

# Audit Committee Update for West Midlands Fire & Rescue Authority

## Progress Report and Update Year ended 31 March 2017

September 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](http://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:

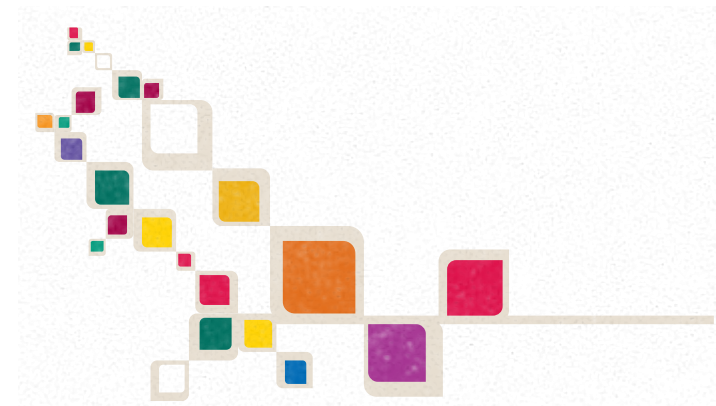
- Learning from innovative income generation practices (March 2017)  
<http://www.grantthornton.co.uk/en/insights/income-generation-learning-from-innovative-income-generation-practices/>
- A guide to setting up a social enterprise (June 2017)  
<http://www.grantthornton.co.uk/en/insights/?tags=local-gov#filters>

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

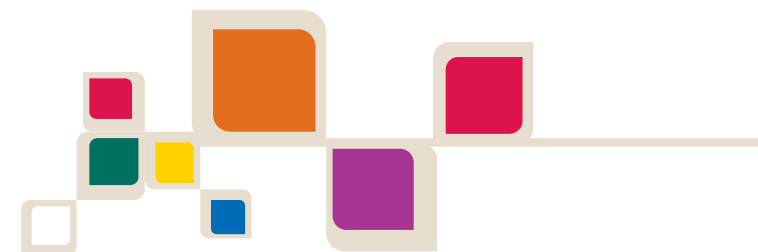
- Why the public sector is an integral part in helping to build a vibrant economy. This short video explains our ambition of helping the public sector to make bold steps to benefit our communities, clients and its stakeholders:  
<http://www.grantthornton.co.uk/en/insights/collaboration--doing-right-by-the-public-sector/>

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.

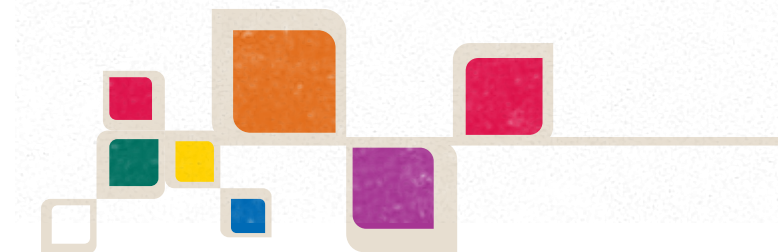


# Progress to date



2016/17 work	Planned Date	Complete?	Comments
<b>Fee Letter</b>			
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
<b>Accounts Audit Plan</b>			
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	Yes	<p>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.</p> <p>If there are any changes to our plan between our initial risk assessment and the delivery of our opinion we will discuss this with the Strategic Enabler for Finance and Resources before presenting to the Audit Committee.</p>
<b>Interim accounts audit</b>			
<p>Our interim fieldwork visits include:</p> <ul style="list-style-type: none"> <li>• updating our review of the Fire Authority's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	January – March 2017	Yes	<p>We engaged with the finance team to:</p> <ul style="list-style-type: none"> <li>• streamline and improve the audit approach for 2016/17 where possible</li> <li>• discuss any technical issues early, including those impacting on future years</li> <li>• undertake as much early testing as possible.</li> </ul> <p>We continued to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p>
<b>Final accounts audit</b>			
<p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2016/17 financial statements</li> <li>• proposed opinion on the Fire Authority's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	June – July 2017	Yes	<p>Our final accounts on site work commenced on 30<sup>th</sup> May 2017. We issued our unqualified opinion to the July Audit Committee demonstrating that delivery of the shorter timescale in 2017/18 is achievable.</p> <p>We will issue the certificate once we have evidenced your financial statements on your website.</p>

