The DRAFT Audit Findings for West Midlands Combined Authority

Year ended 31 March 2022

West Midlands Combined Authority
02 December 2022

Contents

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

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit, Risk and Assurance Committee.

Name : Grant Patterson
For Grant Thornton UK LLP
Date :

1. 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 2022 for those charged with governance.

Financial Statements

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.

Our audit work was completed following a hybrid model during June-November. Our findings are summarised on pages 4 to 19.

There are two adjustments to the financial statements that have resulted in a £7.7m adjustment to the Authority's Balance Sheet in respect of:

- £1.8m reduction in the Authority's net pension liability following receipt of an updated IAS 19 report from the actuary, and
- £5.9m reduction in the valuation of land fund assets following the receipt of the formal valuation report after the draft accounts had been prepared.

Audit adjustments are detailed in Appendix C.

We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete, subject to the following outstanding matters;

- Property, Plant and Equipment,
- grant income,
- group consolidation,
- review of the final set of financial statements; and
- receipt of management representation letter {– see appendix F}.

There are a number of matters still underway as at the time of writing but from the work done to date there are no matters which we are aware of that would require modification of our audit opinion subject to satisfactory resolution of the outstanding matters above.

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 unqualified, but we will be unable to certify the audit closed until our work on the whole of government accounts is complete and we have issued our Auditor's Annual Report (covering our work on the Authority's value for money arrangements).

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix G to this report.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. As reported in the audit plan, we did not identify any risks of significant weakness. We have continued to assess this as the audit has progressed. This has not identified any significant weaknesses.

We expect to issue our Auditor's Annual Report shortly after the audit opinion. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

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.

We expect to certify the completion of the audit upon the completion of our work on the Authority's VFM arrangements, which will be reported in our Annual Audi tor's report, and the completion of our work on WGA.

Significant Matters

As previously reported to ARAC, the audit has been particularly challenging this year, due to staff sickness in both the client finance team and the audit team. In addition, the complexities of the audit trail, additional risks around grant income and infrastructure, plus queries on the work of the component auditors has meant that the audit has taken longer than was originally planned. We will be discussing the impact that this has on the final fee for the audit with the Executive Director of Finance once the audit has been concluded.

We have also consulted with our technical specialist on the treatment of the loan commitment with Phoneix Life Limited and have discussed the sufficiency of the Minimum Revenue Provision with officers in the finance team.

Further information on these matters are included on pages 15-17 in this report.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit, Risk and Assurance Committee (ARAC).

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and 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.

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 Midland Metro Limited and WM5G. These procedures have been performed by the component auditors, and
- 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 12 April, to reflect the national issue in respect of infrastructure assets. Our progress reported to ARAC in September highlighted we had raised questions surrounding the treatment of infrastructure assets. We are reviewing this against the required treatment and the impending statutory direction. We have not identified this area as a new significant risk, but we have highlighted it as an area of enhanced focus. In addition, we have noted that asset disposals have increased from prior years, and these now fall into the scope of our audit. Again, we have not considered these to be a significant risk, but we have undertaken some procedures on this balance, as it is now material.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the ARAC meeting on 24 January 2023, as detailed in Appendix E. These outstanding items include:

- Property, Plant and Equipment,
- grant income,
- group consolidation,
- receipt of management representation letter; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As previously reported to ARAC, the audit has been particularly challenging this year, due to staff sickness in both the client finance team and the audit team. In addition, the complexities of the audit trail, additional risks around grant income and infrastructure, plus queries on the work of the component auditors has meant that the audit has taken longer than was originally planned. We will be discussing the impact that this has on the final fee for the audit with the Executive Director of Finance once the audit has been concluded.

2. Financial Statements

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 for the financial statements as a result of the significant increase in the gross expenditure for the Authority. The increase is predominantly as a result the significant increase in grant expenditure to support the growing capital programme. This increase was not predicted when finance officers provided us with the forecasts used to determine planning materiality.

We detail in the table below our determination of materiality for West Midlands Combined Authority and group.

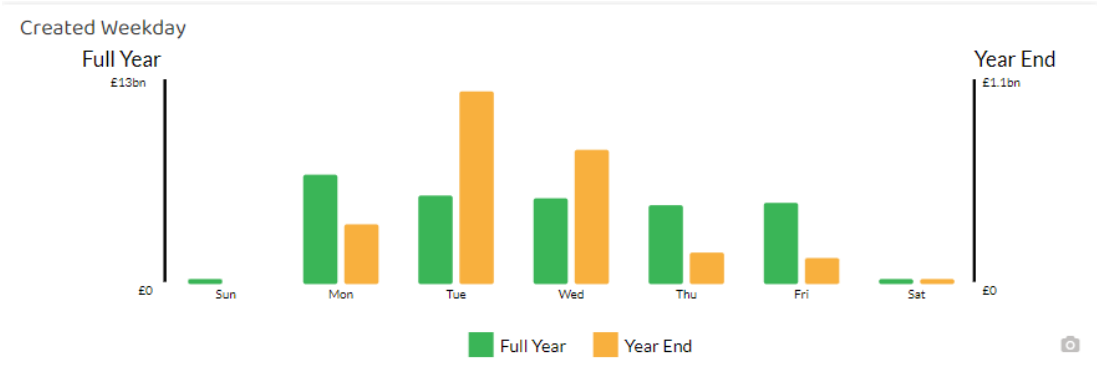
	Group Amount	Authority Amount	Qualitative factors considered
Materiality for the financial statements	£9.3m (£8.4m at planning)	£9m (£8m at planning)	We worked with officers at planning to understand the likely estimate of gross expenditure that would be presented in the accounts. These estimates did not include additional capital expenditure that was funded by additional grant money to support the growing capital program. While materiality has increased, the benchmark used to assist with our determination of materiality has remained unchanged.
Performance materiality	£6.51m (£5.88m at planning)	£6.3m (£5.6m at planning)	This is determined by applying 70% to headline materiality. There has not historically been a large number of significant misstatements arising as a result of the financial statements audit at the Authority, however we have reduced the benchmark used this year to reflect the reduced capacity of the finance team responsible for the production of the financial statements.
Trivial matters	£465k (£420k at planning)	£450k (£400k at planning)	This is determined by applying 5% to headline materiality.
Materiality for senior officer remuneration		£23,800 (£22,500 at planning)	We believe these disclosures are of specific interest to the reader of the accounts.

