

West Midlands Fire and Rescue Authority

Audit Committee

You are summoned to attend a meeting of the Audit Committee to be held on Monday, 16 January 2017 at 12:30 at Fire Service HQ, 99 Vauxhall Road, Nechells, Birmingham B7 4HW for the purpose of transacting the following business:

Agenda – Public Session

- | | | |
|---|--|---------|
| 1 | To receive apologies for absence (if any) | |
| 2 | Declarations of interests in contracts or other matters | |
| 3 | Minutes of the Audit Committee held on 14 November 2016 | 3 - 10 |
| 4 | Audit Committee Update for West Midlands Fire and Rescue Authority | 11 - 22 |
| 5 | Internal Audit Charter | 23 - 28 |
| 6 | Internal Audit Progress Report | 29 - 36 |
| 7 | Audit Committee Work Programme 2016-17 | 37 - 42 |

Standing Item

- | | | |
|---|---|--|
| 8 | Update on Topical, Legal and Regulatory Issues (Verbal Report). | |
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Distribution:

Adam Aston - Member, Mohammed Idrees - Member, Robert Sealey - Member, Bally Singh - Member, Paul Singh - Member, Tersaim Singh - Chairman

Agenda prepared by Julie Connor

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This agenda and supporting documents are also available

Electronically on the West Midlands Fire Service website at

www.wmfs.net

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Minutes of the Audit Committee

Item 3

14 November 2016 at 10.30 am
at Fire Service Headquarters, Vauxhall Road, Birmingham B7 4HW

Present: Councillors Aston, Barlow, Idrees, B Singh,
P Singh and T Singh (Chair)

Apologies: Mr Ager (Independent Member)
Cllr Sealey

45/16 **Minutes of the Audit Committee held on 5 September 2016**

Resolved that the minutes of the meeting held on 5 September 2016, be approved as a correct record.

46/16 **Annual Audit Letter 2015-16**

The Audit Committee received and noted the Annual Audit Letter (AAL). The letter is intended to communicate key messages to the Authority and external stakeholders including members of the public.

The key messages included the financial statements audit, (including audit opinion) the Value for Money conclusion and the Audit fees charged for audit and non-audit services and the titles and dates of when reports had been issued.

The report set out the key findings for the previous 12 month period and thanked the Authority for the assistance and co-operation provided by the Authority's staff. The letter looked forward to the changing landscape that the Authority faced and reflected on the low level of borrowing that had not increased for several years.

The Auditor referred to the significant savings following reductions in central government funding and the further reductions in core funding of approximately £10m over the next four years. The Authority had submitted its Efficiency Plan to the Home Office on the 14 October 2016 which was available on the internet.

The Audit of Accounts identified risks in the audit plan and how the Authority responded to the risks and the Auditor gave a favourable Value for Money conclusion.

The final fees charge for the audit and provision of non-audit services was just over £38,000.

47/16 **Annual Committee Update**

The Committee noted the contents of the Audit Committee Update. The Update included a summary of emerging national issues and developments that may be relevant to the Fire and Rescue Authority. The External Auditors progress to date for 2016/17 was reported. Work was in progress and dates had been set for interim and accounts works.

The information contained within the report included the CFOA Members vote to change the Articles of Association and the CFOA response to Home Office workforce statistics.

48/16 **Treasury Management Mid Year Review Report 2016-17**

The Committee considered the Treasury Management Mid Year Review Report 2016/17.

The Authority agreed its Treasury Management Strategy Statement and Annual Investment Strategy and its Prudential Indicators in February 2016 and part of the requirements of the Treasury Strategy and Prudential Code are that periodic reports are presented to Members. The Mid Year update was presented to the Audit Committee with the key areas being:

Capital expenditure was approved in February 2016 at £6.5m, this has been updated and now reflects the outturn position and financing decisions for 2015/16. The Forecast Outturn was revised to £7.3m, the increase due mainly to slippage from the vehicle replacement programme and the relocation of secondary fire control. There had been no borrowing in the first six months of this year to fund capital expenditure.

The Authority had outstanding Debt of £39.7m as at 31 March 2016. Borrowing of £36m has been undertaken with the Public Works Loan Board, (PWLb) the remaining £3.7m relates to the ex-West Midlands County Council. The estimated average rate of interest payable on this debt in the current financial year is 5.6%.

