West Midlands Combined Authority Audit Plan

Year ending 31 March 2023

West Midlands Combined Authority

18 April 2023

Contents

Your key Grant Thornton team members are:

Grant Patterson
Key Audit Partner
T 0121 232 5296
E grant.b.Patterson@uk.gt.com

Helen Lillington
Senior Manager
T 0121 232 5312
E helen.m.Lillington@uk.gt.com

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 Authority 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.

Key matters

National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local government front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, authorities are also essential in driving strong and inclusive local economies, through their economic development functions and measures such as increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. 88% of local authorities missed the deadline for the audit of the 2021/22 financial statements. In your case, as reported in our Audit Findings Report this was due to a combination of factors, some of which were unavoidable, some of which have led to the need to improve processes around accounts preparation and production, most notably in relation to accounting for government grants. We are continuing to work closely with your finance team to ensure improved delivery of the audit in 2022/23.

Financial Sustainability and Government Funding

Like many others, the Authority continues to operate in a period of significant financial uncertainty, with the impact of Covid 19 still being felt. This is most notable within the transport budget, with the bus network still operating at around 90% of pre–Covid 19 levels and some operators ceasing to trade or significantly reducing operational routes. In addition high inflation, especially in relation to fuel and energy prices continue to impact on the ongoing financial resilience of the Authority into the medium term. In the Spring Budget the Chancellor announced a Deeper Devolution Deal for the Authority, securing wide-ranging new powers and financial freedoms as well as new funding to level up the West Midlands region. This is likely to improve the financial resilience of the Authority in the medium to long term, however full details need to be considered. We will consider the progress made on this as part of our work on the value for money arrangements.

Key matters

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, will be discussed and agreed with the Executive Director of Finance & Business Hub
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit and Risk Committee (ARAC) with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector. Your officers attended the session earlier this year.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control – please refer to page 9

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Midlands Combined Authority ('the Authority') for those charged with governance.

Respective responsibilities

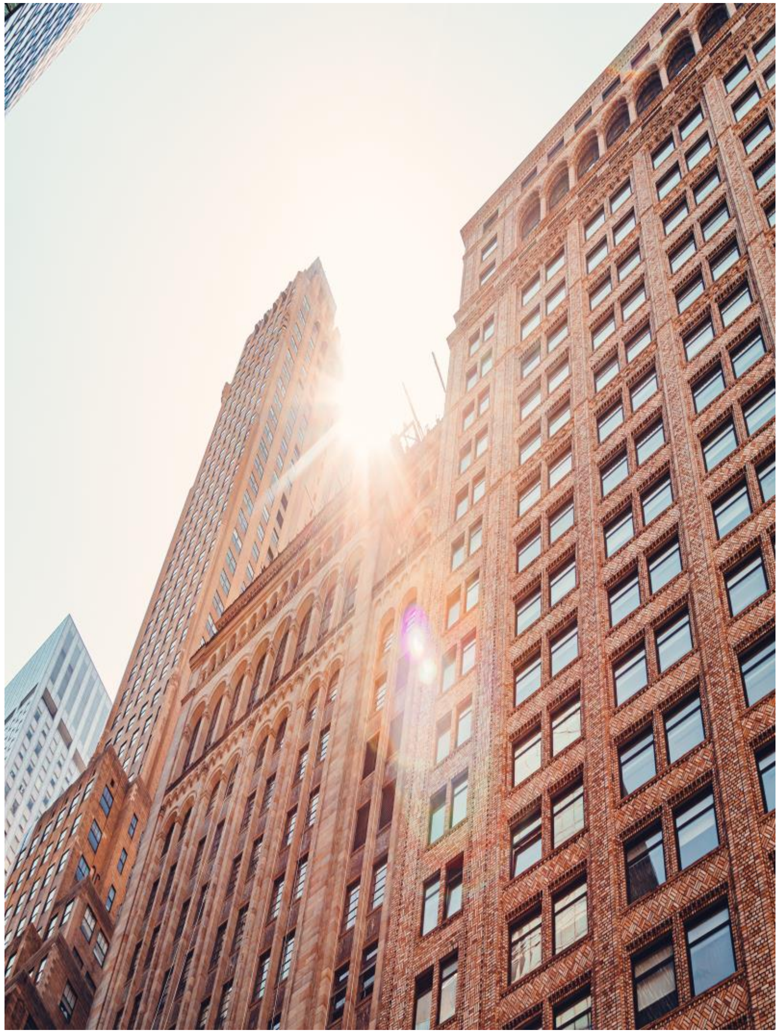
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Authority. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (ARAC); and we consider whether there are sufficient arrangements in place at the Authority and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or ARAC of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Revenue and expenditure recognition (rebutted);
- Management override of controls; and
- Valuation of net pension fund liability

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Group Audit

The Authority is required to prepare group financial statements that consolidate the financial information of both Midland Metro Limited and WM5G. This is the second year of operation of HT01 and HT02 and we will review any increase in activity of these subsidiaries to ensure they remain immaterial to consolidation.

