely manner • Access to information resources and system functionality may not be restricted on the basis of legitimate business need • Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls • No-longer-needed permissions granted to end-users may lead to segregation of duties conflicts • Access privileges may become disproportionate with respect to end users' job duties.	There is a need for management to perform periodic, formal reviews of the user accounts and permissions on all application systems. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties). **Management response:** Management have agreed to establish a process of reviewing access across the system at least once per annum.

Assessment
- ● Red - Significant deficiency – risk of significant misstatement
- ● Amber - Deficiency – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements.
Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2	(Amber)	**Logging and investigation of unauthorised access attempts** During the audit of the design effectiveness of IT general controls, we identified that there is no process of logging and investigation of unauthorised access attempts on Agresso application system. This condition poses the following risks to the organisation: • If key security incidents or events are not logged, it is much harder for the organisation to become aware of attempted or unauthorised access to data. • If security logs are not reviewed regularly on a timely basis, important security incidents may be overlooked. If appropriate follow up actions are not taken, security incidents might recur and/or it may be difficult to take legal action against the perpetrators.	We recommend management to establish a process of logging unsuccessful attempts to logon and unsuccessful attempts to access files, by users and/or programs. The log should be subjected to regular reviews by management and any unusual activity identified have to be investigated. **Management response:** Logging is enabled, however the review was not being performed. Management have agreed that a process of reviewing access across the systems at least once per annum will be established.
3	(Amber)	**No requirement for existing to formally acknowledge any IT Security documentation following periodic updates** During the audit of the design effectiveness of IT general controls, we identified that Information Security policies are updated in line with changes to IT environment, however, there was no formally established process and requirements for existing employees to acknowledge the IT security policy following the periodic updates. This condition poses the following risk(s) to the organisation: • Information security processes, requirements and controls may be inconsistently defined, understood and implemented throughout the organisation • The lack of formal acknowledgement of IT Security documentation updates may make sanctioning employees for inappropriate use of information resources more difficult as they may claim unawareness.	Management should establish a formal process for existing employees to formally acknowledge updates or changes to the IT security documentation. This process could be done in the form of mandatory reading/acknowledgement of updates prior to logon to the network and access to resources. Alternatively, this can be delivered in the form of refresher user IT security training courses. **Management response:** This is currently in pipeline. A process will be established for existing employees to formally acknowledge any security related policy updates.

Assessment
- Red - Significant deficiency – risk of significant misstatement
- Amber - Deficiency – risk of inconsequential misstatement

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed 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.

Detail of adjustment in 2016/17	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
As detailed on page 16 of this report, the Authority changed the presentation of their Comprehensive Income and Expenditure Statement for the 2016/17 year. We disagreed with the new presentation of capital grants made to other authorities, as all capital grants should be shown below the Cost of Services line. This has been adjusted as follows:			
Reduce transport services gross expenditure	(45,759)	-	-
Increase taxation and non-specific grant expenditure	45,759	-	-
Overall impact	**£nil**	**£nil**	**£nil**

Detail of adjustment to 2015/16 comparatives	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
The adjustment above has also been required in the prior period comparatives as follows:			
Reduce transport services gross expenditure	(43,695)	-	-
Increase taxation and non-specific grant expenditure	43,695	-	-
Overall impact	**£nil**	**£nil**	**£nil**

Unadjusted misstatements

The Audit, Risk and Assurance Committee would be required to approve management's proposed treatment of any items found during our audit that were not adjusted for in the final set of financial statements. There were no such adjustments identified.

Misclassifications 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.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	**Disclosure**	29,475	Prior period adjustment: fares and ticketing income and expenditure	The draft financial statements did not include any disclosure of the prior period adjustment for fares and ticketing income and expenditure being included gross in the Authority's accounts, rather than the net basis that was shown in the Centro group accounts for the 2015/16 year. Further detail is included in pages 15 and 16 of this report.
2	**Disclosure**	8,028 and 10,520	Prior period adjustment: disclosure of specific and non-specific grant income	The draft financial statements did not include any disclosure of the prior period adjustment for the reallocation of grants between non-specific (taxation and non-specific grant income) and specific (within cost of services). Further detail is included in pages 15 and 16 of this report.
3	**Disclosure**	n/a	Basis of accounts preparation	The financial statements have been amended to include the decision to prepare accounts on the basis of a transfer by merger as a critical judgement, as it is fundamental to their preparation.
4	**Disclosure**	431	Exit packages	Nine additional exit packages have been included in both the remuneration disclosures and the exit packages disclosure, totalling £431k. One of these related to a Senior Officer. Further detail is included in page 13 of this report.
5	**Disclosure**	7,065	Property, plant and equipment revaluations	Note 16 has been amended to more clearly disclose that Bromsgrove Station was brought on to the balance sheet at £nil value, and a valuation performed to ensure that the financial statements fairly reflect the Authority's investment in this asset.
6	**Disclosure**	n/a	Fair value of borrowings	Additional narrative disclosure has been added to Notes 20 and 30 to ensure clarity around the nature of the Authority's borrowings, and that adequate detail regarding the methodology for calculating the fair values is presented in accordance with the Code and IFRS13.

