

West Midlands Fire and Rescue Authority

Audit and Risk Committee

You are summoned to attend the meeting of Audit and Risk Committee to be held on Monday, 12 November 2018 at 10:30

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 | |
| 3 | Minutes of the Audit Committee held on 4 September 2018 - approved 12.11.18 | 3 - 12 |
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| 10 | Update on Topical, Legal and Regulatory Issues (Verbal Report). | |
| 11 | Training | |

Distribution:

Stephen Craddock - Member, Jasbinder Dehar - Member, Zafar Iqbal - Member, Kerry Jenkins - Vice Chair, Catherine Miks - Chairman

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This agenda and supporting documents are also available electronically on the West Midlands Fire Service website at www.wmfs.net

Minutes of the Audit and Risk Committee

4 September 2018
at Fire Service Headquarters, Vauxhall Road,
Birmingham B7 4HW

Present: Councillors Jenkins (Vice Chair), Dehar, Iqbal, Jenkins
and Mr Ager (Independent)

Apology: Councillor Miks, (Chair), Councillor Craddock,
Mr P Farrow, DCFO P Hales

All Members of the Committee and Officers in attendance
introduced themselves as most Members were new.

42/18 Declarations of Interest in contracts or other matters

There were no declarations of interest.

**43/18 Minutes of the Audit and Risk Committee held on 23 July
2018**

Resolved that the minutes of the meeting held on 23
July 2018 be approved as a correct record.

44/18 Corporate Risk Update

The Chair agreed to bring this item forward on the Agenda
as the Clerk, who was presenting the report, was required to
attend another meeting.

In the absence of the Deputy Chief Fire Officer, the Clerk to
the Authority presented the six monthly Corporate Risk
Update. The Update covered Quarters 4 2017/18 and
Quarter 1 2018/19.

The report included the Corporate Risk Assurance Map Summary and the Position Statement for Quarter 1 2018/19.

In accordance with the Services risk management strategy, the Corporate Risk Assurance Map Summary was submitted for approval by the Audit and Risk Committee following its submission and discussion at the Corporate Performance Review Meeting.

Corporate risks are those risks which if they occurred would seriously affect the Authority's ability to carry out its core function or deliver its strategic objectives as set out in the Plan. At the time of the meeting, the Service maintained 9 corporate risks, some of which had more than one element.

Each corporate risk was assigned to a Risk Owner, who was a member of the Strategic Enabling Team. The Risk Owner had the overall responsibility for monitoring and reviewing the progress being made in managing the risk.

To enable for effective risk management, the Risk Owner would have periodically undertaken an assessment of each corporate risk. The frequency of this review would be based upon the estimated risk rating undertaken based on likelihood of impact. The likelihood was a measure of probability of a given risk occurring using a scale of 1 (low) to 4 (high). The impact was a measure of the severity or loss should the risk occur again, using a scale of 1 (low) to 4 (high).

To ensure that Members are kept informed of corporate risk matters a Corporate Risk Assurance Map Summary for Quarter 1 2018/19 (Appendix 1) and the Position Statement for Quarter 1 2018/19 (Appendix 2) were included.

In undertaking a review of corporate risks, the Risk Owner had reviewed the Corporate Risk Assurance Map. The Assurance Map provided details of:

- The strategic objectives and performance indicators relevant to the risk.
- The risk scores

- A description of events that could lead to the corporate risk being realised.
- The control measures in place designed to reduce the likelihood of risk realisation or its impact should the risk be realised.
- Additional control measures currently implemented to further reduce the likelihood or impact.
- Control owners who are responsible for the implementation, maintenance and review of individual control measures.

As part of the review each Risk Owner had considered the risk score and rating and updated the Assurance Map. The Risk Owner had provided assurance that the control measures identified were still effective in the management of risk and identified whether any new risk events or controls could have been implemented or were required.

Where ongoing additional controls were being implemented, Risk Owners would have confirmed the progress in implementing such controls.

During the six months (Quarter 4 2017/18 and Quarter 1 2018/19) there had been an increase in the risk scores for Corporate Risk 9, Business Development, 9.1 and 9.2. Officers are unable to provide assurance for these risks.

The Position Statement attached as Appendix 2 to the report provided the detail of the risk management activity undertaken or ongoing in respect of the Authority's 9 Corporate Risks for the six months (Quarter 4 2017/18 and Quarter 1 2018/19).

Corporate Risks 1.1, 1.2, 2.3, 4.1, 5.2, 8.1 and 8.2 were awarded a green confidence (substantial) opinion, which is the highest level that can be awarded. Corporate Risk 1.2 increased from 6 to 9, with likelihood being increased from 2 to 3.

- Corporate Risks 2.1, 2.2, 3.1, 3.2, 5.1, 6.1, 7.1 and 7.2 were awarded an amber (satisfactory) confidence opinion. In all cases, work is in progress to enable for a green rating to be attained.
- Corporate Risks 9.1 and 9.2 were awarded a red (high risk) confidence opinion. Both the likelihood and impact of Corporate Risk 9.2 had increased from 3 to 4 giving an overall risk score of 16. Work is in progress for these to be reduced.

Position statements

Corporate Risk 1 – External (Political and Legislative) Environment - little movement, generally performing effectively. The governance transfer was planned for April 2019.