# Progress to date



2016/17 work	Planned Date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <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"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	March – July 2017	Yes	<p>We considered the potential significant risks for our VfM conclusion and identified the following issues.</p> <ul style="list-style-type: none"> <li>• Financial resilience</li> <li>• Partnership working with other emergency services</li> </ul> <p>Our work on the VfM Conclusion included meetings with key Senior Officers and key document reviews.</p> <p>We issued an unqualified VfM Conclusion to the July Audit Committee demonstrating that delivery of the shorter timescale in 2017/18 is achievable.</p>
<p><b>Annual Audit Letter</b></p> <p>We will summarise all the work completed as part of our 2016/17 audit within one letter which will be issued after the opinion.</p>	October 2017	Not started	
<p><b>Engagement with the Fire Authority since the last Audit Committee meeting</b></p>	On-going	On-going	<p>Meetings with Key Senior Officers, to ensure our understanding of your business is maintained.</p> <p>Delivery of a facilitated session with CFO Phil Loach to ensure that explore Public Sector Reform.</p> <p>Provided hard copy Grant Thornton publications relevant to the Fire Sector.</p>



# Fire Sector Accounting and other issues





# Statutory inspection report published

A statutory inspection under section 10 of the Local Government Act 1999 was commissioned, to consider Avon Fire and Rescue Authority's compliance with its duty to make arrangements to secure continuous improvement in the way in which its functions in respect of governance are exercised, having regard to a combination of economy, efficiency and effectiveness. The inspection focused on the Authority's functions in respect of governance, including, but not limited to, the Authority's duties of accountability and assurance under the Fire and Rescue National Framework.

Dr Craig Baker led the inspection and provided the following conclusions.

"It is my belief that its governance arrangements have not secured its section 3 duty. Poor decisions that significantly benefited individuals were made following insufficient scrutiny by Members, with inadequate papers and business cases being put to them; and Minutes that did not leave a proper audit trail. Where Members did challenge, those challenges were treated inappropriately. Members were unclear about their roles. There was too much emphasis upon maintaining consensus, and incremental change. The 2012 Integrated Risk Management Plan (IRMP) process did not identify how resources could be better deployed in the way that it should have. A new Chair was recently chosen on 26 June 2017, and has indicated that he recognises the urgent need for change. Since then, the Service Management Board (SMB) have also indicated a strong willingness to embrace improvement.

These are encouraging developments that bode well for the future, however, this does not negate my duty under the 1999 Act and the terms of reference to provide this report and to set out my findings in relation to the issues of the past. The issue of governance is addressed in Section 2 of this Report. It is also my belief that failings in leadership and culture have meant that the Authority has not secured continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. There have been rifts previously in the SMB that led to expensive exits and disharmony. Support staff are pressed, and do not always have the level of professional expertise now required by modern organisations. Staff relations have at times been poor and a recent Employment Tribunal (ET) identified specific concerns. The Authority has to address equality issues with greater vigour. There are too many management layers. The handling of a missing laptop exemplified a culture of defensiveness, as did the heavy-handed dealings with a member of the public who was criticising the Authority. Leadership and culture are addressed at Section 3 of the Report. Having conducted the Inspection and identified the areas where I believe the Authority is failing in its duty, I set out at Section 4 of this Report a number of proposals for how the Authority may address its shortcomings."

Home Secretary inspection

## Challenge question:

- Have you considered the findings of this inspection report and challenged yourself on the adequacy of your own arrangements?