2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Risk relates to both the Group and the 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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	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 testing of estimates, judgements and journals has not identified any evidence of management override of controls. The Authority processed 78,833 journals each containing multiple lines of data in respect of the year ending 31 March 2022, with a value in excess of £28 billion. 5% of these by number occur at year end but they make up nearly 9% of the value, with the majority linked to a handful of users. While we generally anticipate an increase in activity at year end, auditing standards specifically require us to consider year-end journals and therefore we consider them separately. The chart below is taken from our 'inflo' software which we use to analyse the transactions posted by the Authority during the year. They are included to demonstrate the volume of such transactions and why therefore we review them as part of our response to this significant risk.



Our testing of journals, did identify one transaction that included an expense claim for the Chief Executive. The claim had been entered onto the system by her assistant but had been authorised by the Chief Executive. We reviewed the supporting evidence for the claim and confirmed that the claim was adequately supported. Further testing suggested that this was an isolated incident, but management may want to review their governance processes around senior management expense claims so that they are authorised by a different member of the management team.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) 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 considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including West Midlands Combined Authority mean that all forms of fraud are seen as unacceptable. No specific work was identified at the planning stage of the audit as the presumed risk had been rebutted. Our assessment of this remains unchanged.	Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Authority's and Group's revenue streams, as they are material. We have: Accounting policies and systems • evaluated the Authority's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code • updated our understanding of the Authority's business processes associated with accounting for income Fees, charges and other service income • agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence. Taxation and non-specific grant income agreed, on a sample basis, income to supporting evidence Other grants • sample tested items back to supporting information and subsequent receipt, considering accounting treatment where appropriate. We also designed tests to address the risk that income has been understated, by not being recognised in the current financial year. **Findings** We have no findings to bring to your attention from work done to date, but note that there are queries that are yet to be resolved with the Authority in respect of our work on grant income.
The expenditure cycle includes fraudulent transactions (rebutted) Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit. We have rebutted this presumed risk for West Midlands Combined Authority because: • expenditure is well controlled and the Authority has a strong control environment; and • the Authority has clear and transparent reporting of its financial plans and financial position to the Board. We therefore do not consider this to be a significant risk for West Midlands Combined Authority.	Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Authority's expenditure streams, as they are material. In addition to reviewing the accounting policies as highlighted above, we have: Expenditure • updated our understanding of the Authority's business processes associated with accounting for expenditure • agreed, on a sample basis, operating expenditure and year end creditors to invoices and cash payment or other supporting evidence • performed substantive analytical procedures on the Authority's employee remuneration costs and depreciation We also designed tests to address the risk that expenditure has been overstated, by not being recognised in the current financial year. **Findings** We have no findings to bring to your attention from work done.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability – £42.991m Risk relates to the Authority only. The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved 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. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	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 (an actuary) 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 and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. We have been made aware that due to a variance identified by the pension fund auditor, revised IAS 19 reports were required for all admitted bodies. These revised reports have been received by the Authority, and while the difference is not material, officers have decided to amend for the new report. These adjustments are recorded in Appendix C. We have also noted that the accounting policy as disclosed in relation to pension schemes lacks detail, and we have requested that officers make amendments to include more information around service costs and remeasurement. We have specifically commented on the reasonableness of the assumptions used on page 11.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Midland Metro Limited	Williamson & Croft Audit Ltd	We issued group instructions to Williamson & Croft Audit Ltd. The instructions covered specified audit procedures relating to significant risks of material misstatement. The audit of MML is currently incomplete, however the auditor has responded to our group instructions and indicated that there are no significant issues that would materially impact on the group.	We have reviewed the work performed by the component auditor and to date have not been able to conclude that their work provides sufficient assurance for the group audit. We have requested further information from the component auditor, and we are waiting for this to be provided alongside final completion documents that were set out in the group instructions.
WM5G	Cooper Parry	We issued group instructions to Cooper Parry. The instructions covered specified audit procedures relating to significant risks of material misstatement. The audit of WM5G was signed off on the 20 July 2022. No significant issues were identified that would materially impact on the group.	We have received the group completion documents from Cooper Parry and have reviewed the work of the component auditor. This provides us with sufficient assurance for the group audit opinion.

2. Financial Statements – new issues and risks

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 deficiencies identified during the year.