The Authority holds £76m investments as at the 30 September 2016 this is invested with Sandwell MBC as part of the pooling of bank accounts arrangement. The interest received for the first six months of the year is 0.41% which is favourable when compared against a benchmark, the average 7 day LIBID rate at 0.28%.

In response to a Members' enquiry about the interest rates, it was explained that the loans were taken out over a number of years and that there was a portfolio of loans with different interest rates for different amounts and the figure of 5.6% represents an average interest rate.

It was also explained that if debt restructuring was considered, the Authority would be required to pay a premium which often meant that this option was unattractive.

Any new loans in the future with the Public Works Loan Board would generally be for a fixed term up to 50 years, however, the Authority was not in a position where it needed to borrow to fund capital expenditure.

It was agreed to produce, for member's information, a schedule showing details of loan and interest rates, as part of the next Treasury Management Update. It was confirmed that Sandwell MBC undertook borrowing in previous years on behalf of the Authority.

In response to a Member's suggestion to lobby the government about the interest fees when paying off loans or changing them, the Treasurer stated that the PWLB rates would have been competitive at the time and that PWLB would assume a level of repayment over a period of time.

If borrowing is required a business case would need to be produced and interest rates would need to be considered at the time.

Resolved that the Treasury Management – Mid Year Review Report 2016/17 be noted and prudential and treasury indicators approved.

49/16 **Arrangements for the Appointment of External Auditors**

The Committee received a report on the options available for the Appointment of External Auditors following closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 Audit of Accounts. The Committee considered the options in order that a further report on the preferred approach would be presented to the Authority as its meeting on 20th February 2017.

On the 5th October 2015 the transitional arrangements were extended to include the Audit of Accounts to 2017/18. The current External Auditors (Grant Thornton) would continue to complete the accounts.

This was appropriate as the Public Sector Audit Appointments Limited (PSAA) who have taken over from the Audit Commission in managing the contract need to seek new national procurement arrangements. The Authority would need to determine its preferred approach by March 2017.

The Committee considered three broad options open to the Authority under the Local Audit and Accountability Act 2014 (the Act):

1. to make a stand-alone appointment
2. to set up a Joint Auditor Panel/local joint procurement arrangements
3. to opt-in to a sector led body

The Authority would want an External Auditor of the correct quality and who provided value for money and the Audit Committee considered the strengths and weaknesses of each Option.

The Treasurer had liaised with the other West Midlands authorities and five of the seven local authorities had indicated that they were intending to take the PSAA route in order to take advantage of a national procurement arrangement, although Members would not be directly involved in the appointment process.

The Committee considered the risks of appointing from a limited number of companies and also using companies based in the West Midlands.

It was noted that many of the larger companies are based in the West Midlands, they work with other fire authorities and many of their staff work and live in the area. The companies have standard terms of reference regardless of how they are appointed which may not be the case for smaller companies.

Members of the Audit Committee considered the options available and elected to recommend Supporting the Local Government Association (LGA) in setting up a national Sector Led Body by indicating intention to “opt-in” to the Authority.

50/16 Corporate Risk Briefing Report

The Committee noted and discussed the Audit Committee Corporate Risk Briefing Document.

The Deputy Chief Fire Officer stated that the update was provided to keep Members informed of a change to an overall risk rating and provided clarity.

The briefing document provided details for the increase in Corporate Risk 4.1, Delivery of Services – Protection. It was explained that an internal bespoke piece of software called the Intelligence Led Audit Programme (ILAP) serves the purpose of a risk based programme. The IT system is used by sixty members of staff and enables them to prioritise and determine risk scores and provides intelligence on business premises as within the National Framework for enforcing prosecutions under the Regulatory Reform (Fire Safety) Order 2005 (RRO) and a programme of Inspections. This system has helped reduce the number of prosecutions down from 100 to 60 in accordance with the Authority's aims of making the West Midlands Stronger, Safer and Healthier

There has been an increasing awareness of issues with the software in respect of data availability and data quality with mitigating steps put in place. However, it has been necessary to increase the likelihood factor associated with the risk from 2 to 3 with the impact of moving it from a low risk to a medium risk.

It was noted that arson fires had been increasing in business premises.

In order to respond to the risk, Officers will utilise Command Risk Profiles to provide information and intelligence for the Fire Safety Officers to identify risk within their command areas. They will collect performance information to understand how effective they are using the command risk profiles. A revised ILAP system will be developed to address the issues identified and enhance the current system. Work will continue with the data providers to understand what data they can provide.