Corporate Risk 2 – People – risk owner is confident that progress is being made in relation to the resolution of the Trade Dispute.

The risk owner anticipates that the Trade Dispute will be resolved in the 2nd Quarter and anticipated reducing the likelihood from 4 to 3.

Corporate Risk 3 – Prevention – currently unclear what the impact of the Trade Dispute and withdrawal from the falls response contracts will be on this risk. Initial feedback from one of the commissioners (City of Wolverhampton-Council) has not been positive and there has been some reputational damage.

Corporate Risk 4 – Protection – due to an unpredictable and unforeseeable increase in demand, the Team have not met the statutory consultation timescales of 15 days for some building regulations consultations. Associated risk could lead to opportunities being missed to ensure buildings following development or refurbishment are compliant with legislative requirements and safe when occupation. Officers are looking at capacity and redirection of resources.

Corporate Risk 5 – Response – high level of fleet availability remains consistent although this continues to be enabled through the payment of non-evidence based disturbance allowance payments which will become more challenging to maintain as a result of withdrawal from health-related activity. The high level of fleet availability means that WMFS continues to achieve some of the best ever attendance times to Category 1 incidents.

Corporate Risk 6 – Business Continuity and Preparedness - a gap analysis is underway following the publication of the Kerslake Report. An independent review into the preparedness will identify best practice and areas for improvement both internally as part of business continuity arrangements and as part of the multi-agency West Midlands Local Resilience Forum.

Corporate Risk 7 – Information, Communications and Technology – Virtual Device Infrastructure terminals have replaced desk top computer replacements at several locations. The majority of organisational data will be held in cloud storage and will build on efficiency and effectiveness.

Corporate Risk 8 - Finance and Assets – for 2018/19, the use of general balances is required together with a review of the Authority's Strategy to ensure the 2019/20 budget and beyond can be set in a balanced manner.

The External Auditors commented in the Audit Findings Report that the continued use of balances is not sustainable and their view is that the Authority should look at significant funding alternatives or service reductions before the anticipated transfer to WMCA.

Corporate Risk 9 – Business Development - On 6 June 2018 the Executive Committee resolved the removal of New Entrant contracts in order to avoid industrial actions by Grey Book staff.

At the time of the meeting, WMFS officers were liaising with Commissioners to identify options for withdrawal from contracts.

The Authority would be looking at options to deliver the savings that were anticipated through that activity.

The Appendices set out in the report provided more details of the additional control measures to be put in place.

The Independent Member stated that the overview showed a higher position since the previous six monthly report.

Members thanked Officers for producing a very comprehensive report.

Resolved that the Audit and Risk Committee approved the Corporate Risk Assurance Map Summary (Quarter 1, 2018/19, Appendix 1 be approved.

Members noted the Position Statement (Quarter 1, 2018/19, Appendix 2) for each risk.

45/18 Annual Audit Letter 2017/18

The Audit Committee received and noted the Annual Audit Letter 2017/18 (AAL). In line with the Code of Audit Practice, the Auditor is required to produce a letter at the end of the audit and it 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 charge for audit and non-audit services and titles and dates of when reports had been issued.

The Audit Findings Report had been presented to the Audit Committee on 23 July and outlined the findings of the audit work undertaken.

Following the meeting on the 23 July 2018, the auditor had issued an unqualified opinion on the Authority's 2017/18

financial statements included in the Authority's Statement of Accounts.

As part of the external audit work programme, the auditor was also required to provide a value for money conclusion.

As a consequence of this work the audit concluded that for 2017/18, the Authority had proper arrangements in all significant respects to secure economy, efficiency and effectiveness and to ensure it delivered value for money in its use of resources.

The final fees charge for the audit and provision of non audit services was £38,636.

The Auditor stated that WMFS had a strong record of delivery of its accounts and he appreciated the early delivery and efficiency of the Financial Management team.

The Auditor thanked the Authority and stated that two key risks had been identified, the move to WMCA Governance Arrangements and the Budget Strategy arising from the impact of the withdrawal of contracts had created a financial gap that the Authority needed to address.

46/18 Audit Committee Update

The Committee noted the contents of the Audit and Risk 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 was reported and the key dates were set out in the report.

Members attention was drawn to the following Sector Issues:

Her Majesty's Inspectorate of Constabulary and Fire and Rescue Service had extended its remit in July 2017 to include inspections of England's fire and rescue service. They carried out three pilot inspections in Staffordshire, Suffolk and West Yorkshire. Their report set out what had

been learned from the inspections and learning from public and sector consultations.

The three pilot areas allowed HMICFRS to gain an understanding of three governance arrangements for fire and rescue services and during the pilots, inspection teams had spoken to ten percent of the frontline workforce of each service.

National Fire Chiefs Council News

The NFCC had submitted its response to the Hackitt Review following a call for views. The NFCC were supportive of many of the recommendation, it would like to see it moving quickly forward.

The key points in the NFCC response were:

Widening the definition of Higher Risk Residential Buildings (HRRB) with an aim to move toward an 11 metre limit and to cover other buildings based on vulnerability of occupants. The government should commit to a specified time frame and extend the recommendations to other parts of the sector.

Support for the principle of a strengthened regulator, with a developed Joint Competency Authority setting standards.