Issue	Commentary	Auditor view
Infrastructure Assets • In our audit plan we identified a risk in relation to infrastructure assets. The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, with a requirement to reconcile the gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. These requirements of the Code are derived from IAS 16 *Property, Plant and Equipment*. • Infrastructure assets includes, bus stations, tram tracks and streetlighting. In 2021/22 the Authority spent £7.1m on infrastructure capital additions. As at 31 March 2022, the net book value of infrastructure assets was £267.7m which is over 29 times materiality.	To address this risk we have; • reconciled the fixed asset register to the financial statements, • obtained assurance that the Useful Economic Life (UEL) applied to infrastructure assets is reasonable, and • documented our understanding of management's process for derecognising infrastructure assets on replacement and obtained assurances that the disclosure in the PP&E note is not materially misstated.	We have substantially completed our work in this area. We have obtained a detailed understanding of the arrangements that the Authority has in place for treating infrastructure in it's asset register. Infrastructure is recorded at a component level, with testing confirming that assets are derecognised when they are no longer in use. We are completed testing on UEL's across both infrastructure and vehicles, plant and equipment categories. The testing identified that in 5 of the 11 assets sampled, the UEL used, while in line with the policy, was not in line with how the asset had been used. Assets were being used longer than anticipated, resulting in depreciation being over estimated in prior years. The impact of this is not material, but highlights the need for all assets to be reviewed at least annually , and if expectations on asset life differ from previous estimates a change in accounting estimate should be made to ensure full compliance with IAS 16. The UEL testing also identified a potential misclassification of £1.2m of assets that were disclosed as Vehicles, Plant and Equipment, but meet the definition of Infrastructure as per the Code. The accounting treatment of infrastructure assets is a national issue, with the Department for Levelling Up, Housing & Communities (DLUHC) continuing to work on a Statutory Instrument, which has been laid in Parliament on 30 November 2022 and comes into force on 25 December 2022. This will resolve the majority of the ongoing audit challenges related to infrastructure asset balances.
Recognition and Presentation of Grant Income • The Authority receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Authority is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Authority also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.	To address this risk we have; • Reviewed the grant income and obtained a detailed understanding of how the Authority accounts for grant income, and • Tested a sample of grant income and grants received in advance to supporting documentation and considered any conditions in place on the use of the grant.	In preparing the draft financial statements finance officers reviewed the accounting policy for capital grants funding revenue expenditure from capital under statute (REFCUS). The review identified that to achieve a fairer presentation these grants should be funded from resources rather than taxation and non specific grant income. As this is a change in accounting policy, the prior year comparatives have been restated. Given the change in accounting policy by the Authority, and the significant increase in grant funding, we have placed an enhanced focus on this area. As in previous years, the audit trail from the management accounts through to the statutory financial statements is complicated. Understanding this, and developing a testing strategy that enables testing at a transactional level has been time consuming. As a result, we are yet to fully complete our testing in this area, with some queries outstanding.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building – £3.659m	The majority of the value associated with Land and Buildings, as disclosed in Note 19 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 are therefore required to be valued at existing use in value (EUV) at year end. The Authority has engaged Bruton Knowles to complete a desktop valuation 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. Given the balance, this is not considered a material accounting estimate for the purposes of the accounts preparation, but reported to members for completeness.	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 19 is adequate. We have written directly to the valuer to confirm their independence and methodology, however we are yet to receive a response.	Light purple
Inventories - £14.372m	The Land Fund is a capital grant made to the Authority for it to use to assemble land and fund the subsequent remediation and/or servicing for residential development; or to utilise as investment in third party housing projects to drive delivery. The intended use of the assets is for housing development and demolition and/or remediation works are required to be carried out in order to bring derelict sites back into use. The asset isn't complete until it is fully remediated and the land, once remediated, is not expected to be used by the Authority during more than one period. Therefore it does not meet the definition of Property, Plant and Equipment. Management have classified these assets as Inventory, and given their nature have employed Burton Knowles to undertake a valuation of them at year end. The valuation has been prepared on a net realisable value basis, as required for inventory.	We have considered the estimate applied by management and the use of their expert, Bruton Knowles. • The valuation methodology applied is consistent with professional standards. • The draft financial statements were prepared prior to the valuation being received. The valuation shows a £5.905m reduction in the value that the land should be recorded on the balance sheet, and officers will be amending for this in the final version of the financial statements.	Light purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £42.991m	The Authority's total net pension liability at 31 March 2022 per the draft accounts was £42.991m. (Following receipt of a revised IAS 19 report, this has now been amended to £41.150m.) The Authority uses Hymans Robertson 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.	• We have no concerns over the competence, capabilities and objectivity of the actuary used by the Authority. • We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the West Midlands Pension Fund valuation as it applies to WMCA.	Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.70%	2.7% -2.75%	● (G)
Pension increase rate	3.30%	3.15% - 3.3%	● (G)
Salary growth	4.3%	3.8% to 5.8%	● (G)
Life expectancy – Males retiring today	21.2	20.1 – 22.7	● (G)
Life expectancy – Males retiring in 20 years	22.9	21.4 – 24.3	● (G)
Life expectancy – Females retiring today	23.6	22.9 -24.9	● (G)
Life expectancy – Females retiring in 20 years	25.4	24.8 – 26.7	● (G)

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above. The revised IAS 19 has not identified any changes in these assumptions.

Assessment

- ● Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £2.336m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £2.336m, a net increase of £1.9m from 2020/21.	This has been an area of discussion with management, and our findings are reported on page 16.	Blue

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
Complexity of the audit trail and working papers to support the financial statements.	As the Authority has grown, the level and complexity of the transactions entered into has increased. While the accounting system enables individual transactions to be tracked, the audit trail is protracted, leading to inefficiencies in the audit process and a number of delays. We have raised this with officers in prior years however no changes have been made to the process in place. The production of the statutory financial statements are heavily reliant on a set of detailed spreadsheets which provide the links back to the accounting system. Our audit approach is substantively based and relies upon being able to identify sums at transactional level. To drill down into one transaction for testing purposes requires a number of iterations of reports and further breakdowns from the ledger and supporting excel automated workbooks. This leads to delays in the completion of the audit process. It also requires substantial officer time to provide the information that is required. Even when at a transaction level, the balance is often generated from a separate system within the Authority, which requires a detailed understanding to be able to understand the nature and substance of the transaction. We have encountered particular difficulties this year with the audit trail for grant funding, which has led to additional time being spent on the audit. There is strong focus on systems that provide accurate and timely management reporting information, however, that does not translate easily into the information that is needed to produce a set of CIPFA Code compliant statutory financial statements. The current method of compilation of the financial statements means that we are unable to apply a range of automated audit techniques which would enable us to gain assurance over the balances produced in a shorter timescale. The Authority has a small core finance team, with detailed knowledge often concentrated in one person. This creates bottlenecks in workloads, and has resulted in significant delays. Similarly, supporting information necessary for detailed transactional testing, has been gathered from across the Authority, however all of that information has been quality assured by the core finance team in an attempt to limit further auditor queries, however this has again led to delays in the process due to the limited resources in the core finance team.	To enable the audit to be completed in a shorter timescale a full review of the process for the compilation of the financial statements needs to be undertaken by the finance team. This needs to focus on the ledger being used to produce the financial statements, creating less reliance on intermediate spreadsheets and work arounds. Supporting information for balances within the financial statements needs to enable a direct drill down to transactional level for all balances, but most specifically operating expenditure, grant income, capital additions and REFCUS. Audit is becoming more complex. In order to understand and challenge transactions and assumptions we need to directly engage with officers in other departments who can explain processes or give context to decisions taken. e.g. engineers. There needs to be greater ownership of the financial accounts process outside of the finance team to ensure information is provided right first time in a reasonable timescale, without the need for an extensive quality control process. **Management response** We acknowledge the need for less reliance on intermediate spreadsheets and work arounds when producing the financial statements and are working towards automating their production for the 2022/23 financial statements. We also acknowledge the need for greater engagement in the audit process by other departments to ensure information is provided right first time and will be working with the wider team to raise awareness ahead of the 2022/23 audit.

