

Minutes of the Audit and Risk Committee
--

11 November 2019

At Fire Service Headquarters, Vauxhall Road,
Birmingham B74HW

Present: Councillor Gill (Vice Chair), Miller and Spence and Mr Ager
Councillors Brackenridge, Barlow and Dehar (Observing)

Apologies: Councillor Catherine Miks (Chair)
Councillor Barrie

55/19 Declarations of Interest

Councillor Brackenridge declared a non-pecuniary interest as he is in receipt of a fire service pension.

56/19 Minutes of the Audit and Risk Committee held on 2 September 2019

The minutes of the Audit and Risk Committee held on 2 September 2019 were approved.

57/19 Vacant Residential Properties

David Gardiner, Head of the Facilities Management team, attended the meeting at the request of the Audit and Risk Committee and gave a detailed update on the Vacant Residential Properties at:

Kings Norton – 6 flats, 7 houses – there are access issues (health and safety and security), 2 of the 7 houses are occupied by secure tenants and it may be possible to commercially lease two of the remaining houses. 2 of the flats have been merged and leased as offices.

Planning permission would take 12 – 18 months. There wouldn't be any onsite parking, but the station has good access to public transport.

Erdington – 9 flats- there are access issues (health and safety and security). The flats are located above and therefore integral to the station. Of the 9 flats only 1 is currently empty – 2 are leased as offices, 1 is occupied by a secure tenant, the National Association of Retired Firefighters utilise a flat, 2 flats are used for cold training purposes and 2 flats are used for storage.

There was limited opportunities for disposal.

One Member enquired if it would be possible to demolish the station and rebuild. Officers stated that if this was to be considered they would be required to look at alternatives and possibly dispose of the site if the Authority chose to do this.

Another Member enquired if an architect had been asked to look at the site, as they sometimes have unusual ideas to get around difficult building problems. The Facilities Manager confirmed that an architect had looked at the site and ramped access to the first floor had been looked at but this would cause other problems with access to the appliance bay.

Perry Barr – 8 houses – there are access issues (health and safety and security). One of the 8 houses is occupied by a secure tenant. Planning Permission has been obtained to separate the houses from the station site but Officers are still trying to obtain consent from the Housing Association to the rear of the plot to access their driveway.

Discussions are being held with Midland Heart Housing Association regarding access to the houses via an unadopted road.

Bloxwich - 2 apartments – there are access issues (health and safety and security). The two apartments are located at the rear of the plot on the first floor level above an 'old' vehicle workshop, which is being used by Fire Service Cadets, and partial site disposal is not viable as there is no other access

The Old Bank Building that is on the site is being leased and does not lend itself to being sold.

One Member enquired if the whole site could be leased for the training of young people.

Another Member confirmed that she would love to see the properties being used due to the shortage of places to live currently.

The Facilities Manager agreed and was hopeful of a positive outcome with Midland Heart in respect of the houses at Perry Barr.

The Independent Member enquired why the Audit and Risk Committee were looking at this area, and asked if anyone had looked at the financial implications. The Facilities Manager stated that these would be considered, did not have the figures at the moment.

The proposed next steps were to prioritise Perry Barr (via the Housing Association negotiations) and Kings Norton (to consider part disposal of the site – flats).

58/19 Treasury Management

The Committee received the Treasury Management Mid Year Review 2019/20.

The Authority approved its Treasury Management strategy as part of the Budget setting report in February 2019. The Authority was required to produce a mid year review report of its Treasury Management activities and request that Members approve its updated prudential and treasury indicators for 2019/20. The Appendix to the report provided economic background information.

The economic background information was as things were at the time of writing the report and therefore did not reflect recent events (e.g. announcement of the General Election).

The key Treasury Management Indicators to note were:

1. Capital Expenditure

The Authority approved a £6.5m capital programme for the current financial year at its meeting in February 2019. This had since been updated to reflect the outturn position and financing decisions for 2018/19. The forecast outturn as at 30th

September for 2019/20 was £7.3m. The increase, which had been reported at the Authority meetings, was mainly due to slippage from the previous financial year. No borrowing had been undertaken to finance any capital expenditure during the first half of the current financial year.

2. The Authority's Debt

The Authority's total external debt as at 30th September 2019 was £36m of which £33.1m is in respect of borrowing undertaken with PWLB and the balance £2.9m is in respect of the Authority's share of the Ex WMCC debt. The estimated average rate of interest payable on this debt for the current financial year is 5.3%.

