



Meeting: Audit, Risk & Assurance Committee

Subject: Minutes

Date: Friday 27 January 2017

Present:

David Lane (Independent Chair)

Councillor Sucha Bains

Councillor Kerrie Carmichael

Councillor Keith Chambers

Councillor Tristan Chatfield

Councillor Craig Collingswood (Vice-Chair)

Sean Farnell

Councillor Rachel Harris

Councillor John Haynes

Councillor Angela Sandison

Coventry City Council

Sandwell Metropolitan Borough Council

Walsall Metropolitan Borough Council

Birmingham City Council

City of Wolverhampton Council

Coventry and Warwickshire LEP

Dudley Metropolitan Borough Council

Nuneaton & Bedworth Borough Council

Solihull Metropolitan Borough Council

In Attendance:

James Aspinall

André Bromfield

John Cade

Nicola Coombe

Linda Downes

Peter Farrow

Linda Horne

Councillor Peter Hughes

Grant Patterson

Loraine Quibell

Joti Sharma

Debbie Simpson

Councillor Tersaim Singh

Councillor Stephen Simkins

Councillor Jackie Taylor

Councillor Jenny Wheeler

Emma Williamson

Sarah Windrum

West Midlands Combined Authority

West Midlands Combined Authority

Institute of Local Government Studies

Grant Thornton

Nuneaton & Bedworth Borough Council

Head of Audit (Shared), City of Wolverhampton Council
& Sandwell Metropolitan Borough Council

West Midlands Combined Authority

Sandwell Metropolitan Borough Council

Grant Thornton

West Midlands Combined Authority

West Midlands Combined Authority

West Midlands Combined Authority

City of Wolverhampton Council

City of Wolverhampton Council

Sandwell Metropolitan Borough Council

Redditch Borough Council

Birmingham City Council

Coventry and Warwickshire LEP

Apologies for absence were received from Councillor John Fisher, Councillor Maureen Freeman, Councillor Rob Sloan and Tom Westley.

25/16 Chair's Remarks

The Chair reported that at its meeting on 9 December 2016, the West Midlands Combined Authority Board approved the name change of the committee from Audit & Standards Committee to Audit, Risk & Assurance Committee. He explained the purpose of the committee and welcomed internal and external contributions as to how its role could be further developed.

26/16 Minutes of the Audit & Standards Committee held on 21 October 2016

The minutes of the meeting held on 21 October were agreed, and signed by the Vice-Chair (as he chaired the meeting), as a correct record.

27/16 Matters Arising

(a) Finance and Budget Update (minute no. 21/16 refers)

Members of the committee attended a financial training session on 27 January 2017, and received a presentation on the West Midlands Combined Authority revenue account and investment programme. In addition, members also received a presentation from Grant Patterson and Nicola Coombe, Grant Thornton, on the role of external audit, its expectations of the audit committee and information on the accounting treatment: merger accounting.

Resolved that the committee receive financial information at its future meetings based on key variances against plans and budgets and not replicate the information being scrutinised by other committees.

28/16 External Audit Plan

The committee considered a report of the External Auditor that provided details on the external audit plan for the financial year ending 31 March 2017. The report outlined the planned audit strategy and the work to be undertaken to provide the West Midlands Combined Authority with an opinion on the financial statements. Members also received information on how the value for money conclusion would be derived.

In respect of the Combined Authority's pension fund asset, employees of the Combined Authority were members of the West Midlands Metropolitan Authorities Pension Fund. Grant Thornton explained that the valuation of the pension fund net liability had been identified as a significant risk on the basis that the figure that was reflected in the balance sheet represents a significant estimate, requiring complex judgments, in the financial statements. In addressing this risk Grant Thornton would, as part of its audit work:

- Identify the controls put in place by management to ensure that the pension fund liability was not materially misstated. It would also assess whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.