The Fire Safety Strategy will be revised to determine a schedule of inspection over the next three years. Performance Monitoring of PI 13 and 14 will continue with the direction of travel moving forward.

The Service are focussing on educating businesses and have not reduced the number of its Fire Safety Officers with the aim of enabling businesses to comply with legislation. However, prosecutions do occur if advice is not adhered to. It was noted that many large companies have their own fire safety officers to enable them to comply with the RRO.

51/16 **Breach of Disclosure Regulations**

The Committee received a report in respect of a Breach of the Disclosure Regulations. The breach was caused by a failure to issue an annual Benefit Statement to all scheme members by the 31 August 2016.

A report was received by an extra-ordinary Pension Board on the 25th October 2016 setting out the details of a Breach of the Disclosure Regulations. The Annual Benefit Statements had not been issued by the 31

August 2016. The first Statements were issued on the 23rd September 2016. The software update to enable the statements to be prepared was not delivered until the 29 July 2016. As well as the additional work required to prepared the Benefit Statements, the Government Actuaries had asked for additional information by the 12 August 2016. This had also an impact on the workload of the pensions team.

An Employer representative had attended the Pensions Annual General Meeting and it was noted that the WMFS were not the only Service to issue their Benefit Statements after 31 August 2016 and the lateness of the specialist software was the main issue.

The software providers, Haywards plc, are used by 75 – 80% of fire services and 40% of police services.

It was noted that Members of the Pension Schemes were not informed, but in future it was felt advisable to flag up any possible issues to the Members. The Annual Benefit Statements have been received positively by Members and they will now be issues annually. There has been no adverse impact on Members of the Pension Schemes.

The Pension Board agreed to hold an additional meeting in May 2017 to ensure that the process was in place for the preparation of the 2017 Annual Benefit Statements.

Resolved that:

1. the processes, set out in Appendix 2 to the report, are in place to avoid a recurrence of the delay when statements are issued in 2017 and subsequent years.
2. the Scheme Administrator to consider the option of a self-service system.
3. the Pension Board, at their next meeting, to consider their Terms of Reference in respect of the reporting of breaches of the law to The Pensions Regulator.
4. a Risk Register is added as a Standing Item on future Pension Board agenda.

52/16 Internal Audit Progress Report

The Committee noted a report which detailed the progress made against the delivery of the 2015/16 Internal Audit Plan. The information contained within the report included a summary of the work completed with no significant issues.

53/16 **Minutes of the Pension Board held on 11 July 2016**

The Committee received the Minutes of the Pension Board held on the 11 July 2016.

The Committee noted that the Independent Chair was leaving his post with West Midlands Police, but his successor Mr Neil Chamberlain would be taking on the role on a temporary basis and would be attending the Pension Board scheduled for the 6 February 2017.

54/16 **Audit Committee – Self Assessment of Good Practice and Effectiveness**

The Committee noted the results of stage two of their self-assessment of good practice and effectiveness exercise.

Six responses had been received from the Members with an average score of 3, there was a good breadth of core knowledge. The specialist area of accountancy and internal audit scored 2, and there was good knowledge in the core skills, scoring 3.

The third and final part of the exercise, evaluating the effectiveness of the committee will be undertaken.

Members were interested in receiving information on training courses to meet their individual needs.

54/16 **Audit Committee Work Programme 2016/17**

The Committee noted its Work Programme for 2016/17 and that the next meeting of the Audit Committee would be on 16 January 2017.

55/16 **Update on Topical, Legal and Regulatory Issues**

There was no new information to be presented

(The meeting ended at 1130 hours)

Contact Officer: Julie Connor Strategic Hub 0121 380 6906

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

Item 4

AUDIT COMMITTEE

16 JANUARY 2017

1. AUDIT COMMITTEE UPDATE FOR WEST MIDLANDS FIRE AND RESCUE AUTHORITY

Joint report of the Chief Fire Officer and Treasurer.

RECOMMENDED

THAT the Committee note the content of the Audit Committee Update attached as an Appendix.

2. PURPOSE OF REPORT

This update is provided to keep Audit Committee Members informed of the progress of the external auditor (Grant Thornton UK LLP) in delivering their responsibilities.