The gap between the Housing Act and Regulatory Reform (Fire Safety) Order is one of the biggest problems in the current landscape which must be resolved, through primary regulation

Competence remains one of the most important aspects across the sector and is a common thread through the majority of issues highlighted. This is a key issue across every role and scheme.

Support for the proposals on product testing, including a robust testing programme, better market surveillance and greater transparency on passes and failures recorded.

Sprinklers should be a requirement in all new builds above 18 metres, and retro-fitted in existing buildings 30 metres and above.

Members found the update useful and the Vice Chair stated that Birmingham City Council were passionate about this subject and eagerly looking at fitting of sprinklers, but was dependent on budget and policy decisions.

47/18 Topical, legal and regulatory issues

There were no issues to be reported. An update was provided on Corporate Risk 4 – Protection following the meetings and is set out below.

Response

The Planning and Building Regulations Team, based at Fire Service HQ, reduce risk to the community by responding to Building Regulation application consultations submitted to this Authority by Building Control bodies. The consultations are undertaken in line with Building Regulations and Fire Safety Procedural guidance 2015, as a statutory consultee, under; the Building Act 1984, the Building Regulations 2010 and The Regulatory Reform (Fire Safety) Order 2005. The Building Regulations and Fire Safety Procedural guidance 2015 allows 15 working days for a response to the consultation from Building Control.

Collaborative working with Local Authority Building Control Teams and Approved Inspectors is undertaken to ensure Building Regulation applications for new and existing building works are compliant with the functional requirements of part B (Fire Safety) of the Building Regulations and will also meet the requirements of The Regulatory Reform (Fire Safety) Order 2005 when the building is occupied. The Building Regulation application can vary from simple buildings all the way through to highly complex buildings with fire engineered solutions which, in these cases, are reviewed by our Fire Engineering Team.

Overall this gives the Fire Service an opportunity to ensure safer buildings for occupants and firefighters, even before they are occupied and avoid any unnecessary delays or costs that may be incurred to meet the requirements of The Regulatory Reform (Fire Safety) Order 2005 once the building is occupied.

Due to an increase in Building Regulation applications, the complexity of applications and staffing issues within the team, not all applications were being completed within the 15 working day period. Due to this there was a possibility that recommendations on changes outside the 15 day period may not be considered and buildings are occupied where fire safety measures may not be to the required standards.

Following instigation of mitigation measures the identified corporate risk has been resolved and will continue to be monitored and reviewed as part of the routine performance management process.

The Auditor agreed to make details in the Audit Letter clearer in the future and would avoid any Jargon. Members indicated that they found the language complex at the last Audit and Risk Committee and confusing and requested additional information and training.

It was agreed that additional audit and risk training would be provided at a future meeting.

It was also agreed that name plates would be provided for future meetings.

48/18 Work Programme

The Committee noted its Work Programme.

The meeting finished at 1330 hours.

Julie Connor
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WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

Item 4

12 NOVEMBER 2018

1. TREASURY MANAGEMENT – MID YEAR REVIEW REPORT 2018/19

Report of the Treasurer.

RECOMMENDED

THAT the report and Appendix are noted and the prudential and treasury indicators approved.

2. PURPOSE OF REPORT

- 2.1 The Authority agreed its Treasury Management Strategy Statement and Annual Investment Strategy and its Prudential Indicators in February 2018. Part of the requirements of the Treasury Strategy and Prudential Code are that periodic reports are presented to Members.
- 2.2 The mid-year review report outlines the performance of the Treasury Management function of the Authority in the current financial year.

3. BACKGROUND

- 3.1 The Authority is required to produce a mid-year report of Treasury Management activity in the current financial year.
- 3.2 Appendix 1, the mid-year Review Report 2018/19 meets the requirement of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code of Capital Finance in Local Authorities (the Prudential Code). The Authority is required to comply with both Codes through regulations issued under the Local Government Act 2003.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out because the matters contained in this report do not relate 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**

These are contained in the attached Appendix.

7. **ENVIRONMENTAL IMPLICATIONS**

There are no environmental implications arising from this report.

BACKGROUND PAPERS

Authority's Budget and Precept Report – February 2018

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

MIKE GRIFFITHS
TREASURER

WEST MIDLANDS FIRE SERVICE



Treasury Management Strategy Statement and Annual Investment Strategy

Mid-year Review Report 2018/19

1. Background

The Authority operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning to ensure the Authority can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Authority risk or cost objectives.

As a consequence treasury management is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

2. Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011 has been adopted by this Authority.

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.
- Receipt by the Authority of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year.

- Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Authority the delegated body is the Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first six months of 2018/19;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Authority's capital expenditure (prudential indicators);
- A review of the Authority's investment portfolio for 2018/19;
- A review of the Authority's borrowing strategy for 2018/19;
- A review of any debt rescheduling undertaken during 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19.

3. Economic update

UK. The first half of 2018/19 has seen UK economic growth post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to 0.75%. Although growth looks as if it will only be modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components, but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the labour market, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3 month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. This tends to confirm that the MPC were right to start on a cautious increase in Bank Rate in August as it views wage inflation in excess of 3% as increasing inflationary pressures within the UK economy. However, the MPC will need to tread cautiously before increasing Bank Rate again, especially given all the uncertainties around Brexit.