Materiality

We have determined planning materiality to be £9.4m (PY £9.3m) for the group and £9.1m (PY £9m) for the Authority, which equates to 1.4% of your prior year gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £465k (Group) (PY £465k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness:

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our planning visit has taken during March and April and our final visit will start in July. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £79,230 for the Authority, subject to the Authority delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Risk relates to both the Group and the Authority	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA (UK) 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 is planned as the presumed risk has been rebutted.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The expenditure cycle includes fraudulent transactions (rebutted)	Risk relates to both the Group and the Authority	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.	No specific work is planned as the presumed risk has been rebutted.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride 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 will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	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.	We will: • update 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 evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test 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; • undertake 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; and • obtain assurances from the auditor of the West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data (including the 2022 triennial audit data this year); contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Key changes within the group:

We have not identified any significant changes in relation to the group audit. In addition to the companies identified below for consolidation, the authority also has West Midlands Development Capital Limited which is not included within the group on the basis of materiality, West Midlands Growth Company which is accounted for as an investment and West Midlands Rail Limited which is accounted for as an associate. The following three companies are dormant, Centro Property Limited, Network West Midlands Limited, and Midlands Development Capital Limited. We note that this is the second year of operation of HT01 and HT02, and we will continue to review the scale of the operation to ensure that it remains immaterial for the purposes of consolidation. The outcome of this will be reported as part of the AFR.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
West Midlands Combined Authority	Yes	Audit of the financial information of the component using component materiality	As set out on pages 7 to 10	Full scope audit performed by Grant Thornton UK LLP
Midland Metro Limited (MML)	No	Specified audit procedures relating to risks of material misstatement of the group financial statements	Management override of controls	Specific scope procedures to be performed by the component auditor Williamson & Croft Audit Ltd. The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the audit documentation and meeting with appropriate members of management.

Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
WM5G	No	Specified audit procedures relating to risks of material misstatement of the group financial statements	Management override of controls	Specific scope procedures to be performed by the component auditor Cooper Parry. The nature, time and extent of our involvement in the work of the component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the audit documentation and meeting with appropriate members of management.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the group financial statements, which resulted in 6 recommendations being reported in our 2021/22 Audit Findings Report. We have followed up on the implementation of our recommendations and noted the progress made below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	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.	The finance team have reviewed how the financial statements are produced from the general ledger and have proposed a revised methodology which should improved the audit trail and make sample selection less complicated.
In progress	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.	Working papers have been provided by the finance team, however based on prior years experience we have determined materiality at planning based on the prior year outturn.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	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.	Officers 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. The audit team will review any journals approved by senior management as part of its year end testing of journals.
In progress	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 remain comfortable that they have provided sufficient MRP, and will continue to review this as part of the medium term financial planning. The audit team will review the provision for the 2022/23 as part of the financial statement audit.
In progress	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.	Officers have committed to consider this in advance of the preparation of the 2023/24 financial statements.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	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.	The finance team will consider this as part of the 2022/23 closedown process.

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Authority for the financial year. Materiality at the planning stage of our audit is £9.4m (Group), which equates to 1.4% of your draft gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £24k applicable to an individual's disclosures.

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.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to ARAC** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the ARAC any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the ARAC any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £465k (Group) (PY £465k). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to ARAC to assist it in fulfilling its governance responsibilities.

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.

	Group Amount (£)	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	£9.4m	£9.1m	We have applied a benchmark to the gross expenditure in the prior year to determine materiality at both the group and the Authority level. In setting the benchmark we have considered users expectations, the previous years' measures of materiality and the level of engagement risk.
Materiality for specific transactions, balances or disclosures (senior officer remuneration)		£23,800	We believe these disclosures are of specific interest to the reader of the accounts.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Business World	Financial reporting	ITGC design and implementation assessment
Sageline	Payroll	ITGC design and implementation assessment

ISA315

ISA 315 (revised July 2020) takes effect for accounting periods starting on or after the 15th December 2021. This ISA deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements. The revisions made in the ISA have increased the level of work required of auditors and detail of this extra work is set out below.

