



## Audit, Risk & Assurance Committee

<b>Date</b>	18 April 2023
<b>Report title</b>	West Midlands Combined Authority – Response to Audit Findings Report for the Year Ending 31 March 2022
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<b>Report has been considered by</b>	N/A

### Recommendation(s) for action or decision:

#### Audit, Risk & Assurance Committee is recommended to:

- (1) Note WMCA's response to the draft Audit Findings Report for the year ended 31 March 2022 presented by Grant Thornton at the Committee's meeting on 23 January 2023.

## 1.0 Purpose

1.1 This report has been prepared to formally respond to the draft Audit Findings Report for the year ended 31 March 2022 presented by Grant Thornton at the Committee's last meeting on 24 January 2023.

## 2.0 Background

2.1 The audit process for 2021/22 has now concluded and Grant Thornton presented their draft audit findings to members of the Committee at their meeting on 24 January 2023. This report sets out WMCA's formal response to the draft Audit Findings Report for the year ended 31 March 2022 and provides further context around the timeliness of the publication of audited accounts.

2.2 As previously reported to members of the Committee, the Audit Findings Report for the year ended 31 March 2022 highlights that the audit for the year ended 31 March 2022 was particularly challenging due to staff sickness in both the WMCA Finance Team and the Grant Thornton audit team. Audit progress was again impacted by further absence in the Grant Thornton audit team following formal approval of the 2021/22 Statement of Accounts by WMCA Board on 10 February 2023. Although at the time of writing it is currently anticipated that the audit opinion for the year ended 31 March 2022 will be issued by 31 March 2023 to enable the audited accounts to be published, this is a full 12 months after the end of the reporting period and 6 months later than originally planned.

2.3 WMCA's Finance Team and Grant Thornton are working together to ensure that the audit process for the year ended 31 March 2023 will progress at a far faster pace enabling the audited Statement of Accounts to be published in time for the statutory publication deadline of 30 September 2023.

2.4 To provide further context around the timeliness of publication of audited accounts, in their recently published report 'About time?', Grant Thornton notes optimism that there will be an improvement in timeliness as foundations are being laid for the future as follows:

- The Audit, Reporting and Governance Authority (ARGA) will act as the new systems leader for local audit, with a dedicated unit with local government audit expertise. Interim arrangements are in place, including the appointment of the first Director of Local Audit (DLA) by the Financial Reporting Council (FRC). The FRC and the Department for Levelling Up, Homes and Communities (DLUHC) have published an agreed memorandum of understanding which sets out the roles and responsibilities the FRC will take on as system leader during the shadow period ahead of the intended establishment of ARGA.
- Public Sector Audit Appointments Ltd (PSAA) has awarded new contracts at more sustainable fees, and new market entrants should help to secure a more competitive and resilient local audit market over time.
- The current National Audit Office (NAO) Code of Audit Practice (CoAP) will apply for the next PSAA contract round, through to 2027/28, providing greater certainty on audit workloads.
- Delays caused by infrastructure accounting have been largely resolved by the related Statutory Instrument and revised accounting requirements and guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA). Steps are being taken to develop a longer-term approach to the accounting framework for these assets.

- 2.5 The report also notes that more could be done by key stakeholders to secure improvement and a return to high levels of compliance with timely publication of audited accounts. Their recommendations to improve timeliness are as follows:

**For FRC, ARGA and Government**

**R1.** To determine how to deal with the backlog of local government audits. In particular, to consider whether temporary flexibility can be introduced into the local audit framework to allow reduced scope audits to be undertaken on backlogged accounts. We consider this would be of benefit to the local government entities freeing them up for more forward-looking activities with limited detrimental impact on the users of the financial statements given some outstanding financial statements date back to 2015/16.

**For FRC and ARGA**

**R2.** To determine and agree with Government the purpose of local audit and the required focus on the financial statements and value for money arrangements elements respectively, particularly in relation to the audit of land and building assets.

**R3.** To consider whether local auditors can be represented as key stakeholders in local audit system meetings convened by the new Director of Local Audit.

**R4.** To consider whether the system leader's Annual reports on the state of local audit should highlight instances of poor financial reporting and longstanding delay to the publication of both unaudited and audited accounts.