In the political arena, there is a risk that the current Conservative minority government may be unable to muster a majority in the Commons over Brexit. However, Link Asset Services central position is that Prime Minister May's government will endure, despite various setbacks, along the route to Brexit in March 2019. If, however, the UK faces a general election in the next 12 months, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the rate of strong growth which rose from 2.2%, (annualised rate), in quarter 1 to 4.2% in quarter 2, but also an upturn in inflationary pressures. With inflation moving towards 3%, the Fed increased rates another 0.25% in September to between 2.00% and 2.25%, this being four increases in 2018, and indicated they expected to increase rates four more times by the end of 2019. The dilemma, however, is what to do when the temporary boost to consumption wanes, particularly as the recent imposition of tariffs on a number of countries' exports to the US, (China in particular), could see a switch to US production of some of those goods, but at higher prices. Such a scenario would invariably make any easing of monetary policy harder for the Fed in the second half of 2019.

EUROZONE. Growth was unchanged at 0.4% in quarter 2, but has undershot early forecasts for a stronger economic performance in 2018. In particular, data from Germany has been mixed and it could be negatively impacted by US tariffs on a significant part of manufacturing exports e.g. cars. For that reason, although growth is still expected to be in the region of 2% for 2018, the horizon is less clear than it seemed just a short while ago.

Link Asset Services interest rate forecast

Treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View											
	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate View	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.50%	1.50%
3 Month LIBID	0.75%	0.80%	0.80%	0.90%	1.10%	1.10%	1.20%	1.40%	1.50%	1.60%	1.60%
6 Month LIBID	0.85%	0.90%	0.90%	1.00%	1.20%	1.20%	1.30%	1.50%	1.60%	1.70%	1.70%
12 Month LIBID	1.00%	1.00%	1.00%	1.10%	1.30%	1.30%	1.40%	1.60%	1.70%	1.80%	1.80%
5yr PWLB Rate	2.00%	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%
10yr PWLB Rate	2.40%	2.50%	2.50%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%
25yr PWLB Rate	2.80%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.50%
50yr PWLB Rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%

The flow of generally positive economic statistics after the end of the quarter ended 30 June meant that it came as no surprise that the MPC came to a decision on 2 August to make the first increase in Bank Rate above 0.5% since the financial crash, to 0.75%. However, the MPC emphasised again, that future Bank Rate increases would be gradual and would rise to a much lower equilibrium rate, (where monetary policy is neither expansionary or contractionary), than before the crash; indeed they gave a figure for this of around 2.5% in ten years' time but they declined to give a medium term forecast. Link Asset Services do not think that the MPC will increase Bank Rate in February 2019, ahead of the deadline in March for Brexit. They also feel that the MPC is more likely to wait until August 2019, than May 2019, before the next increase, to be followed by further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on a reasonably orderly Brexit.

The overall balance of risks to economic growth in the UK is considered by Link Asset Services to be neutral. The balance of risks to increases in Bank Rate and shorter term PWLB rates, are probably also even and are broadly dependent on how strong GDP growth turns out, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively.

4. Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved by the Authority on 19th February 2018. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Prudential Indicator 2018/19	Original Prudential Indicator	Revised Prudential Indicator
Authorised Limit	£45m	£45m
Operational Boundary	£41m	£41m
Capital Financing Requirement (31.3.18)	£38m	£38m

5. The Authority's Capital Position (Prudential Indicators)

This section of the report provides an update on:

- The Authority's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

The table below shows the capital programme which was approved by the Authority 19th February 2018, it has since been revised to reflect the impact of capital expenditure and financing decisions in 2017/18. The forecast outturn position is as at 30th September 2018.

Capital Expenditure 2018/19	Approved Feb 2018 £000	Revised Estimate £000	Forecast Outturn £000
Land & Buildings:			
Coventry Fire Station	3,800	4,112	4,112
Aston Fire Station	4,450	4,488	3,948
HQ Alterations	650	609	609
Boiler Replacement Programme	214	206	206
Roof Replacements	310	355	378
Windows & Door Replacements	63	514	494
Rewires	130	130	130
Vehicles:			
Vehicle Replacement Programme	3,705	3,705	3,705
ICT & Equipment:			
C+C Upgrade – Vision 4	0	221	221
Oracle Licensing	0	25	0
Total	13,322	14,365	13,803

Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Authority by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure 2018/19	Approved Feb 2018 £000	Revised Estimate £000	Forecast Outturn £000
Total Spend	13,332	14,365	13,803
Financed by:			
Capital Receipts	0	0	0
Capital Grants / Contributions	523	744	744
Revenue Contribution to Capital	12,799	13,621	13,059
Total Financing	13,322	14,365	13,803
Borrowing Need	0	0	0

Changes to the Prudential Indicators for the CFR, External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator – CFR

The Authority is on target to achieve the original forecast CFR.

Prudential Indicator – External Debt / the Operational Boundary

	2018/19 Original Estimate	2018/19 Revised Estimate
Prudential Indicator – CFR		
Total CFR (31.3.18)	£38m	£38m
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	£41m	£41m
Total debt 31 March 2018	£37m	£37m

Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2018/19 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Authority has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2018/19 Original Estimate	2018/19 Revised Estimate
Gross borrowing (Excluding Ex WMCC)	£34m	£34m
CFR (31.3.18)	£38m	£38m

The Treasurer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2018/19 Original Indicator	2018/19 Revised Indicator
Borrowing	£45m	£45m

6. Investment Portfolio 2018/19

In accordance with the Code, it is the Authority's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Authority's risk appetite. As shown by forecasts in section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

The Authority held £65m of investments as at 30 September 2018 (£52m at 31 March 2018) and the investment portfolio yield for the first six months of the year is 0.60% against a benchmark (average 7-day LIBID rate) of 0.45%.