[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/630183/6\\_3502\\_HO\\_KG\\_Avon\\_Report\\_Web.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/630183/6_3502_HO_KG_Avon_Report_Web.pdf)

# HMIC becomes inspectorate for fire

On 19 July the Home Office agreed that Her Majesty's Inspectorate of Constabulary (HMIC) undergoes a major expansion to take on the role of inspectorate of fire and rescue authorities in England.

The inspectorate will help support the continuous improvement of this critical public service and support fire and rescue authorities to become even more effective. It will also support continuing collaboration between policing and fire and rescue services, offering the opportunity for future inspections of joint areas of work or where support functions have been combined. HMIC will be renamed Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS). Nick Hurd, Minister for Policing and the Fire Service said:

"The response to the recent Grenfell Tower tragedy has highlighted the professionalism, dedication and skill of our firefighters. Creating an inspectorate for fire and rescue authorities in England will support the continuous improvement of this critical public service to make sure that services are as professional, effective and as efficient as possible. It will also ensure where problems are identified, actions can be taken by the fire and rescue authorities to overcome them.

HMIC has been inspecting police forces for more than 160 years and has a strong track record in holding policing to the highest standards. I am confident that they too will hold fire and rescue services to the highest standards possible.

The inspectorate will consider how efficient and effective fire and rescue authorities are; will highlight good practice and identify areas where they need to improve, so that action can be taken to overcome them. This will

include how services prevent and respond to incidents; whether the service provides value for money as well as reviewing the service's leadership, training, diversity, values and culture. It replaces the current system of peer review where fire and rescue services inspect one another."

The Home Secretary has recommended to Her Majesty the Queen that she appoints Sir Thomas Winsor, currently Her Majesty's Chief Inspector of Constabulary, as Chief Fire and Rescue Inspector for England, and HMIC's existing inspectors be appointed Inspectors of Fire and Rescue Authorities. These appointments will be in addition to their existing police inspection responsibilities.

Sir Thomas Winsor, said:

HMICFRS will approach the inspection of fire and rescue services – establishing and reporting on their efficiency and effectiveness – with the same degree of thoroughness as it inspects the police. My fellow HM Inspectors and I look forward to engaging with fire and rescue authorities, and others with a stake in their performance, to build a sound and productive relationship which serves the public well.

The first inspection is expected to take place next spring with every authority in England inspected by the end of 2019. HMIC will shortly begin work developing an inspection framework and programme to be published for consultation in the autumn.

The introduction of an independent inspectorate is just part of the government's fire reform programme which aims to make fire and rescue services more effective, efficient and professional than ever before.

## Home Office announcement

### Challenge question:

- What are the implications of this change for you going forward?

Other key elements include:

- the formation of a professional standards body for fire and rescue which will build a comprehensive professional framework of standards
- strengthening local fire and rescue governance by enabling police and crime commissioners to take on the responsibility for local fire and rescue services where a local case is made to maximize the benefits of collaboration
- reform of the workforce so that it is highly skilled, modern, flexible and diverse
- creating a new national website which will hold a range of information to increase transparency of fire and rescue services by allowing the public to access the performance of their local service as well as information about chief officer pay, expenditure, accounts and efficiency plans
- the publication of incident level data from the Incident Recording System so that the public can have access to the raw data of fire incidents across England
- driving efficiencies across services including supporting them in their commercial transformation.

# Income generation

Local government is under immense financial pressure to do more with less. The 2015/16 spending review is forecast to result in a £13 billion funding hole by 2020 that requires. With further funding deficits still looming, income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency of service delivery. This report shares the insights into how and why local authorities are reviewing and developing their approach to income generation.

Our new research on income generation which includes our CFO Insights tool suggests that:

- ❖ councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).
- ❖ the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.

- ❖ stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).

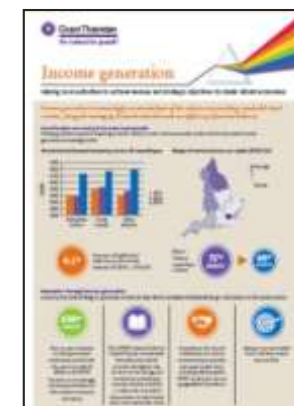
Our report helps local authorities maximise their ability to generate income by providing:

- Case study examples
- Local authority spend analysis
- Examples of innovative financial mechanism
- Critical success factors to consider

## Grant Thornton publications

### Challenge question:

- Have you read our income generation report?
- Is your council actively exploring options to generate income?