3. BACKGROUND

- 3.1 In order to ensure that Audit Committee Members continue to remain informed on audit matters, the external auditor has provided an Audit Committee Update report. It is the intention of the external auditor to provide an update at all Audit Committee meetings.
- 3.2 The update provides the Audit Committee with a report on Grant Thornton's progress in delivering their responsibilities as the Authority's external auditors.
- 3.3 Representatives from Grant Thornton will be in attendance at the meeting to discuss the reports with Members.

4. EQUALITY IMPACT ASSESSMENT

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. The matters contained in this report will not lead to a policy change.

5. **LEGAL IMPLICATIONS**

The course of action recommended in this report does not raise issues which should be drawn to the attention of the Authority's Monitoring Officer.

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

BACKGROUND PAPERS

None

The contact officer for this report is Deputy Chief Fire Officer Philip Hales, telephone number 0121 380 6907.

PHIL LOACH
CHIEF FIRE OFFICER

MIKE GRIFFITHS
TREASURER

Audit Committee Update for West Midlands Fire & Rescue Authority

Progress Report and Update Year ended 31 March 2017

January 2017

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

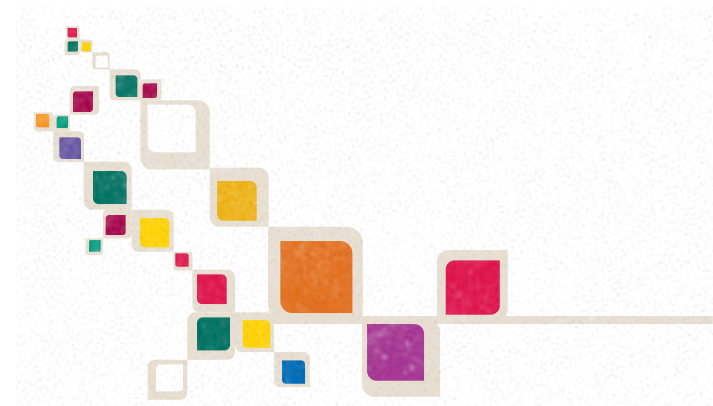
- Advancing closure – the benefits for local authorities (July 2016)
<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>
- Brexit – a public sector perspective (July 2016)
<http://www.grantthornton.co.uk/en/insights/brexit--a-public-sector-perspective/>

Members and officers may also be interested in our recent webinars:

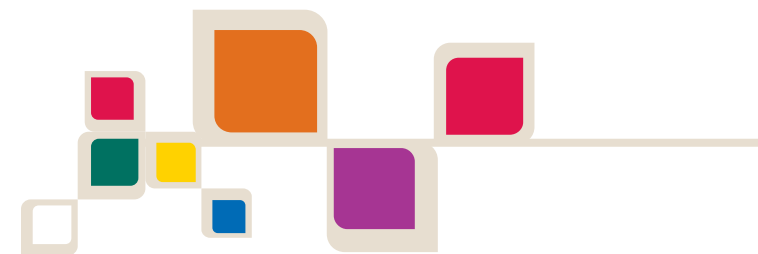
- Alternative delivery models: Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government.
<http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/>
- Cyber security in the public sector: Our short video outlines questions for public sector organisations to ask in defending against cyber crime
<http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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 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 your business or any 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.

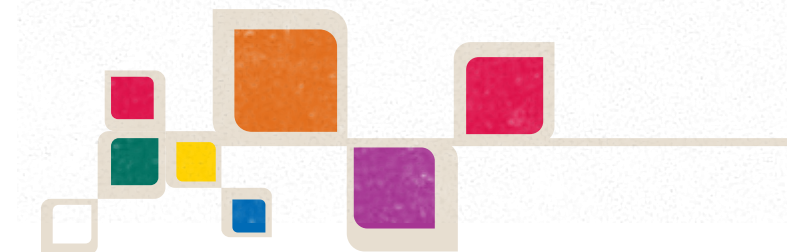


Progress to date



2016/17 work	Planned Date	Complete?	Comments
Fee Letter			
We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016.	April 2016	Yes	The 2016/17 fee letter was issued in April 2016
Accounts Audit Plan			
We are required to issue a detailed accounts audit plan to the Fire Authority setting out our proposed approach in order to give an opinion on the Fire Authority's 2016/17 financial statements.	March 2017	In progress	We continue to assess the risks facing your Authority and meet with Senior Officers to ensure that these risks are fully understood and our audit work is appropriate.
Interim accounts audit			
Our interim fieldwork visits include:	January – March 2017	Not started	
<ul style="list-style-type: none"> • updating our review of the Fire Authority's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 			
Final accounts audit			
Including:	June – July 2017	Not started	
<ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Fire Authority's accounts • proposed Value for Money conclusion. 			