The Treasurer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2018/19.

The Authority's budgeted investment return for 2018/19 is £0.300m, and performance for the year to date is in line with the budget.

Investment Counterparty Criteria

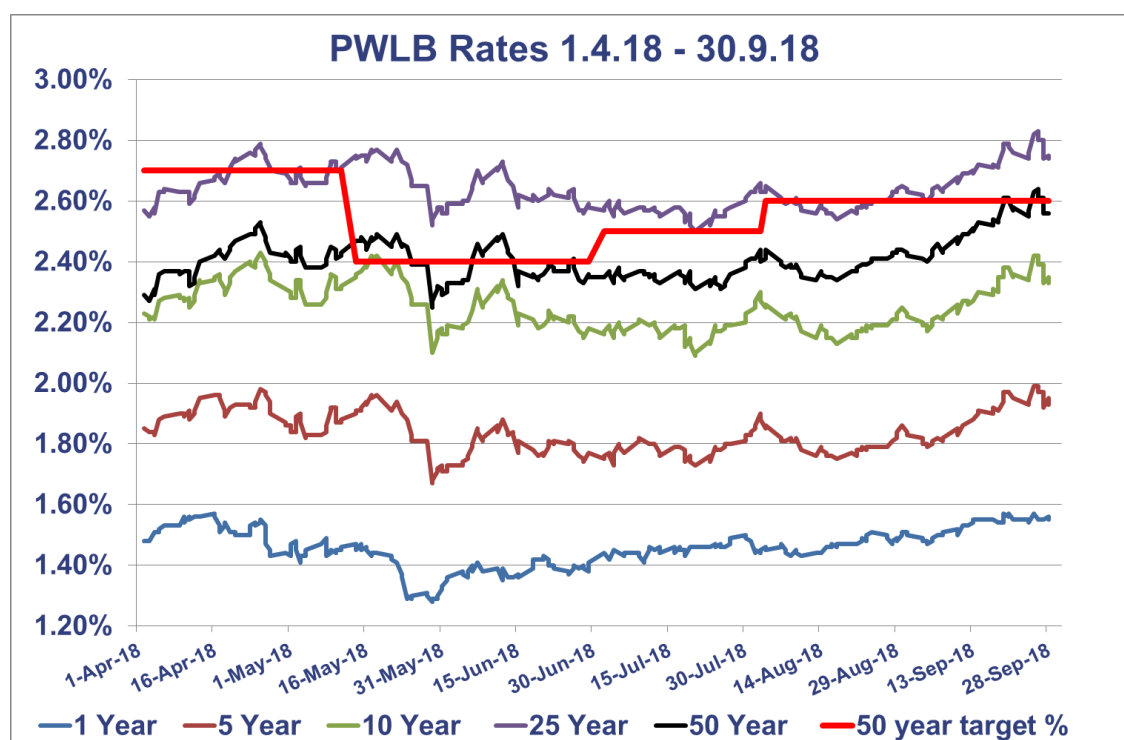
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

7. Borrowing

The Authority's CFR for 2018/19 is £38m (31.3.18). The CFR denotes the Authority's underlying need to borrow for capital purposes. If the CFR is positive the Authority may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

It is not anticipated that borrowing will be undertaken during this financial year however this requirement will be monitored by the Treasurer as part of the capital financing decisions.

The graph below show the movement in PWLB rates for the first six months of the year:



8. Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year. The Treasurer will continue to monitor opportunities for restructuring the Authority's debt during the remainder of the year.

9. Other

9.1. UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Authority will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

9.2 Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members’ attention in treasury management update reports.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

Item 5

12 NOVEMBER 2018

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.

7. **ENVIRONMENTAL IMPLICATIONS**

There are no environmental 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 Progress Report and Sector Update

West Midlands Fire and Rescue Authority
Year ending 31 March 2019

November 2018



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Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Fire and Rescue Authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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

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.

Progress to date

Financial Statements Audit

We have started planning for the 2018/19 financial statements audit and will issue a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2018/19 financial statements.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

This is a particularly challenging year for the Authority as they navigate their position and ensure that governance arrangements are robust. In relation to your financial statements, we will continue to engage with the finance team on any emerging financial reporting issues as a result of this.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. 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".

The guidance confirmed the overall criterion as: "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".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We will make our initial risk assessment to determine our approach in January 2019 and report this to you in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Meetings

We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also meet with your Chief Fire Officer to discuss the Authority's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Your finance team will shortly receive an invitation to the Chief Accountants' Workshops which we hold, offering an opportunity to hear about the latest financial reporting requirements, and also network with others who face similar reporting challenges.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2018/19 financial statements.	January 2019	In progress
Interim Audit Findings We will report to you the significant findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	September 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Local Government bodies are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Creating and operating a successful fire trading company

In a period of continued austerity, fire and rescue authorities need to adapt in order to combat funding challenges. One response has been the creation of fire trading companies (FTCs), with their wider commercial freedoms. Our report, jointly commissioned by NFCC and the Fire Industry Association, looks at how to do create and operate FTCs successfully

FTCs first appeared in 2004, but many fire and rescue authorities (FRAs) were unable to trade until a change in legislation under the 2011 Localism Act. Despite the revised legislation, numbers remain low with just 15 FTCs in operation today. Of the 48 FRAs in England and Wales, only 31% therefore have an FTC. In comparison, 60% of local authorities have at least one trading company. This could be attributed to several factors, such as a lack of willingness to trade; the restricted, specialist and competitive market in which FTCs operate; and the fact that some FTCs have ceased trading. Yet when FTCs are successful, they are not just financially viable. They provide social value and wider benefit to their communities through investment in local projects and charities.