Our Income generation report was published on Thursday 2 March, hard copies are available from your team and via link:

<http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/>



# A Manifesto for a Vibrant Economy

Grant Thornton publications

## Developing infrastructure to enable local growth

Cities and shire areas need the powers and frameworks to collaborate on strategic issues and be able to raise finance to invest in infrastructure priorities. Devolution needs to continue in England across all places, with governance models not being a “one-size-fits all”. Priorities include broadband, airport capacity in the North and east-west transport links.

Addressing the housing shortage, particularly in London and the Southeast, is a vital part of this. There simply is not enough available land on which to build, and green belt legislation, though designed to allow people living in cities space to breathe, has become restrictive and is in need of modernisation. Without further provision to free up more land to build on, the young people that we need to protect the future of our economy will not be able to afford housing, and council spending on housing the homeless will continue to rise.

Business rates are also ripe for review – a property-based tax is no longer an accurate basis for taxing the activity and value of local business, in particular as this source of funding becomes increasingly important to the provision of local authority services with the phasing out of the Government’s block grant.

Demographic and funding pressures mean that the NHS no longer remains sustainable, and the integration of health and social care – recognised as critical by all key decision makers – remains more aspiration than reality.

There is an opportunity for communities to take a more holistic approach to health, for example creating healthier spaces and workplaces and tackling air quality, and to use technology to provide more accessible, cheaper diagnosis and treatment for many routine issues

## Finding a better way to measure the vibrancy of places

When applied to a place we can see that traditional indicators of prosperity such as GVA, do not tell the full story. To address this we have developed a [Vibrant Economy Index](#) to measure the current and future vibrancy of places. The Index uses the geography of local authority areas and identifies six broad objectives for society: prosperity, dynamism and opportunity, inclusion and equality, health wellbeing and happiness, resilience and sustainability, and community trust and belonging.

The city of Manchester, for example, is associated with dynamic economic success. While our Index confirms this, it also identifies that the Greater Manchester area overall has exceptionally poor health outcomes, generations of low education attainment and deep-rooted joblessness. These factors threaten future prosperity, as success depends on people’s productive participation in the wider local economy, rather than in concentrated pockets.

Every place has its own challenges and opportunities. Understanding what these are, and the dynamic between them, will help unlock everybody’s ability to thrive. Over the coming months we will continue to develop the Vibrant Economy Index through discussions with businesses, citizens and government at a national and local level.

## Challenge question:

- Have you read our manifesto?



<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/documents/creating-manifesto-vibrant-economy-draft-recommendations.pdf>

**Guy Clifton – Head of Local Government Advisory**

## Setting up a successful social enterprise

### Grant Thornton market insight

Local government continues to innovate as it reacts to ongoing austerity. An important strand of this response has been the development of alternative delivery models.

This report focuses on social enterprises in local government; those organisations that trade with a social purpose or carry out activities for community benefit rather than private advantage.

We explore what social enterprises look like, the requirements for setting one up, how they should be managed to achieve success and how they can be ended. We have complemented this with a range of case studies providing new and innovative ideas from those that have been successful and lessons learned to take into consideration.

Key findings from the report:

- Austerity continues to be a key driver for change: social enterprises are a clear choice where there is an opportunity to enhance the culture of community involvement by transferring these services into a standalone entity at its centre;
- The social enterprise model tends to lend itself more to community services such as libraries, heritage management and leisure, but not exclusively so;
- Social enterprises can open up new routes of funding including the ability to be flexible on pricing and access to pro bono or subsidised advice;
- Some local authorities have converted exiting models into social enterprises; for example where a greater focus on social outcomes has been identified while still retaining a commercial objective







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