Progress to date



2016/17 work	Planned Date	Complete?	Comments
Value for Money (VfM) conclusion			
<p>The scope of our work to inform the 2016/17 VfM Conclusion requires conclusions on whether:</p> <p><i>"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</i></p> <p>This change of guidance was issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	March – July 2017	Not started	
Annual Audit Letter			
We will summarise all the work completed as part of our 2016/17 audit within one letter which will be issued after the opinion.	October 2017	Not started	
Engagement with the Fire Authority since the last Audit Committee meeting			
	On-going	On-going	<p>E-mail correspondence to confirm initial planning and onsite work.</p> <p>Completion of the West Midlands Fire Authority consultation</p>

Fire Sector Accounting and other issues



Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the Fire Authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way fire authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year.

The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Fire authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures.

The full report can be found at <https://www.gov.uk/government/publications/future-control-room-improvements-fire-and-rescue-authority-schemes-november-2016>

The map across shows:

- i. the project partnerships that have been formed between the fire and rescue authorities; and
- ii. the coverage provided by the completed projects in England, and the coverage that will be provided as the remaining projects complete.

87% of the resilience benefits expected to be delivered by the Scheme, and funded by the grant, are now in place.





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WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

16 JANUARY 2017

1. INTERNAL AUDIT CHARTER – ANNUAL REVIEW

Report of the Audit Manager [Sandwell MBC].

RECOMMENDED

THAT the existing Internal Audit Charter be subject to its next annual review.

2. PURPOSE OF REPORT.

2.1 To ask the Committee to review the Internal Audit Charter.

3. BACKGROUND

There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. The Internal Audit Charter reflects this and was first approved by the Audit Committee in January 2014. It was last reviewed in January 2016, and is now due for its next annual review. The Charter has been updated to reflect the introduction of a Mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing added to the latest version of the Public Sector Internal Audit Standards.

4. EQUALITY IMPACT ASSESSMENT

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. The matters contained in this report will not lead to and/or do not relate to a policy change.

5. LEGAL IMPLICATIONS

The Accounts and Audit Regulations Act states that a relevant body must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

6. **FINANCIAL IMPLICATIONS**

Implementation of the recommendation will be undertaken within existing resources.

BACKGROUND PAPERS

None

Peter Farrow
Audit Services and Risk Management Manager, Sandwell MBC

Definition of internal auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Mission of internal audit

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

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement

Authority and standards

Internal audit is a statutory service in the context of the Accounts and Audit Regulations (Amendment)(England) 2015. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer to have responsibility for those arrangements

The Local Government, England and Wales, Accounts and Audit Regulations 2015 states that: *"A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance"*. These Standards have been adopted by the Fire Authority's internal audit section.



Internal audit have the right of access to all records, assets, personnel and premises, including those of partner organisations, and has the authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities.

Throughout the Public Sector Internal Audit Standards, reference is made to the terms 'Chief Audit Executive', 'board' and 'senior management'. For the purposes of this Charter, the 'Chief Audit Executive' is defined as the Audit Services Manager the 'board' as the Audit Committee and 'senior management' as the senior managers within the Fire Authority.

Scope and objectives of internal audit activities

The scope of work of internal audit is to determine whether the Fire Authority's risk management, control, and governance processes are adequate and effective in order to ensure that:

- Key risks are identified and managed;
- Key financial, managerial, and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the Fire Authority's control process; and
- Key legislative and regulatory issues impacting the Fire Authority are identified and addressed appropriately.

Internal audit's remit extends to the entire control environment of the Fire Authority and not just financial controls.

Where other internal or external assurance providers may have undertaken relevant assurance and audit work, internal audit will seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so.

Responsibilities

Internal audit has a responsibility to:

- Provide a cost effective and value added full internal audit service;
- Develop a flexible annual audit plan using a risk-based methodology;
- Implement the annual audit plan;
- Track status of outstanding management actions;
- Provide regular updates on the work of internal audit to the Audit Committee and where appropriate, senior officers;

- Assist, as needed, in the investigation of significant suspected fraudulent activities within the organisation; and
- Work with the External Auditor (currently Grant Thornton) and other review bodies to share assurance and minimise duplication.