Setting up a fire trading company

FTCs can provide opportunities to generate additional income, utilise spare capacity within the fire and rescue service (FRS), offer a social return and improve fire safety. For example, through bidding for work to provide services outside of their own authority. But while some FTCs are competing successfully and are on a growth trajectory, others are less successful with uncertain futures.

Successful FTCs tend to be larger companies (with a typical turnover of £2 – 4 million) that understand the commercial market in which they operate. They are able to capitalise on their specialist skills and look for ways to expand their activities within the legal constraints placed upon them. And their boards of directors have a sufficiently broad mix of commercial skills and sector knowledge to support the FTC's objectives, enabling the business to compete effectively within this specialised commercial marketplace.

Getting the legal structure right is also key – in instances where companies are not operating through the most appropriate legal structure, the ability of a company to achieve its intended outcomes can be hampered.

Each FRA will have its own rationale for setting up a company. But, whatever the reason, FRAs should always undertake a detailed options appraisal and business case before setting up an FTC. This will ensure that the most appropriate approach is taken. Whether that's deciding if it is worthwhile setting up a company, which company structure would best meet its objectives, or if its objectives could be achieved without transferring the services into a separate legal entity.

Maintaining success

As with any successful commercial organisation, an FTC must be dynamic, flexible and adapt to changing market forces. It needs to review and develop its commercial acumen and culture on an ongoing basis. And this need to be commercial and sustainable must be recognised by both leadership and staff. Whether directly employed or seconded. For example, it is crucial to regularly evaluate governance arrangements to ensure they remain effective and fit for purpose. Return on investment for the FRA must also be regularly reviewed and the necessary changes implemented if that return is no longer meeting desired levels.

In our latest study we have researched a range of FTCs, from those reported as being successful to lessons learned from those that have encountered challenges and ceased to trade.

To download our report click on the report cover, or visit our website.





NFCC comment on latest Home Office workforce and prevention and protection statistics

The National Fire Chiefs Council (NFCC) has described the continuing fall in firefighter numbers as 'disappointing and unsustainable'. Statistics released by the Government show that, since 2009, the number of whole-time firefighters has decreased by 23 per cent.

Roy Wilsher, Chair of the NFCC, said:

"It is disappointing to see the continuing reduction in whole-time firefighter numbers. There has been a 23 per cent reduction in less than ten years, which is an unsustainable trend."

"It is encouraging to see that more women and people from other under-represented groups are choosing a career in the sector. However, rising proportions of women and people from other groups still need to be seen against the backdrop of overall numbers falling"

"Fire and rescue services are doing some great work in attracting more diverse workforces, to truly represent the communities they serve – but we do acknowledge that more needs to, and can, be done."

There were 32,340 full-time equivalent firefighters in post on 31 March 2018. This was a one per cent decrease compared with the previous year (32,761). Since 2009 the number of firefighters has decreased by 23 per cent.

Women accounted for 10.5 per cent of new firefighters in England in 2017/18, while 5.2 per cent came from ethnic minority groups. Women accounted for 5.7 per cent of all firefighters (5.2 per cent in 2017), while 4.1 per cent were from an ethnic minority group (up from 3.9 per cent).

Although 95 per cent of households say they possess smoke alarms – the highest level ever recorded – five per cent fewer say their alarms actually work.

The figures also reveal a dramatic rise in the number of fire safety audits carried out on purpose-built flats of four storeys. They went up by 113 per cent, to 6,586 out of 49,423 audits overall (down nine per cent on 2016/17).

However, the proportion of fire safety audits on purpose-built flats of four storeys or more that were deemed satisfactory fell from 78 per cent in 2016/17 to 69 per cent in 2017/18.

Roy Wilsher added:

"There is good news in the statistics, especially the targeting of fire safety work, but the fall in firefighter numbers continues to be worrying."

"Firefighters in England spent more than 994,000 hours helping people to live safely and independently at home. They're focusing a greater proportion of Home Fire Safety Checks on vulnerable people, including the elderly and disabled, and spending longer with them."

"These are the same firefighters who provide 999 emergency response, and it's galling to see that there were 933 incidents involving them being attacked. This is the highest figure since data was first collected in 2010/11."

"Such attacks on our professional, highly-skilled crews are beyond words. We welcome the longer jail terms for these offenders which will come in under the Assaults on Emergency Workers (Offences) Bill."

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

CIPFA Consultation

Challenge question:

Has your Strategic Enabler for Finance made members aware of this Financial Resilience Index consultation to understand the context within which you are operating, particularly the West Midlands?



