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| <b>Minutes of the Audit Committee</b> |
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**27 March 2017 at 1230 hours**  
**at Fire Service Headquarters, Vauxhall Road, Birmingham**  
**B7 4HW**

**Present:** B Singh (Chair), Aston, Barlow, Barrie, M Idrees, Mottram, Sealey and Mr Ager (Independent Member)

**Apologies:** Councillors T Singh, P. Singh, P Farrow

7/17 **Minutes of the Audit Committee held on 16 January 2017**

**Resolved** that the minutes of the meeting held on 16 January 2017, be approved as a correct record.

8/17 **Audit Committee Terms of Reference**

The Committee considered the existing Audit Committee Terms of Reference in line with the guidance from CIPFA. Following a review, it was felt that the Terms of Reference were fit for purpose and no changes had been made in the previous twelve months.

**Resolved** that following a review of the terms of reference that the existing terms of reference be approved.

9/17 **Internal Audit Plan 2017/18**

The Committee received the internal audit plan for the period 2017/18 together with an indicative plan covering the period 2018/19 to 2019/2020. The plan would remain fluid and be kept under review and any proposed changes would be reported to the Committee for approval.

The Internal Auditor outlined the audit planning process and steps taken. This provides an independent and objective opinion and an Annual Governance Statement is provided at the end of the year. The plan takes account of strategic risk register, mandatory areas such as the key financial systems and areas where the auditor's knowledge, management requests and past experience are used.

The CIPFA scoring methodology is used to score auditable areas as high, medium or low risk and then identify the areas where assurance will be provided in 2017/18.

- High risk areas will be audited annually,
- Medium Risks may be visited once in a three-year cycle
- A watching brief remains on low risk areas.

In response to a request from a member of the Committee, the Auditor agreed to review the document and improve the referencing in respect of risks.

**Resolved** that the internal audit plan for 2017/18 be approved.

#### 10/17 **Audit Plan 2016-17**

Approval was sought to Grant Thornton's Audit Plan 2016/17 which set out the work Grant Thornton would undertake in respect of the Authority's financial statements and delivery of its value for money conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

Richard Percival, Grant Thornton, announced that this would be James Cook's last Audit Committee and he would now be the main Engagement Lead for the Committee.

The Code of Audit Practice requires Grant Thornton to issue a value for money conclusion. The conclusion will be based upon the criteria that the Authority has put into place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people”.

For 2016/17 the Authority is required to prepare the accounting statements by 30 June 2017 and to submit the audited 2016/17 accounts to the Authority for approval by no later than 30 September 2017.

The key developments were the Blue Light collaboration through the Policing and Crime Bill 2017 and the radical programme of Fire Reform. The key challenges were financial resilience and the Authority had considered and approved an efficiency plan to meet the impact that funding settlements would have.

The Authority would have a total reduction to core funding over the four year period 2016/17 to 2019/20 of approximately £9.4m (15% of 2015/16 core funding). The Integrated Risk Management Plan – Corporate Strategy Plan 2017 – 2020 had been refreshed and the Authority were clear that the plan could be delivered but this would be a challenge in the financial circumstances.

The Accounts and Audit Regulations 2015 require an earlier closedown of the 2017/18 accounts from approval by no later than 30 September to 31 July.

The Auditor determined the overall Materiality level to be £2,258k (2% of gross revenue expenditure).

The significant risks identified which the audit would focus on were:

- The revenue cycle includes fraudulent transactions;
- Management over-ride of control
- Actuarial value of pension liability.

In answer to a question about the risks involved in Partnership work, it was confirmed that appropriate arrangements are in places to manage the risks involved with partnerships including a process and milestones.

As partnerships develop, other arrangements may need to change and there could be knock-on implications. Officers would identify the risks involved.

The Committee thanked James Cook, Grant Thornton, for his support with the Audit Committee and the clarity of his explanations.