3. The Authority's Investments

As at 30th September 2019, the Authority's investments totalled £62.5m which are invested with Sandwell MBC as part of the treasury management arrangement the Authority has with them. Interest is received on the investments and is based on the average return achieved by Sandwell MBC plus 10 basis points which for the first six months of 2019/20 was 0.78%. This compares favourably to the benchmark, which is the average 7 day LIBID rate of 0.57%.

Cllr Brackenridge joined the meeting at this point of the meeting as an Observer.

The Internal Audit Progress Report was moved to the end of the agenda due to the two minutes silence.

59/19 Audit and Risk Update

Richard Percival from Grant Thornton stated that the Auditors were currently planning for the 2019/20 audit and would issue a detailed audit plan, setting out their proposed approach to the audit of the Fire and Rescue Authority's 2019/20 financial statements.

The Auditors will begin their interim Audit in January 2020 and will continue with this work until the end of January.

The Auditor set out the Progress made as at October 2019

Members attention was drawn to the PSAA contracts for all local authorities and that there may need to be a fee variation as there had been a number of developments within the accounting and audit profession. The Financial Reporting Council (FRC) had set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Nothing had been decided as yet and the Auditor would be talking to the Treasurer about the matter. In the previous year (2018/19) the fee increase had related to pensions issues and asset valuations.

In the sector update there was nothing specific relating to fire and issues were more general.

There was also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work would be required.

The Committee received details of the National Audit Office – Code of Audit Practice. Which would be reviewed and a new Code laid in parliament in time for it to come into force no later than 1 April 2020.

The Committee received details of the House of Commons Committee of Public Account regarding Local Government Governance and Accountability. The Committee were critical of the Ministry of Housing, Communities and Local Government and the government’s overarching role was to ensure that, at a time when local authority budgets are under extreme pressure, governance systems are improved.

60/19 **Corporate Risk Update**

The Committee received a report requesting approval of Corporate Risk 1.1:

“Public Service Reform enables new duties and/or major changes to the governance, structure, role or activities of the Fire and Rescue Service requiring major re-organisation, resulting in an inability to deliver against organisational strategy and planned community outcomes.”

The Committee received six monthly updates of any significant risks and at the last meeting of the Audit and Risk Committee held on the 2nd September 2019, Members were informed that in Quarter 1, 2019/20 there was a decrease in Corporate Risk 1.1 External (Political and Legislative) Environment. This decreased from 6 (Likelihood 3 and Impact 2) to 2 (Likelihood 1 x Impact 2).

The recent review of this risk had recognised that the revision of the Authority’s strategy in February changed its approach to the development of locally commissioned work to support the wider prevention agenda, public service reform and the achievement of the financial efficiency plan. An impact of this was the need to adopt an approach to delivering front line services, flexibly enabling the management of resources on a daily basis to ensure the achievement of a balanced budget. This had reduced the Authority’s involvement in this activity and led to the discontinuation of the transfer of government reduced the reform of services for local communities.

It was considered that this risk was no longer relevant at a strategic level. There was currently limited to no risk of public service reform impacting on the delivery of strategy, statutory and core service delivery.

ACO Taylor explained that because of the revision of the strategy away from health services and changes in governance arrangements, i.e. reformation of the Fire Authority and withdrawal from the Combined Authority and Mayoral Governance, and having due diligence the risk was no longer relevant.

ACO Taylor reiterated the methodology of Corporate Risk and the reasons for the removal of Corporate Risk 1.1 As business development had been withdrawn and there was no desire to

move under the Mayoral Governance Model, the Service had a stable approach in these areas and would now focus on the remaining risks.

Resolved that the removal of Corporate Risk 1.1 from the Risk Register be approved.

61/19 **Work Programme**

The Committee reviewed its Work Programme.

62/19 **Update on Topical Legal and Regulatory Issues**

ACO Taylor informed the Committee that following the first full round of Inspections by Her Majesty's Inspector of Constabulary and Fire and Rescue Services a consultation exercise was being undertaken for the next round of Inspections.

CFOs and Service Liaison Officers would be completing the consultation by the 29 November 2019. The Inspectorate had asked for thoughts from Authorities on how the Inspection process could be improved and what other areas should be looked.

It was confirmed that the response would be made available to Members in the future.

The Chair of the Authority confirmed that himself and the Chief Fire Officer had met with HMICFRS to discuss the big issues. Chair's had been able to give their political view and many Services had similar feelings about the Inspection. The Chair also stated that the West Midlands Fire Service were amongst the top ten Brigades in the country and the only Brigade to receive an Outstanding mark for Operational Response.