The Vibrant Economy Index

a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.granththornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
- Explore the app and take the quiz
- Go to the Vibrant Ideas section to share your picture and story or idea



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/how-fire-trading-companies-can-combat-austerity/>

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

Item 6

AUDIT AND RISK COMMITTEE

12 NOVEMBER 2018

1. INTERNAL AUDIT – PROGRESS REPORT

Report of the Audit Services Manager [Sandwell MBC].

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 Committee up to date with the progress made against the delivery of the 2018/19 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 @ 30 September 2018 Audit and Risk Committee – 12 November 2018



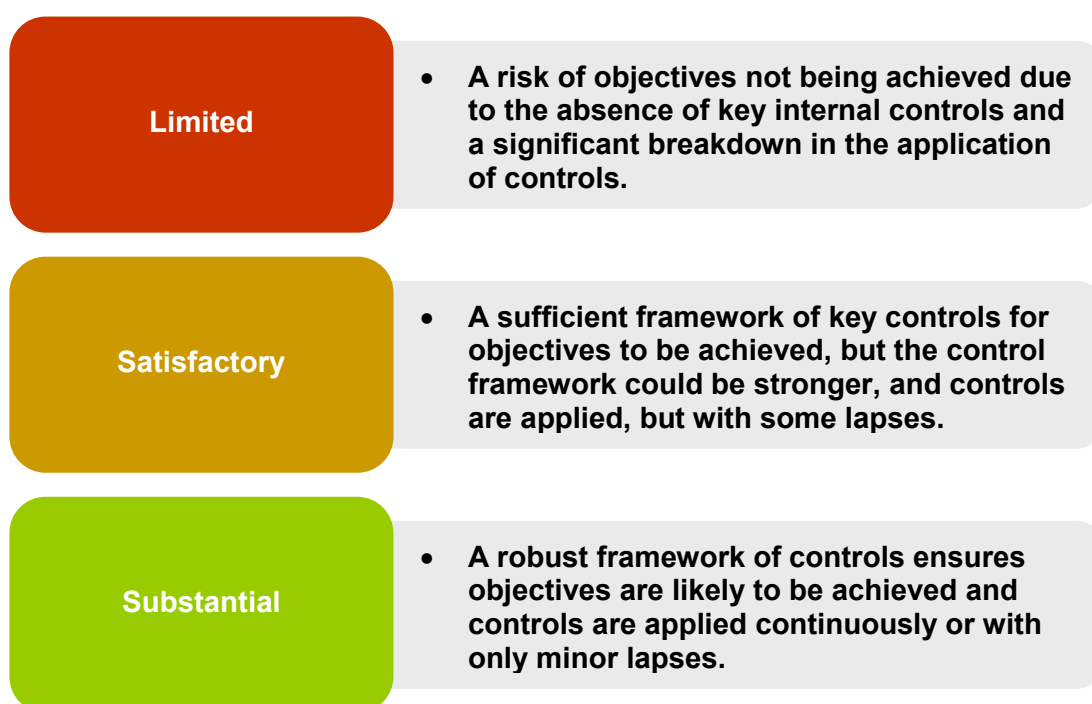
1. Introduction
2. Summary of work completed and in progress
3. Issues arising
4. Other activities
5. Service quality questionnaire feedback

1 Introduction

The purpose of this report is to bring the Audit and Risk Committee up to date with the progress made against the delivery of the 2018/19 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:



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.

2 Summary of work completed and in progress @ 30 September 2018

Auditable Area	ANA Rating	Suggested/Agreed Actions					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Completed:							
Procurement	Medium	-	-	-	-	-	Substantial
Performance Management	Medium	-	-	-	-	-	Substantial
In progress:							
Accounts Receivable	KFS						
Accounts Payable	KFS						

Key: KFS = Key Financial System

[ILO: UNCLASSIFIED]

3 Issues arising

Procurement

A review of the procurement process was undertaken to provide assurance over the control of non-contract spend within the authority. No issues of significance were identified.

Performance Management

A review was undertaken to provide assurance on the adequacy and application of the performance management system within the authority, by ensuring that appropriate targets were being set, appropriately reported upon, monitored and challenged. No issues of significance were identified.

4 Other activities

Advice and Guidance

We provide on-going advice and guidance to the authority to assist with the continuous improvement of the overall control environment.

CIPFA – Audit Committee Updates

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

Audit and Risk Committee – Terms of Reference

We submitted the Audit and Risk Committee Terms of Reference for annual review at the March 2018 meeting of the committee.

Internal Audit Plan 2017/18

We submitted the Internal Audit annual plan for 2018/19 to the committee for approval at the March 2018 meeting.

Internal Audit Annual Report 2017/18

We presented the Internal Audit annual report for 2017/18 to the committee for comment and approval at the June 2018 meeting.

Audit and Risk Committee Annual Report

Assistance was provided in the preparation of the Annual Report of the Chair, on the work of the Audit and Risk 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

No SQQs
received to date

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

Item 7

AUDIT AND RISK COMMITTEE

12 NOVEMBER 2018

1. CIPFA AUDIT COMMITTEE UPDATE NO. 26

Report of the Audit Services Manager [Sandwell MBC].

RECOMMENDED

That the Audit and Risk Committee notes issue 26 of CIPFA's Audit Committee Update.

2. PURPOSE OF REPORT.

- 2.1 To ask the Committee to note the publication and contents of issue 26 of CIPFA's Audit Committee Update.