**Resolved** that Grant Thornton's Audit Plan to enable the delivery of the audit of financial statements and the value for money conclusion 2016/17 be approved.

#### 11/17 **Corporate Risk Update**

The Committee received the Corporate Risk Assurance Map Summary and noted the position statement detailing the work undertaken in support of the management of each of the Service's Corporate Risks for Quarter 2 and 3 2016/17.

At the Audit Committee held on 25 July 2016, the Committee agreed to a new style of reporting and this was the first report to use the "new" and "revised" Corporate Risks.

Corporate Risks were those which, if they occurred would seriously affect the Authority's ability to carry out its core functions or deliver its strategic objectives as set out in the Plan.

The Corporate Risk Assurance Map summary provided a description of each risk and an overview of its rating. The Risk Register had been updated to include a new risk ILAP and included the direction of travel.

The Authority currently had nine corporate risks, some of which had more than one element. The revised 9 Corporate Risks were reported in Quarter 2 for the first time.

In Quarter 2 and 3 there were no increases or decreases in any of the risk scores.

Details of the Risk management activity undertaken or ongoing were:

- Corporate Risks 1, 2, 4 and 8 were awarded the highest level, a green confidence (substantial) opinion.
- Corporate Risks 3, 5, 7 and 9 were awarded a (satisfactory) amber confidence opinion and work was in progress to enabling a green rating to be attained.
- No red (limited) confidence opinions were awarded.

In respect of the Position Statement summary:

- Corporate Risk 1 – External (Political and Legislative) Environment. Although the risk score had not changed, the likelihood of governance was high. The current Future Governance Working Group had been added as an additional control measure to the risk register. This was being closely monitored due to the timescales and dynamic nature of the external environment.
- Corporate Risk 4 – Protection. The risk score has not changed but an additional control measure had been

added to the risk register. Protection continues to utilise the Command Risk Profiles produced through the Integrated Risk Management Team whilst ILAP is being developed. The direction of travel showed a red arrow on the corporate risk assurance map.

The emerging themes were the change from Airwave to a new programme of Emergency Services Mobile Communication Programme (ESMCP) that could raise risks both operationally and financially.

The other emerging theme was in respect of Business Development. Work was continuing to ensure that the target of £2m per year was achievable for commissioned activities.

The Committee would be provided with updates on these issues as they emerge.

In response to an enquiry about the protection risk showing a high level of confidence but the direction of travel moving downwards, the Deputy Chief Fire Officer explained that the risk had not changed but the Fire Safety Inspection programme was not where officers wanted it to be and steps were being taken to ensure that the risk is managed appropriately.

The Deputy Chief Fire Officer responded to a question about the possible connection with potential fires in business/derelict premises.

It was confirmed that the Regulatory Reform Order required the Authority to ensure that it makes the best use of resources and enforces the Order. The highest risks being those to life and property. A lot of new hotels were being built and the Service had taken a risk based approach to ensure the 66 Fire Safety Officers were prioritising the highest risks. A new system entitled Integrated Local Authority Partnership would provide clear information on resources and risk.

In response to a question on maximum cost recovery of court fees and costs, it was confirmed that the Authority do recover costs.

**Resolved** that the Corporate Risk Assurance Map summary be approved.

12/17 **Audit Committee Update for WMFRA**

The Committee received and noted an update from its external auditor which set out Grant Thornton's progress in delivering its responsibilities.

Emily Mayne, Manager, introduced Richard Percival, who would be taking over from James Cook, as the Engagement Lead and as the main contact at Grant Thornton.

In line with the Public Sector's Accountancy guidelines, the 2016/17 fee letter was presented to the Authority on 10 April 2017. The accounts audit plan had been received and an interim audit of the accounts was in progress. Work had been undertaken in key risk areas; payroll and operating expenditure and the final accounts audit were planned to commence on 30 May 2017. The Auditor had agreed the order of work and there had been good engagement with the Finance Team.