Organisational independence

Internal audit is involved in the determination of its priorities in consultation with those charged with governance. The Audit Services Manager has direct access and freedom to report in his own name to all officers and Members and particularly to those charged with governance. If required the Audit Services Manager may request to meet privately with the Audit Committee.

Internal audit will remain sufficiently independent of the activities that it audits to enable auditors to perform their duties in a manner which facilitates impartial and effective professional judgements and recommendations.

Objectivity is presumed to be impaired when individual auditors review any activity in which they have previously had operational responsibility. If individual auditors are extensively consulted during system, policy or procedure development, and independence could be seen as being compromised, or if they have had previous operational roles, they will be precluded from reviewing and making comments during routine or future audits, for the remainder of that financial year and for the following financial year after their involvement.

Accountability, reporting lines and relationships

The Audit Services Manager reports on an administrative basis to the Strategic Enabler - Finance and Resources, and reports functionally to the Audit Committee, and other senior management. The Audit Services Manager also, where appropriate, works closely with the Monitoring Officer. An Annual report will also be produced and presented to the Audit Committee which will include an 'opinion' from the Audit Services Manager on the adequacy and effectiveness of internal control, risk management and governance within the Fire Authority.

A written report will be prepared by internal audit for every internal audit review. The report will be subject to an internal quality review before being issued to the responsible officer and, where appropriate, will include an 'opinion' on the adequacy of controls in the area that has been audited. The responsible officer will be asked to respond to the report in writing. The written response must show what actions have been taken or are planned in relation to each recommendation. Accountability for the response to the advice and recommendation of internal audit lies with management, who either accept and implement the advice or formally reject it.

The full role and responsibilities of the Audit Committee are detailed in their terms of reference, which are based on the model provided by CIPFA in their "Audit Committees – Practical Guidance for Local Authorities".

Internal audit resourcing

Internal audit must be appropriately staffed in terms of numbers, grades, qualification levels and experience. Internal auditors need to be properly trained to fulfill their responsibilities and should maintain their professional competence.

The Strategic Enabler - Finance and Resources is responsible for the appointment of the Audit Service and the Audit Services Manager, who must be suitably qualified and experienced. The Audit Services Manager is responsible for appointing all of the other staff to internal audit and will ensure that appointments are made in order to achieve the appropriate mix of qualifications, experience and audit skills.

The Audit Services Manager is responsible for ensuring that the resources of internal audit are sufficient to meet its responsibilities and achieve its objectives. If a situation arose whereby it was concluded that resources were insufficient, this must be formally reported to the Strategic Enabler - Finance and Resources, and if the position is not resolved, to the Audit Committee.

Fraud

Managing the risk of fraud is the responsibility of management. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected. Internal audit does not have responsibility for the prevention or detection of fraud and corruption. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption. Internal audit may be requested by management to assist with fraud related work. The Fire Authority's Financial Regulations require that all suspected irregularities are reported to the Audit Services Manager.

Advisory work

The Public Sector Internal Audit Standards allow that internal audit effort may, where considered to have the right skills, experience and available resource, sometimes be more usefully focused towards providing advice rather than assurance over key controls. Any such internal audit involvement in consultancy and advisory work, would only take place where it would not constitute a conflict of interest in keeping an independent stance. Any significant additional consulting services will be approved by the Audit Committee beforehand.

Review of the internal audit charter

This charter will be reviewed annually by the Audit Services Manager and the Audit Committee.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

16 JANUARY 2017

1. **INTERNAL AUDIT – PROGRESS REPORT**

Report of the Audit Services Manager.

RECOMMENDED

THAT the Internal Audit Progress Report be noted.

2. **PURPOSE OF REPORT.**

To ask the Committee to note the issues raised from the work undertaken by Internal Audit so far in the current financial year.

3. **BACKGROUND**

The Internal Audit Progress Report contains details of the matters arising from internal audit work undertaken so far in the current year. The purpose of the report is to bring the Audit Committee up to date with the progress made against the delivery of the 2016/17 Internal Audit Plan. The information included in the progress report will feed into, and inform, the overall opinion in the Internal Audit Annual Report issued at the year end.

It summarises the audit work undertaken in a tabular format, and includes:

- the areas subject to review (Auditable Area)
- the level of risk to the Authority assigned to each auditable area (high, medium or low)
- the number and type of recommendations made as a result of each audit review.
- the number of recommendations accepted by management.
- the level of assurance given to each system under review.
- details of any key issues arising from the above.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. The matters contained in this report will not lead to and/or do not relate to a policy change.