2. Financial Statements - matters discussed with management

Background and Issue

The Department for Levelling Up, Housing and Communities and Local Government (DLUHC) (formerly MHCLG) has policy responsibility for the Prudential System. This covers the responsibility for ensuring that the statutory guidance drives local authorities to make borrowing and investment decisions in a way that is commensurate with their statutory responsibilities and the best value duty. It also includes overall responsibility for the local government finance system, including understanding the risks to the system from changes in the types of borrowing and investment activities that local authorities are undertaking.

The statutory framework for the Prudential System is set out in Chapter I of the Local Government Act 2003 and in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended and includes the Statutory Guidance on Minimum Revenue Provision (MRP) prepared by MHCLG. The MRP Guidance gains its statutory status from section 21(1A) of the 2003 Act.

Minimum Revenue Provision (MRP):

- Local authorities are normally required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or long term credit arrangements.
- Since the introduction of MRP, there have been a number of changes to statutory guidance. One of the most significant was in 2012 with a shift in emphasis from prescriptive regulations to guidance to help to promote development schemes which would have been hindered by the inflexibility of the former regulatory regime and effectively give councils autonomy to make decisions on the level of provision based on local circumstances.
- In 2019 there was a slight retrenchment and a tightening of the interpretation of what was deemed to be a "prudent provision". It also made it impossible to take credit from an MRP account where there had been over provision in the past, but it was still permissible to take 'holidays' for this reason, and councils were prevented from changing the basis of calculation in order to retrospectively generate an overpayment that a 'holiday' could be taken on (this applied from 1 April 2018).

Sector Analysis:

During September 2021, Grant Thornton carried out a benchmarking exercise across its Local Government client base in order to identify organisations where the level of MRP provided for appeared to be low, when expressed as a percentage of a body's overall Capital Financing Requirement. The outputs from this were not available ahead of us issuing our 2020/21 audit opinion but we have revisited this in 2021/22. At around 1.25%, the Authority's MRP was RAG rated as "amber" and the audit team entered into discussions with management to understand the drivers behind this.

Upon review of the Authority's MRP policy and underlying working papers, we identified three key drivers of the apparent low level of MRP:

- the 'holiday' currently being taken on MRP as a result of changing the calculation methodology to an annuity basis
- the significant majority Investment Programme funded projects not being operational and therefore not subject to MRP in 2021/22, and
- setting the MRP for capital loans (soft loans and investments through the CIF) to zero on the expectation that the capital (principal) repayments would reduce the Capital Financing Requirement until the original principal borrowed had been fully repaid but in order to maintain prudence an annual expected credit loss calculation would be undertaken to assess whether principal repayments would be received in full.

Paragraph 46 and 47 of the 2019 statutory guidance (with effect from 1 April 2019) and paragraphs 23 and 24 of the 2012 statutory guidance in respect of loans and grants towards capital expenditure by third parties state that where on or after 1 April 2008 an authority incurs expenditure which is:

- Financed by borrowing and credit arrangements; and
- Treated as capital expenditure by virtue of either a direction under section 16(2)(b) of the 2003 Act or Regulation 25(1) of the 2003 Regulations,

The Authority should calculate MRP in accordance with the Asset Life Method.

2. Financial Statements - matters discussed with management

Background and Issue

30 November 2021 Consultation

On 30 November 2021 the DLUHC launched a consultation on proposed changes to the regulations which require MRP. The key items in the consultation were:

- the changes will clearly set out that capital receipts, as a capital resource, cannot be used in lieu of all or part of the required prudent MRP charge to revenue
- authorities should not be excluding elements of their Capital Financing Requirement from the scope of MRP (e.g. authorities should not be excluding capital expenditure on investment properties or loans from the scope of MRP on the grounds of anticipated future capital receipts)
- the Department considers this a clarification of existing provisions, not a change of policy, and
- the revised Regulations are expected to come in to force from 1 April 2023 and not be retrospective.

Audit View

Both the 2012 and 2019 guidance does recognise that “Authorities must always have regard to the guidance, but having done so, may in some cases consider that a more individually designed MRP approach is justified.” Whilst we accept that the Authority has a clear rationale for its policy choices, it is the Firm’s view that the Authority’s current policies in respect of capital loans are not fully compliant with the expectations of the Prudential Framework and the current statutory MRP guidance and that the current consultation confirms this. However, we also recognise that the consultation does not propose retrospective lump sum catch up payments (if enacted) but there is an expectation that any under provisions are caught up in future provisions.

The consultation also meant that the door remained open for ministers to revisit the position based upon the feedback received. A subsequent survey proposed further amendment to permit MRP to be reduced in respect of capital loans, by loan repayments treated as capital receipts. However, authorities would need to recognise losses estimated on an expected credit loss basis. This proposed amendment is consistent with the approach currently adopted by the Authority and would effectively ‘regularise’ its position. Government will issue a full response to the consultation in due course.