Area	What's changed?	Impact on the audit
Information Technology Environment	The new requirement states certain aspects of the IT environment must be understood and documented for each significant classes of transactions, account balances and disclosures (SCOT+). The auditor is required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response.	The audit team will be required to: • perform walkthroughs of the IT environment; • identify and review relevant controls within the IT environment to ensure they are operational; • obtain details of the relevant IT / technical infrastructure (i.e., server location, database type); and • obtain details of the processes that operate within the IT environment (i.e., process to manage user access or manage a program or IT environment change).
Considering IT risks related to internal controls relevant to the audit.	The auditor is required to identify controls within a business process and identify which of those controls are controls relevant to the audit. For each internal control relevant to the audit, the auditor is required to evaluate the design of the control and evidence effective implementation of the control. The auditor is required to evaluate the design and determine the implementation of the general IT controls (ITGCs) that address the risks arising from the use of IT.	This requirement will lead to a significant change in practice, to the level of detail in which we will be required to understand the risks arising from the use of IT and associated general IT controls (ITGCs). There has been a significant increase in the number of detailed ITGC assessments required.
Control reliance	In previous years, where we had performed a walkthrough of your controls (such as operating expenditure), we were able to use the review of these controls to obtain comfort over the design effectiveness of your system. This would usually result in smaller sample sizes. The changes made to the ISA mean that design effectiveness will no longer grant a benefit when determining sample sizes.	There will be larger sample sizes across a number of areas. Key areas where we will likely see the biggest increase are: • operating expenditure and payables; • property, plant and equipment; • non-contract income. This is not a complete list but these will be the areas we expect to be most affected.

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office –issued its latest Value for Money guidance –to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Audit logistics and team

Audit and Risk Assurance Committee (ARAC)
April 2023

Year end audit
To commence July 2023

ARAC
September 2023

ARAC
TBC

Planning and risk assessment

Audit Plan

Audit Findings Report/Draft Auditor's Annual Report

Audit opinion

Auditor's Annual Report

Grant Patterson, Key Audit Partner

Grant is the engagement leader, taking overall responsibility for ensuring we provide a high quality service. He will work with Helen and the audit team to ensure we have fulfilled our responsibilities as your auditor and sign the audit opinion and auditor's annual report.

Helen Lillington, Audit Manager

As manager, Helen will manage the audit process and work with officers and the audit team to ensure the smooth planning and delivery of the audit. She will oversee the on-site team and discuss any issues with you during the audit process as well as any questions that you may have throughout the year.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

PSAA awarded a contract of audit for West Midlands Combined Authority to begin with effect from 2016/17. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Authority's IT Infrastructure and IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £1,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf.

Audit fees

	Actual Fee 2020/21	Estimated Fee 2021/22	Proposed fee 2022/23
West Midlands Combined Authority Audit	£66,805	£76,780	£79,230
Total audit fees (excluding VAT)	£66,805	£76,780	£79,230

Assumptions

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	2021/22	2022/23	Comments
Scale fee published by PSAA	£35,805	£49,555	Scale fee increase for complexity and on-going audit quality requirements and inflation
Group Audit	£6,875	£6,875	
Raising the bar/regulatory factors	£3,125	£0	Merged within revised scale fee
Enhanced audit procedures for Net Pension Liability	£3,125	£0	Merged within revised scale fee
Increased audit requirements of PP&E and accounting standards	£625	£0	Merged within revised scale fee
Additional work on Value for Money (VfM) under new NAO Code	**£15,000**	**£15,000**	
Increased Audit Requirements of ISA 540	£1,800	£1,800	
Increased Audit Requirements for Management Override of Controls (Journals)	£2,000	£2,000	
Increased Audit Requirements of ISA 315	£0	£1,000	
Increased requirements of Payroll Change of Circumstances	£0	£500	
Total planned audit fees (excluding VAT)	**£68,355**	**£76,730**	
FRC response – Hot Review of Accounts and associated follow up for PPAs and amendments	**£3,000**	**£0**	**Estimate at April 2023. Subject to discussions with management**
Enhanced audit procedures for Infrastructure	**£2,500**	**£0**	**Estimate at April 2023. Subject to discussions with management**
Local Risk Factors – Grants and Audit Trail	**£2,925**	**£2,500**	**Estimate at April 2023. Subject to discussions with management**
Total proposed audit fees for variations and local risk factors (excluding VAT)	**£76,780**	**£79,230**	

All variations to the scale fee will need to be approved by PSAA

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 2022/23 financials statements will be the 7th year of association for the engagement lead. PSAA have granted Grant Patterson an extension for the 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.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group and Authority's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	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.

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

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

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton

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