It was felt that West Midlands would be Inspected again towards the end of the next tranche of Inspections. A further update would be provided in the future to Members following the consultation outcomes.

The External Auditor noted that at the Authority Meeting held on 30 September, as part of the Annual Audit Letter, a question had been raised in respect of Materiality and how it is applied.

The External Auditor stated that he is required to draw a conclusion on the accounts. The conclusion is to confirm that the accounts are ok and right, but the conclusion does not say that the accounts are totally correct.

The conclusion confirms that the accounts meet the threshold and are complete and accurate and any issues that are below the threshold, the Auditor would report them back to the Authority.

The External Auditor determines a level of materiality by using auditing standards. The Auditor would find it difficult to convert the textbook level and therefore looks for a sensible proxy and felt that the most appropriate level would be 2% of gross revenue expenditure. For the Fire Authority the benchmark is £2.4m.

The Service has a track record and the Treasurer provides a set of accounts, in accordance with CIPFA guidances. The Treasurer is well supported by his team and the Auditor has confidence with the accounts that are submitted.

The second key factor that the Auditor would look at, would be, if there was anything unusual with the accounts, e.g. if the Authority entered an unexpected transaction. This may bring the materiality level down.

Generally, added pressures may make the Authority think that they need to bring the materiality level down.

The External Auditor stated that from the quality of the accounts submitted in previous years, he was confident with the materiality level. If there were any issues, Members would need to make the Authority/Auditor aware.

The Meeting adjourned for the two minute silence

63/19 **Internal Audit Progress Report**

Mr Peter Farrow, gave a presentation on the role of Internal Audit including the Internal Audit Progress Report.

The presentation covered:

Internal audit which is a statutory service, and looks at governance, internal controls, risk management, and a definition of Internal Audit.

The Mission of Internal Audit is “to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight”.

Core Principles for the Professional Practice of Internal Auditing

Public sector internal audit standards

Internal Audit Charter

The three lines of defence model

1. Service area-how managed
2. Corporate services
3. Internal auditors

The Internal Audit Plan contains:

- Planning Process
- List areas – 60 items
- Risk assess
- Financial impact
- Areas of concern
- Rag rated

Internal Audit Reports provide:

- Individual report for each review
- Scope and Objectives
- Testing
- Findings and Recommendations (RAG)
- Overall conclusion

Currently there was nothing to concern the committee and at the end of the year the Internal Auditor would give an overall assurance opinion.

The Internal Auditor has been able to give an unqualified opinion of reasonable overall assurance for a number of years.

This Opinion is based on absolute work that had been considered by the Auditor in his Annual Internal Audit Report.

The Auditor provides:

- CIPFA – Audit Committee Updates
- Audit and Risk Committee – Terms of Reference
- Internal Audit Plan 2019/20
- Internal Audit Annual Report
- Audit and Risk Committee Annual Report – assistance
- Counter Fraud information
- Ad hoc Training

The presentation also looked at the role of the Audit and Risk Committee and the National overview provided by the National Audit Office's report on local authority governance.

The External Auditor's review of local authorities was generally positive.

One Member enquired if the Auditor looked at areas not covered by the audit and whether they had adequate resources.

The Auditor stated that resources did play a part but that audits were not all resource driven but rather risk focused and the auditors would keep a watching briefing on issues arising and these issues would then be incorporated into reports

It was explained that some areas, as well as the three lines of defence may have another control e.g. The Health and Safety Executive and it would make sense to focus resources on another area that did not have additional controls.

At the end of year, the Treasurer or Finance Manager could suggest a contingency list of audits, however, the cost would need to be balanced. The Auditor stated that there were no major gaps but the Authority would need to consider the finances to pay for additional audits.

64/19 **An Introduction to the Counter Fraud Unit**

The Committee received a presentation on Fraud Awareness from Mr Philip Tromans, Counter Fraud Investigator, from Sandwell Metropolitan Council. The presentation covered:

- Current Fraud Landscape
- CIPFA's Code of Practice on managing the risk of fraud and corruption
- Work of the Counter Fraud Unit
- Local Government Act 1972
 - Sections 111, 151, 222 and 223
- Other Legislation
- Awareness and Publicity
- Counter Fraud Unit 2018/19
- National Fraud Initiative Report
- CIPFA Fraud and Corruption Tracker
- Fraud and the Audit and Risk Committee
- Fraud Risk Register

The meeting closed at 1230 hours.

Julie Connor Strategic Hub 0121 380 6906 Julie.Connor@wmfs.net