We have reviewed the terms and conditions of the soft and CIF loans and are satisfied the specified purpose of these loans is for capital purposes and that they are likely to meet the definition of capital loans under the proposed regulations. Until this is confirmed our view is that the Authority’s policy to use capital receipts in place of an MRP provision is not in accordance with the current regulations .From the analysis provided by the Authority the principal outstanding on capital loans where MRP has not been made is £37.6m. The impact of this has been quantified by the audit team, and we consider there to be an undercharge of £8.3m on MRP, for the current year. This is not material. This undercharge has been calculated in reference to the life of the loans, however, there are other interpretations of the regulations which allow for an asset life methodology to be applied. If the Authority determined this an appropriate approach, the potential impact has been calculated by officers to be an estimated £1m undercharge in the current year.

Conclusion

Our view is that the Authority’s policy, whilst not in accordance with the statutory guidance, has not currently led to a material issue. The Authority has also considered prudence when setting it. However, we have asked officers to consider our estimations, and confirm if this is the extent of the undercharge, or if there is a larger cumulative impact. We are also satisfied, subject to further consideration as part of our Value for Money work, that there is no immediate impact upon the Authority’s short-term financial position.

However, should the current policy continue and the proposed amendments not regularise the position then the Authority would not be putting sufficient resources to one side to meet its obligations and mitigate potential risks alongside not being compliant with the current statutory guidance.

Considering this and given the government is now consulting on the matter we are satisfied that no formal audit action is required at this time. However, we have made an improvement recommendation (see Appendix A) in respect of the Authority considering its position and planning accordingly. The impact of MRP annual payments on the financial sustainability will be considered further and reported as part of our Auditors Annual Report.

Management Response

We are comfortable that we have provided for sufficient MRP within the 2021/22 financial statements and are cognisant of the evolving statutory guidance around the matter. We will consider our approach going forward as part of our medium term financial planning process.

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
The Authority has entered into a loan commitment with Phoneix Life Limited. The Authority will draw down £100m on 1 August 2023, and will have a maturity date of 1 August 2073.	Loan commitments are commitments to provide credit under pre-specified terms and conditions. Under IFRS 9.2.1 (g) loan commitments are not within the scope of IFRS 9 except for the following: • loan commitments that the entity designates as financial liabilities at fair value through profit or loss (see paragraph 4.2.2). An entity that has a past practice of selling the assets resulting from its loan commitments shortly after origination shall apply this Standard to all its loan commitments in the same class. • loan commitments that can be settled net in cash or by delivering or issuing another financial instrument. These loan commitments are derivatives. A loan commitment is not regarded as settled net merely because the loan is paid out in instalments (for example, a mortgage construction loan that is paid out in instalments in line with the progress of construction). • commitments to provide a loan at a below-market interest rate (see paragraph 4.2.1(d)).	We have discussed the terms of the loan with officers and agree with the view that the loan is not in scope of IFRS 9. Therefore there is no accounting or detailed disclosures required until the funds are drawn down. Having reviewed the loan agreement, it is likely that the prepayment feature in the loan is likely to give rise to a separable (non closely related) embedded derivative, this will require careful analysis to ensure that this is correctly accounted for in the 2023/24 financial statements. We would recommend that officers prepare a detailed accounting paper explaining their proposed treatment for this loan in advance of the preparation of the draft financial statements. This will enable agreement to be reached on the treatment at an early stage. **Management response** We have noted this matter and confirm that our proposed accounting treatment will be shared with you in advance of the preparation of the draft financial statements for 2023/24.

2. Financial Statements - 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
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 significant issues have been identified during the course of our audit procedures. We have considered the outcome of the report into the whistleblowing concern raised, and do not consider there to be any impact on the financial statements.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Authority [including specific representations in respect of the Group], which is appended.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all the Authority's bank, investments and loan counterparties. This permission was granted and the requests were sent. With the exception of one investment, we have received positive confirmation of the balances.
Accounting practices	We have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. With the exception of our views on MRP, our review found no material policy omissions in the financial statements. We have made some suggestions for greater clarification on the wording for some accounting policies, and offices have agreed to amend for these in the final version of the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

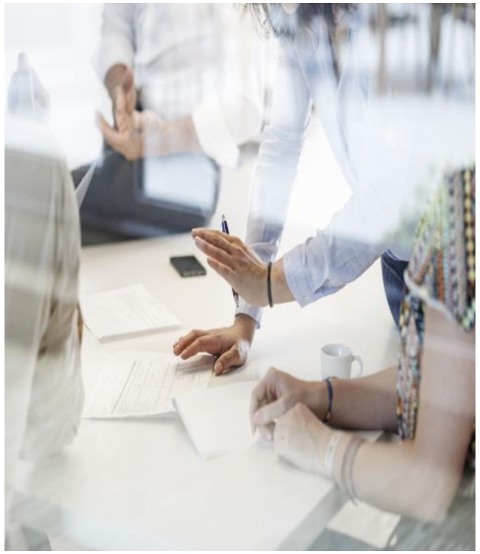
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
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 – refer to appendix E. We would however make the observation that the narrative report is very long when compared to others, and while it complies with the Code, there are elements of duplication within it and the AGS, and it could be reviewed to be more concise and more accessible to a reader of the accounts.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts (WGA)	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. For 2020/21 the threshold was amended, which resulted in the Authority falling below the specified group reporting threshold. As a result a limited amount of work was required by the audit team once the data collection exercise was confirmed. Guidance for the 2021/22 WGA is not yet available. Once this is released we will work with officers to ensure the required procedures are completed.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of West Midlands Combined Authority in the audit report, as detailed in Appendix E, due to incomplete VFM work and the need to complete the procedures in respect of WGA.



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report shortly after the opinion. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any significant weaknesses in the audit plan, and our work to date on updating our understanding of the arrangements in place has not identified any further significant weaknesses.