**For Government**

**R5.** To require statutory officers to attest to the effectiveness of their financial reporting process, in line with Sir Donald Brydon's recommendation. This should form part of Government accounting requirements and non-compliance should result in intervention.

**R6.** To introduce intervention with commissioners where authorities do not afford sufficient priority to their financial reporting responsibilities.

**R7.** To decouple the reporting requirements for Pension Funds and Administering Authorities.

**For FRAB, CIPFA/LASAAC and Government**

**R8.** To reframe the accounting code to ensure financial statements provide the information needed by Government and elected members to manage and govern the local government sector. This should include consideration of Whole of Government Accounts (WGA) requirements, particularly with regard to compliance with IFRS.

**R9.** To address Redmond's recommendation for summarised and accessible financial information to be made available to citizens, either through specifying required content within Narrative Reports or by introducing a standardised summary statement.

### **For local government bodies**

**R10.** To make new investment in and keep under review the adequacy of in-house financial reporting skills, paying close attention to succession planning and professional training, and look to collaborate with other authorities or commission independent support where additional capacity or expert advice is required.

**R11.** To ensure auditors are engaged at an early stage where innovative, complex or significant transactions are anticipated, to allow for effective planning of the additional audit work which may be required.

**R12.** To ensure more consistent and robust completion of CIPFA's Disclosure Checklist and allow adequate time for robust internal quality assurance before draft accounts and working papers are presented for audit.

**R13.** Where significant accounting estimates are made, ensure the underlying assumptions and judgements are clearly documented and that appropriate experts are employed by the local government entity to support management on these judgements and estimates. These judgements should routinely be reported to Audit Committees.

### **For Audit Committees**

**R14.** To hold management and auditors to account for preparing and monitoring delivery plans.

**R15.** To undertake a regular assessment of whether they have appropriate membership, training, and access to the professional support they need to effectively discharge their responsibilities.

**R16.** To report to full Council on an annual basis with their assessment of the accounts preparation and audit process.

### **For auditors**

**R17.** To focus on continuous improvement in delivering accounts audit and value for money arrangements work early and fostering effective working relationships where changes and potential complexities are identified, discussed, and planned for as soon as practicable.

**R18.** To consider whether to issue statutory recommendations where significant failures in financial reporting or governance are identified, delays become unacceptable or where insufficient attention is paid to timely financial reporting.

**R19.** To focus on making local public audit a more attractive career choice and promote the value of public sector audit and the wider societal benefits of robust and independent scrutiny.

**R20.** To support the local audit workforce strategy led by the Financial Reporting Council.

### **3.0 2021/22 Audit Findings Report**

- 3.1 The audit process for the year ended 31 March 2022 has now concluded. The draft Audit Findings Report was shared with members at their last meeting on 24 January 2023. Despite the delays experienced in finalising the audit process, it is pleasing to note that the report highlights only two adjustments required to the accounts for the year ended 31 March 2023 as follows:
- 1) 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 received revised IAS 19 reports. The impact of the revised report was to reduce the Authority's net pension liability from £42.9m to £41.1m (£1.8m reduction). Whilst this was not material, officers decided to amend for this balance to ensure an accurate picture of the Authority's net pension liability is reported in the audited accounts.
  - 2) The valuation report for assets that form part of the land fund arrived after the production of the draft financial statements. The valuation received was £5.9m less than the previous valuation which has been adjusted to ensure an accurate picture of land fund assets is recorded in the audited accounts.
- 3.2 A small number of disclosure changes were also identified during the course of the audit and are detailed in the draft Audit Findings Report. These changes have been made in the final set of financial statements.
- 3.3 Two potential adjustments relating to capitalisation of Metro project costs and classification of a BACs run that was in progress at year end and a prior year adjustment relating to impairment of tram track for the 2020/21 year were considered not to be material either quantitatively or qualitatively and were not adjusted in the accounts in line with accepted practice.
- 3.4 Six recommendations were identified for the WMCA Group as a result of issues identified during the course of the audit that Grant Thornton concluded were of sufficient importance to report on. These six recommendations, four of which are considered to be medium risk and two of which are considered to be low risk, are agreed by WMCA and are discussed further in Appendix 1.
- 3.5 Whilst WMCA's Finance Team and Grant Thornton are working together to ensure that the audit process for the year ended 31 March 2023 is resourced effectively and will progress at a far faster pace than for the year ended 31 March 2022 enabling WMCA's audited Statement of Accounts to be published in a compliant way, it is also important to consider the wider external context which has impacted on audit firms' ability to report on a timely basis as set out in section 2 of this report.