- Review the competence, expertise and objectivity of the actuary who carried out the pension fund valuation and gain an understanding of the basis on which the valuation was carried out.
- Undertake procedures to confirm the reasonableness of the actuarial assumptions made.
- Review the consistency of the pension fund asset and liability for WMCA and disclose in notes to the financial statements with the actuarial report.

Audit, Risk & Assurance Committee would therefore get assurance that the Combined Authority's share of the fund's assets and liabilities recognised in the balance sheet will be materially correct.

Councillor Tristan Chatfield added that 'contracting' risks was not included as a risk within the report and considered that it should be highlighted as a risk going forward. Grant Thornton added that this was considered when it looked at value for money.

Councillor Jackie Taylor enquired about the audit fees of £46,500 and asked whether the report could be more explicit as to what the audit fee covered. Grant Thornton noted that the fee was for external audit for the year and explained the process in which the fees were agreed.

Grant Thornton agreed to amend the report to explain what the audit fee of £46,500 covered and would also include an explicit acknowledgment that the West Midlands Combined Authority was evolving in respect of key developments and the identification and management of the risks of this would be taken into account in their Opinion.

Resolved that the contents of the report be noted.

29/16 Consideration of Accounting Treatment for Transfer of WMPTE and WMITA to the Combined Authority

The committee considered a report of the External Auditor on the accounting treatment options for the statutory accounting transfer in relation to the transition of WMPTE and WMITA to the West Midlands Combined Authority.

The Head of Finance and Business Planning explained that the report had already been considered by the West Midlands Combined Authority Board on 22 July 2016 and the Authority's Audit and Standards Committee on 8 July 2016, but as this was the first meeting of the Audit, Risk & Assurance Committee with the newly appointed external auditors in attendance, it was considered appropriate to update members of the external auditors opinion in this matter. Grant Thornton highlighted that it had already opined on this subject when acting as the external auditors for the transport bodies that had since become part of the West Midlands Combined Authority.

Resolved that the agreed management decision to adopt merger account approach to the transition of the Integrated Transport Authority and Executive to the Combined Authority in June 2016, endorsed by the Authority's appointed auditors, be noted.

30/16 WMCA Chief Audit Executive Discussion Report

The committee considered a report of the Director of Corporate Services seeking views on whether the Chief Audit Executive arrangements for the West Midlands Combined Authority remained satisfactory.

The West Midlands Combined Authority Chief Audit Executive was currently the Head of Governance who was also the deputy Monitoring Officer that had direct access to the Monitoring Officer (Keith Ireland) who was also a member of the West Midlands Combined Authority Board.

The Chair noted that there was the potential for a perceived conflict of interest as the procurement team also reported to the Head of Governance. Following generally supportive views expressed by members of leaving the current reporting line as it is, and as the activity of the West Midlands Combined Authority would be expanding over the coming years, the Chair proposed that the current arrangements be endorsed for a period of 12 months, and the arrangements for the Authority's Chief Audit Executive be reviewed again in 12 months, which was agreed by the committee.

The Director of Corporate Services considered there to be minimum risk of conflict of interest with the Head of Governance continuing as the Authority's Chief Audit Executive, with the Head of Internal Audit reporting to them. To provide further reassurance to the committee, an independent internal audit review would be commissioned to mitigate against the risk and recommend any further controls that were needed.

Resolved that the existing arrangements for the role of the West Midlands Combined Authority's Chief Audit Executive (to be reviewed in January 2018) be endorsed.

31/16 Strategic Risk Register

The committee considered a report of the Director of Corporate Services on the Strategic Risk Register.

The Corporate Risk & Business Assurance Specialist reported that there were currently 15 key risks included within the strategic risk register and noted that a new risk had been escalated to the register as a high risk which referred to the potential contractual implications arising from track conditions of the Metro infrastructure.

Councillor Tristan Chatfield considered whether 'contracting' should be highlighted as a risk, as the Authority would be evolving and entering into future contracts. He also questioned whether Treasury Management should be identified as a corporate risk. The Director of Corporate Services considered Treasury Management to be a high level strategic risk and agreed to review this suggestion further.