5. **LEGAL IMPLICATIONS**

The Accounts and Audit Regulations Act states that a relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

BACKGROUND PAPERS

None

Peter Farrow
Audit Services Manager, Sandwell MBC

Internal Audit Progress Report @ 31 December 2016 Audit Committee – 16 January 2017



1. Introduction
2. Summary of work completed and in progress
3. Issues arising
4. Other activities
5. Service quality questionnaire feedback

1 Introduction

The purpose of this report is to bring the Audit Committee up to date with the progress made against the delivery of the 2016/17 Internal Audit Plan.

The information included in this progress report will feed into, and inform our overall opinion in our Internal Audit Annual Report issued at the year end.

Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

Limited	<ul style="list-style-type: none"> A risk of objectives not being achieved due to the absence of key internal controls and a significant breakdown in the application of controls.
Satisfactory	<ul style="list-style-type: none"> A sufficient framework of key controls for objectives to be achieved, but the control framework could be stronger and controls are applied, but with some lapses.
Substantial	<ul style="list-style-type: none"> A robust framework of controls ensures objectives are likely to be achieved and controls are applied continuously or with only minor lapses.

This is based upon the number and type of recommendations we make in each report. Each recommendation is categorised in line with the following:

Priority rating for issues identified		
Fundamental action is imperative to ensure that the objectives for the area under review are met.	Significant requires action to avoid exposure to significant risks in achieving the objectives for the area under review.	Merits attention action is advised to enhance risk mitigation, or control and operational efficiency.

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2 Summary of work completed and in progress @ 31 December 2016

Auditable Area	ANA Rating	Suggested/Agreed Actions					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Completed:							
Accounts Receivable*	KFS	-	-	-	-	-	Substantial
Accounts Payable*	KFS	-	-	-	-	-	Substantial
Fixed Asset Accounting/Asset Planning	KFS	-	-	-	-	-	Substantial
Payroll	KFS	-	-	-	-	-	Substantial
Budgetary Control	KFS	-	-	-	-	-	Substantial
In progress:							
Data Protection	Medium						
IT	High						
Governance	High						

Key: KFS = Key Financial System

* = Reported upon in previous report

[ILO: UNCLASSIFIED]

3 Issues arising

Fixed Asset Accounting/Asset Planning

An audit of fixed asset accounting was undertaken in respect of planned capital expenditure. The review was undertaken to provide assurance that an appropriate process was in place to maintain details of fixed assets and to record them correctly in the accounts.

Payroll

A review of the payroll process was undertaken to ensure that the Fire Service had appropriate controls in place to mitigate the risk of fraud and error in the calculation, recording and payment of the payroll via BACS.

Budgetary Control

A review of the budgetary control system was undertaken to ensure the Fire Service had established its budget and was managing it appropriately. Our review covered controls over monitoring, reporting, changes to budgets and the process to link budgets to medium and long term plans.

4 Other activities

Audit Committee – Self Assessment of Good Practice and Effectiveness

The Audit Committee commenced a self-assessment of good practice and effectiveness exercise, based on the model provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their Audit Committees – Practical Guidance for Local Authorities. Internal Audit is facilitating this exercise.

CIPFA – Audit Committee Updates

We continue to present the regular CIPFA Audit Committee Updates to the Audit Committee.

Audit Committee – Terms of Reference

We submitted the Audit Committee Terms of Reference for annual review at the April 2016 meeting of the Audit Committee.

Internal Audit Plan 2016/17

We submitted the Internal Audit annual plan for 2016/17 to the committee for approval at the April 2016 meeting.

Internal Audit Annual Report 2015/16

We presented the Internal Audit annual report for 2015/16 to the committee for comment and approval at the June 2016 meeting.

Audit Committee Annual Report

Assistance was provided in the preparation of the Annual Report of the Chair, on the work of the Audit Committee.

Counter Fraud

We continue to lead on the Cabinet Office's National Fraud Initiative and their other associated fraud related activity (such as the Annual Fraud Survey), on behalf of the Authority and to provide the main point of contact for any investigations into potential fraudulent activity.