Criteria	Work performed to date
Financial Sustainability	• We have held a number of meetings with key officers of the Authority, including the Chief Executive and s151 officer, • We have reviewed budget reports presented to members of the Board, and • We have reviewed the going concern assessment provided by management in relation to the 2021/2022 financial statements.
Governance	• We have held a number of meetings with key officers of the Authority, including the monitoring officer and the Head of Finance Business Partnering & Strategic Planning and the Mayor • We have reviewed reports presented to the Audit, Risk and Assurance Committee, • We have reviewed the outputs of Internal Audit and communicated with the Head of Internal Audit.
Improving economy, efficiency and effectiveness	• We have held a number of meetings with key officers of the Authority, including the Head of Commercial Procurement and the Head of Transformation. • We have reviewed key reports presented to members of the Board.

4. 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.

There is one matter that impacts on our independence as auditors that we wish to draw to the attention of ARAC.

Under ethical standards an Engagement Lead can complete no more than seven years with any one client to reduce the risk of familiarity. An additional safeguard is in place for any audit's under the PSAA contract, and this requires further approval from PSAA for any engagement leads having an association with a client for more than five years. The audit of the 2021/22 financials statements will be the 6th year of association for the engagement lead. PSAA have granted Grant Patterson an extension for both the 2021/22 and 2022/23 financial statements and this has been confirmed by our own internal ethics function. We are satisfied that the matters above provide sufficient protection to enable us to remain independent to the audit of West Midlands Combined Authority.

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 D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

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 group. The following non-audit services were identified which were charged from the beginning of the financial year to current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Non Audit related	5,000	Self Interest	The amount of grant paid by the DfT to WMCA (who then pay it to MML) is less than 5% of the income of WMCA and our role would only ever focus on a small amount of the grant. As such, overall the work for the DfT will be a very small proportion of WMCA's income.
		Self review	The work is part of a much wider remit covering all bus and light rail operators in the UK and so the proposed service fee of £5k reflects the WMCA part of a much larger fee.

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Risk and Assurance Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 6 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. 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
Medium	Complexity of the audit trail and working papers to support the financial statements.	A full review of the process should be undertaken following the completion of the audit to try and identify more efficient ways to gain assurance in future years. **Management response** We acknowledge the need for less reliance on intermediate spreadsheets and work arounds when producing the financial statements and are working towards automating their production for 2022/23.
Medium	We worked with officers at planning to understand the likely estimate of gross expenditure that would be presented in the accounts. These estimates did not include additional capital expenditure that was funded by additional grant money to support the growing capital program. As a result expenditure used as part of the planning was significantly different from actual expenditure, which caused a significant shift in the level of materiality used.	Clear working papers should be available as part of the interim audit which more accurately translates the forecast financial position into the impact on the financial statements at year end. **Management response** We acknowledge that there was a shift in gross expenditure between the final forecast for the year and the final financial statements, primarily resulting from the receipt of government grants awarded to support our capital programme that were not anticipated to be received in the final forecast for the 2021/22 year which was produced in January 2022. We will include an estimate of potential additional government grant awards for 2022/23 to ensure a more accurate estimate of gross expenditure is provided at interim audit.
Low	Our testing of journals, did identify one transaction that included an expense claim for the Chief Executive. The claim had been entered onto the system by her assistant but had been authorised by the Chief Executive. We reviewed the supporting evidence for the claim and confirmed that the claim was adequately supported. Further testing suggested that this was an isolated incident.	Management may want to review their governance processes around senior management expense claims so that they are authorised by a different member of the management team. **Management response** To note that other controls were in place including a review of the claim to ensure it complied with the Expenses Policy by the Payroll and Pensions team prior to release of payment. We have reviewed the governance around senior management expense claims and confirm that these are routinely authorised by a different member of the Strategic Leadership Team.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	The consultation makes it clear that the Authority's current policy to use capital receipts in place of an MRP provision is not in accordance with the regulations. The impact of this has been quantified by the audit team, and consider there to be an undercharge of £8.3m on MRP.	Management should review the calculation of the MRP and ensure that it is calculated in accordance with the current regulations. **Management response** We are comfortable that we have provided for sufficient MRP within the 2021/22 financial statements are cognizant of the evolving statutory guidance around the matter. We will consider our approach going forward as part of our medium term financial planning process.
Medium	The Authority has entered into a loan commitment with Phoneix Life Limited. The Authority will draw down £100m on 1 August 2023, and will have a maturity date of 1 August 2073.	Having reviewed the loan agreement, it is likely that the prepayment feature in the loan is likely to give rise to a separable (non closely related) embedded derivative, this will require careful analysis to ensure that this is correctly accounted for in the 2023/24 financial statements. We would recommend that officers prepare a detailed accounting paper explaining their proposed treatment for this loan in advance of the preparation of the draft financial statements. **Management response** We have noted this matter and confirm that our proposed accounting treatment will be shared with you in advance of the preparation of the draft financial statements for 2023/24.
Low	The narrative report is very long when compared to others, and while it complies with the Code, there are elements of duplication within it, and it could be reviewed to be more concise and more accessible to a reader of the accounts.	The content of the narrative report should be reviewed to ensure that elements of duplication are removed, and that it provides a concise summary of the activities of the Authority. **Management response** We confirm the 2021/22 narrative report was reviewed in conjunction with colleagues across the Authority to ensure it covered the breadth and depth of the Authority's remit and to make it more user friendly although we acknowledge the need to review the content to ensure any elements of duplication are removed.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of West Midlands Combined Authority's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit Findings report. The action is yet to be taken and we have repeated the recommendation in this year's action plan.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Complexity of the audit trail and working papers to support the financial statements. The recommendation suggested a full review of the process to try and identify more efficient ways to gain the necessary assurance in future years.	A joint review meeting was held following the audit last year, to identify areas for improvement, however the fundamental changes needed to audit trails have not yet been made.