An initial risk assessment had taken place on the Value for Money conclusion and arrangements were in place to undertake this work to include financial resilience and partnership working with other emergency services.

The Policing and Crime Bill 2017 had received Royal Assent and engagement with the Fire Authority was on-going.

CIPFA had been working on the "Telling the Story" project which aims to streamline the financial statements and improve accessibility to the user. No significant change would be made and a more readable version would be provided to the Committee in the Summer.

The income spectrum – helping local authorities to achieve revenue and strategic objectives to create a vibrant economy. This report provides case studies, local authority spend analysis, examples of financial mechanisms and critical success factors to consider.

In response to an enquiry regarding the risk to the Authority moving the Mayoral Route to Governance and not taking the preferred government line of the PCC. It was confirmed that Greater Manchester had also taken a slightly different route and London, who were unique, were aligned to the Mayor. As the second largest fire authority in the country, the Authority had taken a decision to ensure what was best for the community of the West Midlands.

In light of the Income Spectrum, the Auditor was asked how they could support the Fire Authority in raising income. The Auditor was aware of the overall strategy and this would be discussed at a Value for Money meeting with the Clerk, Treasurer and Deputy Chief Fire Officer. There was scope to share examples of other local authorities, but there were not many other fire authority examples.

It was suggested that the Authority could be used as a case study and be shown to be leading the way. The Auditor confirmed he would be happy to work with the Authority.

In response to a question on the pension liabilities, and why the current shortfall was important, the Auditor explained this was to ensure that auditing standards were as comparable as possible with the private sector.

Following a review of the West Midlands Pension Fund the Auditor had also assisted with considering options for an appropriate way forward for the Authority which included making a lump sum payment and thereby receiving a discount.

### 13/17 **Communication with the Audit Committee for WMFRA**

The Committee received an update from the Authority's External Auditors, Grant Thornton, relating to the progress of the external auditors in delivering their responsibilities, which included matters that related to fraud, law and regulations, going concerns, related parties, and accounting estimates.

The Auditor stated there were no issues to be highlighted. The accounting estimates were attached as an Appendix to the report. No reports had been received under the Whistle

Blowing procedure and no legal action had been taken against the Authority. Appropriate arrangements were in place and The Auditor had no concerns about the following year's accounts. Testing will be carried out on related party transaction disclosures (gifts).

The Auditor had discussed the accounts with the Finance Team and was content. James Cook stated that it had been a privilege to act as the Authority's Auditor over the previous five years and found officers both professional and positive and had found appropriate solutions to difficult issues. He thanked the Audit Committee for their assistance in rising to the challenges faced by the Authority. The Authority had maintained a relatively good fiscal position in light of the challenges and were in a good financial position in relation to other Authorities.

14/17 Minutes of the Pension Board held on 6 February 2017

The Committee noted the minutes of the Pensions Board held on 6 February 2017. The Committee were introduced to the new Independent Chair of the Board, Mr Neil Chamberlain, Director of Commercial Services at West Midlands Police. Kal Shoker, Employee Representative of the Pension Board, had Chaired the meeting on 6 February 2017.

The next meeting would be held in May 2017 when the Board would be ensuring that appropriate arrangements were in place for the production of the Annual Benefit Statements 2017 in August 2017.

15/17 **The Pension Regulator – Public Service Governance Survey 2016**

The Committee noted the Pensions Regulator's Public Sector Governance Survey 2016 and the collaborative work to ensure a cost effective approach to training is provided regionally.

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

The Committee noted its Work Programme and that a Risk Update on ESPCM and Minutes of Pensions Board would be considered at the meeting on 5 June 2018.

17/17 **Update on Topical, Legal and Regulatory Issues**

The Treasurer confirmed that in respect of the appointment of External Auditors, of the 492 eligible bodies, 483 bodies had agreed to “opt-in” to the sector led approach. This indicated a high level of support to the national approach.

(The meeting ended at 1320 hours)

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