#### **4.0 Financial Implications**

4.1 The financial implications are covered within the body of this report.

#### **5.0 Legal Implications**

5.1 Production of the accounts and the external audit process is a statutory requirement.

#### **6.0 Equalities Implications**

6.1 Not applicable.

#### **7.0 Inclusive Growth Implications**

7.1 Not applicable.

#### **8.0 Geographical Area of Report's Implications**

8.1 Not applicable.

#### **9.0 Other Implications**

9.1 Not applicable.

#### **10.0 Schedule of background papers**

10.1 The DRAFT Audit Findings for West Midlands Combined Authority  
[Audit Findings Report LG 2021-22 \(wmca.org.uk\)](https://www.wmca.org.uk)

10.2 Grant Thornton 'About time?' Exploring the reasons for delayed publication of audited local authority accounts.  
[Report: key challenges in local audit accounting | Grant Thornton](#)

## Action Plan – Audit of Financial Statements

Assessment	Issue and Risk	Recommendations	WMCA Response
Medium	1. 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.	We acknowledge the need for less reliance on intermediate spreadsheets and work arounds when producing the financial statements and are working towards their automation for 2022/23. Despite this work being hampered by delays in completing the 2021/22 external audit process, it is anticipated that the Comprehensive Income and Expenditure Account for 2022/23 will be produced directly from the Business World finance system enabling drill down to transaction level without needing to rely on intermediate spreadsheets going forward. We are also in the process of rolling out training on the grant award process to back this up and to ensure improved access to grant award documentation and better quality audit working papers.
Medium	2. 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 from additional grant money to support the growing capital programme.	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.	We acknowledge the shift in gross expenditure between the final forecast for the year and the draft financial statements primarily resulting from the receipt of government grants awarded to support our growing capital programme that were not anticipated to be received in the final forecast for the year which was produced in January 2022. For 2022/23, whilst it has since been confirmed by Grant Thornton that there will unfortunately be no interim audit taking place, we are working on a gross expenditure position for the year that takes into account all forecast capital expenditure that will be shared with the Grant Thornton audit team during the planning phase of the 2022/23 audit.

Assessment	Issue and Risk	Recommendations	WMCA Response
Low	3. 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 authorized 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 authorized by a different member of the management team.	We confirm that this was an isolated incident. Other controls were in place to ensure that the claim complied with the Travel and Expenses Policy 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 Executive Board.
Medium	4. Setting the Minimum Revenue Provision (MRP) for capital loans to zero on the expectation that principal repayments would reduce the Capital Financing Requirement is not in accordance with the regulations leading to an undercharge of MRP.	Management should review the calculation of MRP and ensure that it is calculated in accordance with the current regulations.	We are cognizant of evolving legislation in this complex area which has unfortunately been delayed. In the November 2021 government consultation on changes to the capital framework, it was anticipated that amendments proposed to the Local Authorities (Capital Finance and Accountancy) (England) Regulations 2003 to would take effect in April 2023 although this is not now the case. We will be mindful of existing and proposed legislation when calculating a prudent provision for MRP for 2022/23.
Medium	5. The authority has entered into a loan commitment with Phoenix 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 embedded derivative, this will require careful analysis to ensure that it is correctly accounted for in the 2023/24 financial statements.	We have noted this matter and confirm that our proposed accounting treatment for the loan will be shared with the audit team at Grant Thornton for their review ahead of the preparation of the 2023/24 financial statements.



Assessment	Issue and Risk	Recommendations	WMCA Response
Low	6. 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.	Although the depth and breadth of the Authority's remit continues to grow at pace, we acknowledge the need to review the content of the narrative report to ensure any elements of duplication are removed and that it provides a more concise and accessible summary of the activities of the Authority.