Assessment

✓ Action completed

X Not yet addressed

C. 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 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
The pension fund auditor identified a variance with the rate of return used by the actuary in the IAS 19 reports. As a result, all local government admitted bodies have received revised IAS 19 reports. The impact of the revised report is to reduce the Authority's net pension liability from £42,991k to £41,150k. While this is not material, officers have decided to amend for this balance. This also impact on the associated disclosure note, which is note 32.		(£1,841)	
The valuation report for assets that form part of the land fund arrived after the production of the draft financial statements. The valuation received is £5.9m less than the previous valuation and therefore officers intend to adjust for the latest valuation.	£5,905	(£5,905)	£5,905
Overall impact	£5,905	(£7,746)	£5,905

C. Audit Adjustments

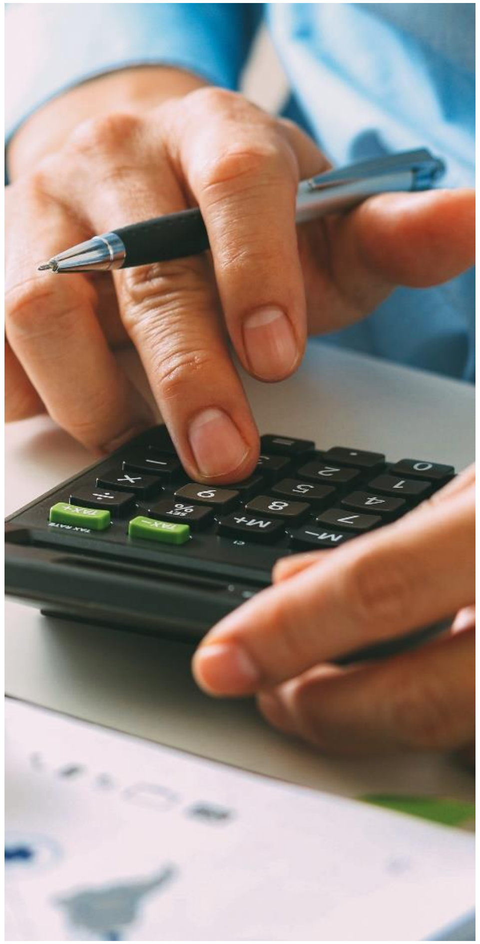
We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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	Auditor recommendations	Adjusted?
Presentation and disclosure	Our review of the accounts highlighted minor improvements that were required to be made to the accounts. None of these were individually significant and they have been made to improve the final presentation and aid clarity for the reader. The proposed minor adjustments were agreed with officers and changes will be made to the draft accounts submitted for audit. Examples included the amending the narrative around the soft loans to confirm that they were made in the prior year, rather than the current year, an amendment in the narrative report to update for the correct financial year and changes to column headings on notes to demonstrate where they have been restated.	✓
Note 38 – Related party transactions	Prior year comparators were omitted for part of the note, these will be included in the final version of the financial statements.	✓
Note 18 – Audit Fees	The audit fee disclosed in the draft financial statements is £67k, this should be amended to agree with the fee agreed in the audit plan of £68k.	✓
Note 7 – Expenditure and income analysed by nature	There is £818k that has been disclosed as REFCUS, that should be classified as other service expenses. The pensions classification of £13,200k is the accounting adjustment through the MiRS. This is not the actual cost of pensions, and we have agreed with officers that a fairer presentation would be to include this in the employee benefits expenses line.	✓
Note 19 Property, Plant and Equipment	The UEL testing identified a potential maximum misclassification of £1.2m of assets that were disclosed as Vehicles, Plant and Equipment, but meet the definition of Infrastructure as per the Code. As this is an estimation of the maximum likely value officers do not intend to amend the classification, which is reasonable given that it is not material.	x
Note 40 – Prior period adjustment	The change made to the presentation of grant income is a change in accounting policy and not a change as a result of an error in the prior year. Officers have agreed to amend the wording of this note to clarify this point.	✓
Group MiRS	Initial consolidation checks identified that the group MiRS was not presented in line with the Code. Officers have made the appropriate amendments to the draft financial statements.	✓
Cashflow statement	The cashflow statement has been amended to disclose separately the purchase of short term and long term investments and the proceeds from short term and long term investments. In addition they have also reclassified the increase in grants receipts in advance from the financing section of the cash flow statements to the investing activities section.	✓

C. Audit Adjustments

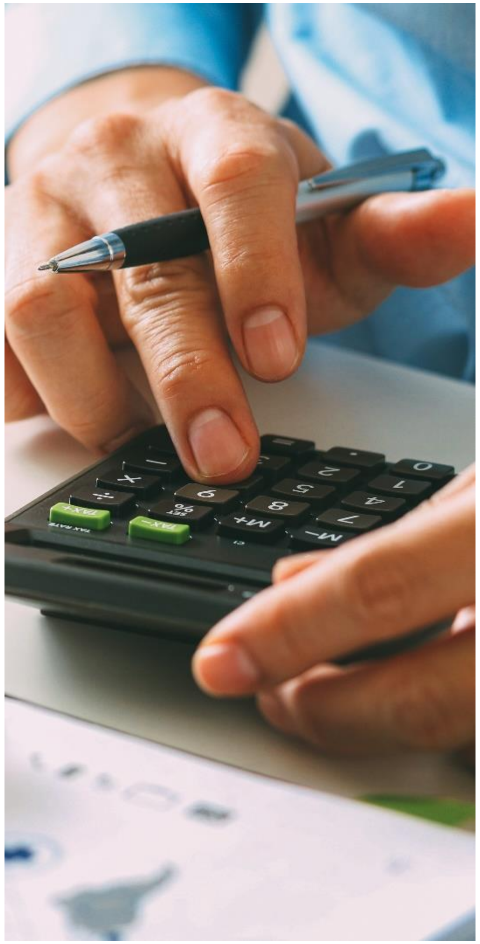


Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit, Risk and Assurance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Due to the complex nature of the funding for the Metro projects, the Authority have an automated process in place that allocates costs to the capital programme. A challenge of this allocation demonstrates that there is a likelihood that £1.63m of these costs does not meet the definition of capital expenditure and has been incorrectly capitalised. As officers have not done a detailed review of these costs, this estimation has been undertaken on a 'worst case' scenario basis, and as such officers have decided not to amend the financial statements in the current year.	£1,630	(£1,630)	£1,630	Not material quantitatively or qualitatively.
A BACs run was processed on 30/03/2022 for £1,339k. As this had not cleared the bank statement by the 31st March officers incorrectly made an adjustment for the cash amount back to creditors.	Nil	Dr Cash £1,339 Cr Creditors £1,339 Net nil impact	Nil	Not material quantitatively or qualitatively. Management do not agree that this is an error.
Overall impact	**£1,630**	**(£1,630)**	**£1,630**	