Councillor Jackie Taylor expressed concern at there being no explicit reference within the register in respect of the Authority's obligation on equality and diversity. The Corporate Assurance Manager highlighted that the West Midlands Combined Authority considered equality, diversity and skills to be very important and referred to the number of accreditations received. The Director of Corporate Services agreed to liaise directly with Councillor Jackie Taylor further on this matter.

The West Midlands Combined Authority had undertaken a review of the risk and assurance process and was working with internal and external auditors on a revised model. The Interim Head of Governance agreed to present the revised risk and assurance process to the next meeting, with a focus on the assurance method and clarity on the meaning of strategic in terms of the risks being considered. The presentation would include some recent examples of how the assurance process was working in practice.

Resolved that

- (1) the formal approval of the Corporate Risk Management Strategy by the West Midlands Combined Authority Board be noted;
- (2) the comments received on the contents of the Strategic Risk Register be noted;
- (3) the comments received on the contents of the draft Assurance Map be noted; and
- (4) the revised Risk and Assurance Process to be presented to the next meeting of the committee.

32/16 Whistleblowing Policy

The committee considered a report of the Director of Corporate Services on the process by which whistleblowing could be reported and concerns investigated.

The Monitoring Officer was currently the first point of contact for whistleblowing, but as the Monitoring Officer was not a permanent member of the West Midlands Combined Authority staff, it was proposed that the primary point of contact should be the Head of Governance, as this was a senior post within the Authority.

The Interim Head of Governance assured the committee that the Authority would take appropriate action to protect an officer if a concern was raised, and agreed to include the details of the Responsible Officer (Head of Governance) within the document should a person wish to raise a concern.

The Chair proposed that the change of Responsible Officer be noted subject to a review in the next 12 months in the same way as the reporting line for the Chief Audit Executive would be. To provide the committee with the appropriate assurance, he requested that a

future audit be undertaken as to how the Authority's policies, including the revised Whistleblowing policy, was disseminated to and understood by its employees.

Resolved that:

- (1) the change of Responsible Officer from Monitoring Officer to the Head of Governance (to be reviewed in January 2018), be noted; and
- (2) a future audit to be undertaken as to how the Authority's policies were disseminated to its employees be noted.

33/16 Internal Audit Reports: Recruitment and Retention Procedures, Key Financial Systems Reviews

The committee considered a report of the Head of Audit on the recent work that had been completed by the Authority's internal audit.

An audit of the West Midlands Combined Authority's recruitment and retention procedures and key financial systems had been undertaken as part of the approved internal audit plan for 2016/17.

The Internal Auditor explained that as part of its work on the Authority's recruitment and retention procedures a number of key issues had been identified and a number of recommendations had been made. The Director of Corporate Services assured the committee that he was comfortable with the revised procedures and processes that the HR team was currently putting place.

The Internal Auditor confirmed that as the West Midlands Combined Authority developed, there would be an opportunity for audit reports, by exception, to be shared to a wider audience when complete.

Recognising that the Authority had now been formally established and needed to be more transparent in the area of recruitment, the Vice-Chair requested a detailed action plan in respect of the Authority's recruitment and retention procedures to include the grading process and existing grading, to be presented to the next meeting.

Resolved that:

- (1) the contents of the report be noted;
- (2) a detailed action plan in respect of the Authority's recruitment and retention procedures to be presented to the next meeting by the Head of Organisation Development, be noted; and
- (3) the draft West Midlands Combined Authority Internal Audit Plan 2017/18 to be presented to the next meeting.

34/16 West Midlands Combined Authority - Assurance Overview January 2017

The committee considered a report of the Director of Corporate Services on the views of the Authority's Corporate Assurance Manager's opinion on the Authority's systems of Project and Programme Assurance and Business Assurance for November 2016 - January 2017.

In respect of the Authority's Integrated Assurance & Approval Flow, the Corporate Assurance Manager agreed to submit examples of the projects from the Investment Programme to illustrate the assurance reviews that had been undertaken prior to business case approvals.