3. BACKGROUND

- 3.1 CIPFA continue to develop a series of briefing papers to support public sector audit committee members and to provide a practical resource for those who support audit committees. The update is published approximately three times a year. Each one includes a main feature, together with pointers to new developments or guidance that audit committee members may need to be aware of. The focus for the latest edition is on CIPFA's Position Statement on Audit Committees in Local Authorities, a briefing on topical issues and Audit Committee training.

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

CIPFA Audit Committee Update – Issue 24

Peter Farrow
Audit Services Manager, Sandwell MBC

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

WORK PROGRAMME 2018/19

Date of Meeting	Item	Responsible Officer	Completed
2018			
23 July	<p>Audit Findings 2017/18</p> <p>Statement of Accounts 2017/18 (Approval)</p> <p>Treasury Management Annual Report 2017/18</p> <p>Minutes of the Audit Committee held on 4 June 2018</p> <p>Audit and Risk Committee Draft Work Plan 2018/19</p>	<p>Grant Thornton</p> <p>Grant Thornton</p> <p>Treasurer</p> <p>Democratic Officer</p> <p>Democratic Officer</p>	
4 September	<p>Corporate Risk Six Monthly Report</p> <p>Annual Audit Letter 2017/18</p> <p>Audit and Risk Committee Update</p>	<p>Director of Service Support</p> <p>Grant Thornton</p> <p>Grant Thornton</p>	

(Official – WMFS – Public)

	Minutes of the Audit and Risk Committee held on 23 July 2018	Democratic Officer	
17 September [Authority]	Audit Findings 2017/18 Statement of Accounts 2017/18 (note)	Grant Thornton Treasurer	
12 November	Treasury Management – Mid year review 2018/19 Audit and Risk Committee Update Internal Audit Progress Report Minutes of the Audit and Risk Committee held on 4 September 2018 Audit Committee Work Plan Training and Audit Overview	Treasurer Grant Thornton Audit Manager Democratic Officer Democratic Officer John Matthews	

2019			
14 January	<p>Minutes of the Audit and Risk Committee held on 12 November 2018</p> <p>Internal Audit Progress Report</p> <p>Internal Audit Charter – Annual Review</p> <p>Audit and Risk Committee Update</p> <p>Assessment of Good Practice and Effectiveness</p> <p>Audit and Risk Committee Work Plan</p> <p>Minutes of the Pension Board held on 27 September 2018 and 12 December 2019</p>	<p>Democratic Officer</p> <p>Audit Manager</p> <p>Audit Manager</p> <p>Grant Thornton</p> <p>Audit Manager</p> <p>Democratic Officer</p> <p>Chair of Pensions Board</p>	
25 March	<p>Audit and Risk Committee Update</p> <p>Communication with the Audit Committee for WMFRA</p> <p>Audit Plan 2018/19</p> <p>Internal Audit Plan 2018/19</p> <p>Audit and Risk Committee Terms of Reference</p> <p>External Audit Work Programme and Scale of Fees</p> <p>Corporate Risk Report Six Monthly Update</p>	<p>Grant Thornton</p> <p>Grant Thornton</p> <p>Grant Thornton</p> <p>Audit Manager</p> <p>Audit Manager</p> <p>Director of Service Support</p> <p>Director of Service Support</p>	

(Official – WMFS – Public)

	<p>Minutes of the Pensions Board held on 4 December 2018</p> <p>Minutes of the Audit and Risk Committee held on 14 January 2018</p> <p>Audit Committee Work Plan</p> <p><i>Committee Members' Private meeting with Internal Auditors (to follow Committee)</i></p>	<p>Pensions Board Representative</p> <p>Democratic Officer</p> <p>Democratic Officer</p> <p><i>Audit Manager</i></p>	
3 June 2018	<p>Annual Internal Audit Report 2018/19</p> <p>Governance Statement 2018/19</p> <p>Monitoring Policies and RIPA (Annual Whistleblowing Report)</p> <p>Annual Report of the Audit Committee for approval</p> <p>Audit and Risk Committee – Verbal Update</p> <p>Minutes of the Audit and Risk Committee held on 25 March 2019</p> <p>Minutes of the Pensions Board held on 4 March 2019</p> <p>Audit and Risk Committee Work Plan 2019/20</p> <p><i>Committee Members' Private meeting with External Auditors</i></p>	<p>Audit Manager</p> <p>Treasurer Monitoring Officer/Director of Service Support 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>	

(Official – WMFS – Public)

	<i>Workshop for Members on Statement of Accounts 2018/19</i>		
24 June 2019 [Authority]	<p>Governance Statement 2018/2019</p> <p>Audit and Risk Committee – Terms of Reference, Annual Review (will now be reported to the Authority's AGM)</p> <p>Annual Report of the Audit and Risk Committee 2018/19</p>	<p>Treasurer</p> <p>Audit Manager</p> <p>Chair</p>	
22 July 2019 (Audit Committee 2019/20)	<p>Audit Findings 2018/19</p> <p>Statement of Accounts 2018/19 (Approval)</p> <p>Treasury Management Annual Report 2018/19</p> <p>Audit and Risk Committee Draft Work Plan 2019/20</p>	<p>Grant Thornton</p> <p>Grant Thornton</p> <p>Treasurer</p> <p>Democratic Officer</p>	