Misclassifications and disclosure changes (continued)

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
7	**Disclosure**	2,750	Financial instruments: cash and cash equivalents	The draft financial statements included cash held on behalf of Altram as a financial asset in the disclosures in Note 30. As this is not the Authority's asset, it has been removed.
8	**Disclosure**	n/a	Components of income and expenditure pre- and post-merger	A number of changes have been made to the figures presented in Note 36, in order to correct the following: • Net liabilities at the merger date were overstated by £1,788k • Gross income and expenditure for transport services pre- and post-merger have been adjusted to allocate gross fares and ticketing amounts to the pre-merger period • Gross expenditure pre- and post-merger has been adjusted for the effects of the adjusted misstatement on the previous page.
9	**Disclosure**	n/a	Various	A number of other minor amendments have been made to improve the presentation and clarity of the financial statements.

Section 3: Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Authority has put in place 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 Authority. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. 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.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2017 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Progress Report and Update dated 28 April 2017.

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

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

Significant qualitative aspects

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

We have focused our work on the significant risks that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were:

- 2016/17 capital outturn compared to budget
- Progress since the formation of the Combined Authority with regard to its governance structure

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 30 and 31.

Overall conclusion

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

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

The text of our report will be confirmed at a later date.

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	Work to address	Findings and conclusions
Governance The governance arrangements at the Authority are continuing to develop as the Authority itself evolves. There is a risk that arrangements may not appropriately reflect the changing responsibilities of the Authority and heighten the risk of actual or perceived instances of inadequate governance.	Continue reviewing relevant Board and Combined Authority papers and holding regular discussions with management and key officers about any changes to the governance structure, including the plans in place for governance following the mayoral election in May 2017	During the 2016/17 financial year the Authority has made a number of changes to its governance structure to as it has developed from the Centro group. Key elements include: • revising the Constitution including the Scheme of Delegation • setting up a Committee to oversee audit, risk and assurance • Establishing a new Assurance Framework • Developing a Risk Management Strategy and risk register We are satisfied that new governance arrangements are evolving, and the process has been appropriately shared with responsible committees and individuals. Now that the Mayor has been appointed, the Authority is in the process of appointing senior staff. This will pave the way for further evolution of governance arrangements. The Authority, including ARAC, as those charged with governance, are aware of the need to ensure that governance is fit for purpose as well as being future-proofed for the expansion of activities that will occur. **On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements**.
Project management, programme delivery and monitoring Capital expenditure was behind budget by £6m as at October 2016 (total budget for 2016/17 was £40m). This indicates a risk of ineffective project management and potentially inefficient use of resources. There is a risk that effective controls and arrangements are not established.	Continue monitoring the capital performance through to year end outturn position. Discuss with management and key officers the monitoring processes in place around the devolution grants being made, to confirm that these are separate processes to the contract monitoring process.	The capital outturn for the year was £3,453k behind budget, however we are satisfied that this was the result of unforeseeable circumstances that have been managed appropriately by staff at the Authority. We have reviewed the approvals process for applications for devolution funding, and are satisfied that it is appropriate, and has been appropriately shared with responsible committees and individuals, as well as other local authorities. We are satisfied that project monitoring during the 2016/17 has been sufficiently detailed and sufficiently regular for the Authority to have a good understanding of the projects that it is funding. We have also reviewed the progress made on designing and implementing a new project monitoring system, which will come into use in the 2017/18 financial year. **On that basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements.**

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.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Looking to the future

As the Authority evolves over the coming months and years and broadens its activity further, this is likely to have an impact on the number of risk areas we consider as part of our Value for Money conclusion. We will continue to have on-going dialogue with management and internal audit to identify these areas as and when they arise.