Resolved that:

- (1) the assurance reviews and activities that had been undertaken in the last quarter be noted;
- (2) the views on the WMCA Integrated Assurance & Approvals Flow be noted, and examples of the projects from the Investment programme approved to date to be demonstrated to the committee to illustrate the assurance reviews that had been undertaken prior to business case approvals.
- (3) the views on the Chief Audit Executive be noted.
- (4) the views on the Assurance Review forward plan be noted; and
- (5) the enhanced WMCA Assurance Process with examples of it in use to be presented to the next meeting.

35/16 Development Session – Local Government Audit Committee Forum: Managing Fraud Risk

The committee considered a report that provided details of the forthcoming Managing Fraud Risk event, which was a free development session for members of the Authority's Audit Committee that would be held on 16 February in Birmingham or on 17 February in Castle Donington.

Resolved that three members of the Audit, Risk and Assurance Committee be authorised to attend the Local Government Audit Forum: managing fraud risk on 16 or 17 February 2017.

36/16 Any Other Business

(a) WMCA Audit, Risk and Assurance Committee: summary of member's points raised during chair's meeting.

The committee considered a report from the Chair of the West Midlands Combined Authority's Audit, Risk & Assurance Committee outlining the points

made by members of Audit, Risk & Assurance Committee in discussions with the new Chair following his appointment.

The Chair welcomed John Cade, Institute of Local Government Studies to the meeting and explained that he had been invited to assist the committee in discussing its role, performance and how it could evolve as the activities of the West Midlands Combined Authority developed.

In terms of the ways of working, members of the committee shared their thoughts on the West Midlands Combined Authority's Audit, Risk & Assurance Committee compared to local authority audit committees, frequency of meetings and member commitment, the size of the Authority's Audit, Risk & Assurance Committee and the new legislative requirement to have a 2/3rds attendance for a quorum, relationship with Overview and Scrutiny Committee and the benefit to respond quickly and have greater discussion in a smaller sub-group of the committee.

In respect of the new Statutory Instrument that would be introduced on 8 May, which would require the West Midlands Combined Authority Audit Committee to change the quorum level to be 2/3rds of its membership, the Chair agreed to have a further discussion at the next meeting of the committee.

It was agreed that substitute members could attend meetings of the committee if they wished to do so and that John Cade would be invited to attend future meetings of the committee.

Resolved that:

- (1) the change in the name of the committee to Audit, Risk & Assurance Committee, approved by the Combined Authority be noted;
- (2) it be noted that the Standards obligation for Audit, Risk & Assurance Committee had been covered off within the Constitution's description of the Audit, Risk & Assurance Committee functions;
- (3) meetings of the committee be moved from quarterly to bi-monthly meetings after its meeting on 28 April 2017; and
- (4) the points made by members of the committee in discussions with the new Chair following his appointment, and the comments received by the committee be noted.

37/16 Date of Next Meeting

The next meeting of the Authority's Audit, Risk & Assurance Committee will be held on Friday 28 April 2017 at 10:00am

38/16 Motion to Exclude the Public and Press

Resolved that, under section 100A(4) of the Local Government Act 1972, the public and press be excluded from the meeting for the following items of business, on the grounds that the item involved the likely disclosure of exempt information as defined in Schedule 12A of the Act, in particular those paragraphs of Part1 of the Schedule, as indicated below:

Minute No.	Description Item	Relevant Paragraphs of Part 1 of Schedule 12A
39/16	Briefing Note - Cyber Security	7

39/16 Briefing Note - Cyber Security

The committee considered a briefing note on Cyber Security of the Cyber Security Specialist on the progress made on the recommendations made by the Authority's Internal Auditor.

Resolved that a report on Cyber Security be presented to the next meeting of the committee, to include a more detailed understanding of progress made on the recommendations made by the Authority's Internal Auditor.

[The meeting ended at 4:55pm]

CHAIR