C. Audit Adjustments



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 2020/21 financial statements. These do not have a cumulative impact on the 2021/22 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Impairment of tram track between Bull Street and Grant Central Officers have identified an impairment trigger and estimated the potential impact of the value of the asset held within the balance sheet. The estimate suggests a maximum potential impairment of £5.5m.	£5.5m	(£5.5m)	£5.5m	Not material quantitatively or qualitatively Management have assessed the valuation of the track at year end March 2022 and not identified any impairment in relation to the track.
In testing the useful economic life of equipment assets we identified £1.4m of IT assets which are fully depreciated and are no longer in use. The net impact of this on the balance sheet is nil, however management recognise that this needs to be amended in the asset register in future years.				Not material quantitatively or qualitatively Management have carried out a review of net nil book value assets during 2021/22
Overall impact	**£5.5m**	**(£5.5m)**	**£5.5m**	

D. Fees

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

The fees reconcile to the financial statements, following an amendment to the draft financial statements.

Audit fees	Proposed fee	Final fee
West Midlands Combined Authority Audit	£68,355	TBC
Total audit fees (excluding VAT)	£68,355	TBC

Non-audit fees for other services	Proposed fee	Final fee
Non Audit Related Services	£5k	TBC
Total non-audit fees (excluding VAT)	**£5k**	**TBC**

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the group 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 on financial statements

We have audited the financial statements of West Midlands Combined Authority (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2022, which comprise the Authority Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Authority Movement in Reserves, the Group Movement in Reserves, the Balance Sheets, the Cash Flow Statement, and Notes to the Accounts including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2022 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 group and 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Responsible Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Responsible Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

E. Audit opinion

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Responsible Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Responsible Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Responsible Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Responsible Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

E. Audit opinion

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

As explained in the Statement of Responsibilities [set out on page 33], 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 Responsible Finance Officer. The Responsible Finance Officer 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 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Responsible Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Responsible Finance Officer is responsible for assessing the Authority's and the group'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 there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit, Risk and Assurance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003 and the Local Government Act 1972.
- We enquired of senior officers and the Audit, Risk and Assurance Committee, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit, Risk and Assurance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

E. Audit opinion

  - Journals processed by senior finance officers, as we would not expect them to be involved in the normal day to day operations of the general ledger
  - Journals with blank descriptions, as this could indicate that there is not a legitimate reason for posting a journal
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Responsible Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on any journals posted by senior finance officers and those with a blank description;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to defined benefit pensions liability valuations and did not identify any areas of non-compliance.
- Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority’s engagement team included consideration of the engagement team's and component auditor’s.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and group’s operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.
- For components at which audit procedures were performed, we requested component auditors to report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

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

Matter on which we are required to report by exception – the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

E. Audit opinion

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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

We cannot formally conclude the audit and issue an audit certificate for West Midlands Combined Authority for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report,
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

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

F. Management Letter of Representation

Dear Sirs

West Midlands Combined Authority
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of West Midlands Combined Authority and its subsidiary undertakings, Midland Metro Limited and WM5G for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the group and Council 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 2021/22 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:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and Council'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 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council 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 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. Such accounting estimates include the valuation of the pension fund liability and the measurement of financial instruments. 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. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. 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.

vii. Except as disclosed in the group and Authority financial statements:

  vi. there are no unrecorded liabilities, actual or contingent

  vii. none of the assets of the group and Authority has been assigned, pledged or mortgaged

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

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 financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

F. Management Letter of Representation

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

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are quantitatively and qualitatively immaterial to the results of the Authority and its financial position at the year-end. The 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.

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

xiv. The prior period adjustments disclosed in Note 40 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.

xv. We have updated our going concern assessment. We continue to believe that the group and Authority's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

   a. the nature of the group and Authority means that, notwithstanding any intention to cease the group and Authority operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

   b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

   c. the group and Authority's system of internal control has not identified any events or conditions relevant to going concern.

   We believe that no further disclosures relating to the group and Authority's ability to continue as a going concern need to be made in the financial statements

xvi. The group and Authority has complied with all aspects of ring-fenced grants that could have a material effect on the group and Authority's financial statements in the event of non-compliance.

Information Provided

xvii. 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 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. access to persons within the Authority via remote arrangements,from whom you determined it necessary to obtain audit evidence.

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

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. 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.

xxi. 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 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.

xxii. 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.

F. Management Letter of Representation

xxiii. 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.

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

xxv. 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

xxvi. 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

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

Approval

The approval of this letter of representation was minuted by the Authority's Audit, Risk and Assurance Committee at its meeting on 24 January 2023.

Yours faithfully

Name…………………………..

Position…………………………

Date……………………………

G. Audit letter in respect of delayed VFM work

Commercial in confidence

Grant Thornton

Mr M Smith
Chair of Audit, Risk and Assurance Committee
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23 September 2022

Dear Mark

Delay to the reporting of VFM arrangements for 2021/22

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than three months after the date of the audit opinion but will be making best endeavours to complete our work significantly before then.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours sincerely

Grant Patterson
Engagement Lead and Key Audit Partner

For and on behalf of Grant Thornton UK LLP

grantthornton.co.uk