5 Service quality questionnaire feedback

Overall Satisfaction with Audit Services	Average Score
	4.6

Scores range between 1 = Poor and 5 = very good. We have a target of achieving an average score of **4 = good**.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE WORK PROGRAMME 2016/17

Date of Meeting	Item	Responsible Officer	Completed
2016			
25 July	Audit Findings 2015/16	Grant Thornton	
	Statement of Accounts 2015/16 (Approval)	Grant Thornton	
	Treasury Management Annual Report 2015/16	Treasurer	
	Corporate Risk Update	Director of Service Support	
	Self-Assessment	Internal Auditor	
	CIPFA Audit Committee Update	Internal Auditor	
5 September	Minutes of the Audit Committee held on 6 June 2016	Democratic Officer	
	Audit Committee Draft Work Plan 2016/17		
	Corporate Risk Six Monthly Report	Director of Service Support	
	Audit Committee Update	Grant Thornton	
	Minutes of the Audit Committee held on 25 July 2016	Democratic Officer	
	Work Programme 2016/17		

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19 September [Authority]	Audit Findings 2015/16 Statement of Accounts 2015/2016 (note)	Grant Thornton Treasurer	

14 November 2016	Treasury Management – Mid year review 2016/17 Appointment of the External Auditor Annual Audit Letter 2015/16 Audit Committee Update Internal Audit Progress Report Assessment of Good Practice and Effectiveness Breach of Disclosure Regulations Corporate Risk Briefing Document Minutes of the Audit Committee held on 5 September 2016 Audit Committee Work Plan Minutes of the Pension Board held on 11 July 2016	Treasurer Treasurer Grant Thornton Grant Thornton Audit Manager Audit Manager DCFO DCFO Democratic Officer Democratic Officer	
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2017			
16 January 2017	Internal Audit Progress Report Internal Audit Charter – Annual Review Audit Committee Update The Pension Regulator – Public Service Governance Survey 2016	Audit Manager Audit Manager Grant Thornton Pension Board Representative	

	Minutes of the Audit Committee held on 14 November 2016 Audit Committee Work Plan	Democratic Officer Democratic Officer	
27 March 2017	<p>Audit Committee Update Communication with the Audit Committee for WMFRA Audit Plan 2016/17</p> <p>Internal Audit Plan 2017/18 Audit Committee Terms of Reference</p> <p>External Audit Work Programme and Scale of Fees Corporate Risk Report Six Monthly Update</p> <p>Minutes of the Pensions Board held on 6 February 2017</p> <p>Minutes of the Audit Committee held on 16 January 2017</p> <p>Audit Committee Work Plan</p> <p><i>Committee Members' Private meeting with Internal Auditors (to follow Committee)</i></p>	<p>Grant Thornton Grant Thornton</p> <p>Grant Thornton</p> <p>Audit Manager Audit Manager</p> <p>Director of Service Support Director of Service Support</p> <p>Pensions Board Representative</p> <p>Democratic Officer</p> <p>Democratic Officer</p> <p><i>Audit Manager</i></p>	

5 June 2017	<p>Annual Internal Audit Report 2016/17</p> <p>Governance Statement 2016/17</p> <p>Monitoring Policies and RIPA (Annual Whistleblowing Report)</p> <p>Annual Report of the Audit Committee for approval</p> <p>Audit Committee Update</p> <p>Minutes of the Audit Committee held on 27 March 2017</p> <p>Audit Committee Work Plan</p> <p><i>Committee Members' Private meeting with External Auditors</i></p> <p><i>Workshop for Members on Statement of Accounts 2016/17</i></p>	<p>Audit Manager</p> <p>Treasurer</p> <p>Monitoring Officer/Director of Service Support</p> <p>Chair</p> <p>Grant Thornton</p> <p>Democratic Officer</p> <p>Democratic Officer</p> <p><i>Grant Thornton</i></p> <p><i>Treasurer</i></p>	
26 June 2017 [Authority]	<p>Governance Statement 2016/2017</p> <p>Audit Committee – Terms of Reference, Annual Review (will now be reported to the Authority's AGM)</p> <p>Annual Report of the Audit Committee 2016/17</p>	<p>Treasurer</p> <p>Audit Manager</p> <p>Chair</p>	

24 July 2017 [Audit Committee 2017/18	Audit Findings 2016/17	Grant Thornton
	Statement of Accounts 2016/17 (Approval)	Grant Thornton
	Treasury Management Annual Report 2016/17	Treasurer
	<i>Self Assessment of Members of Audit Committee</i>	Internal Auditor
	Audit Committee Draft Work Plan 2017/18	Democratic Officer