Section 4: Other statutory powers and duties

Other statutory powers and duties

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

	Issue	Commentary
1.	**Public interest report**	• We have not identified any matters that would require a public interest report to be issued
2.	**Written recommendations**	• We have not made any written recommendations that the Authority is required to respond to publicly
3.	**Application to the court for a declaration that an item of account is contrary to law**	• We have not used this duty
4.	**Issue of an advisory notice**	• We have not used this duty
5.	**Application for judicial review**	• We have not used this duty

Section 5: Fees, non-audit services and independence

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

Fees

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

Our appointment as external auditors was approved by the PSAA (Public Sector Audit Appointments) Board on 1 September 2016. The appointment was made under section 3 of the Audit Commission Act 1998, saved under provisions of the Local Audit and Accountability Act 2014 and delegated to PSAA by the Secretary of State for Communities and Local Government.

In line with the 2016/17 Work Programme agreed by PSAA for local government audits the fee reflects our assessment of audit risk and complexity. The fees cover the work we do in discharging our statutory responsibilities which, in accordance with the Local Audit and Accountability Act 2014 are:

- To be satisfied that the accounts comply with the requirements of the enactments that apply to them
- To be satisfied that proper practices have been observed in the preparation of the statement of accounts and that the statement presents a true and fair view
- To be satisfied that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Fees to cover the costs of considering objections are charged, as a variation to the scale fee, from the point at which we accept an objection as valid. The fees for the year are in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Fees for other services

Service	Fees £
Audit related services: • Tax advice to the West Midlands ITA in respect of the winding up of the authority and the transfer of services and assets on the establishment of the Wes Midlands Combined Authority.	**18,000**
• Tax advice to the West Midlands Combined Authority	**1,000**
Non-audit services	**19,000**

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 Auditing Practices Board's Ethical Standards and 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 Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The table on the next page summarises all non-audit services which were identified.

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Authority's auditor and have ensured that appropriate safeguards are put in place

Service provided	Fees	Threat?	Safeguard
Tax Advice to West Midlands ITA as predecessor to West Midlands Combined Authority	£18,000	No	• We do not hold a financial nor other interest in the outcome of the work/service undertaken. • The audit appointment has been made independently from the Authority under the PSAA contractual arrangements • The work was completed by an independent team which is arms-length from the audit team
Tax advice to the West Midlands Combined Authority	£1,000	No	
TOTAL	**£19,000**		

The above non-audit services are consistent with the Authority's policy on the allotment of non-audit work to your auditor.

Section 6: Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Authority's key risks when reaching our conclusions under the Code.

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Action plan

Priority
- Red - High – Significant effect on control system
- Amber - Medium – Effect on control system
- Green - Low – Best practice

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	There is a need for management to perform periodic, formal reviews of the user accounts and permissions on all application systems. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).	**Medium**	Management have agreed to establish a process of reviewing access across the system at least once per annum.	Paul Bleckley Head of ICT September 2017
2	We recommend management to establish a process of logging unsuccessful attempts to logon and unsuccessful attempts to access files, by users and/or programs. The log should be subjected to regular reviews by management and any unusual activity identified have to be investigated.	**Medium**	Logging is enabled, however the review was not being performed. Management have agreed that a process of reviewing access across the systems at least once per annum will be established	Paul Bleckley Head of ICT September 2017
3	Management should establish a formal process for existing employees to formally acknowledge updates or changes to the IT security documentation. This process could be done in the form of mandatory reading/acknowledgement of updates prior to logon to the network and access to resources. Alternatively, this can be delivered in the form of refresher user IT security training courses.	**Medium**	This is currently in pipeline. A process will be established for existing employees to formally acknowledge any security related policy updates.	Paul Bleckley Head of ICT June 2017
4	Journals should not be posted and authorised by the same individual.	**Low**	This was raised by the audit team earlier in the year and an action plan was put in place immediately as of December 2016 to ensure that the system does not allow journals to be posted and authorised by the same individual.	Linda Horne. Done.

B. Audit opinion

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of West Midlands Combined Authority (the "Authority") for the period ended 31 March 2017 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet and the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

In our opinion the financial statements:

- **give a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the period then ended;**
- **have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17; and**
- **have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.**

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (the "Act") and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

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

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Narrative Report, and the Annual Governance Statement set out on pages 2 to 21, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter prescribed by the Act

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources the information given in the Narrative Report, and the Annual Governance Statement set out on pages 2 to 21 is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Act requires us to report to you if:

- in our opinion the Annual Governance Statement does not reflect compliance with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on pages 12 to 14, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The West Midlands Combined Authority Board is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that, in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the period ended 31 March 2017.

Responsibilities of the Authority

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the period ended 31 March 2017.

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

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2017. As the Authority has not published the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Act and the Code of Audit Practice.

And,

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the period ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the period ended 31 March 2017.

[Signature]

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

The Colmore Building, Colmore Row, Birmingham
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[Date]

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