

Minutes of the Audit and Risk Committee

27 July 2020 at 14.00hrs

Conducted as an online virtual meeting

Present: Councillor Catherine Miks (Chair), Councillor Gill (Vice Chair) Councillors Barrie, Miller, Spence, Mr Ager, Richard Percival (Grant Thornton) and Peter Farrow (Sandwell MBC)

Apologies: Karen Gowreesunker (Clerk to the WMFRA) Paul Gwyn (WMFS) Neil Chamberlain (West Midlands Police and Chair of WMFS Pension Board)

Officers in attendance: Mike Griffiths, Kal Shoker and Gary Taylor

13/20 **Declarations of Interest**

There were no declarations of interest registered.

14/20 **Minutes of the Audit and Risk Committee held on 01 June 2020**

Resolved that the minutes of the Audit and Risk Committee held on 01 June 2020 be approved as a correct record of proceedings.

15/20 **Audit Plan 2019-20**

Richard Percival of Grant Thornton presented the report detailing the Audit Plan 2019-20. It was explained the content of the report was completed pre-Covid-19 pandemic and there were no issues arising. The outcome was consistent with the previous years' audit, namely the similarity of Materiality level and management of risks specific to financial controls, valuation of pension liability and valuation of land and buildings. The audit concluded a satisfactory level of assurance on these items. The Audit advised that financial sustainability of the Fire and Rescue Authority is being well managed but will become an increasing focus for attention. The Committee were advised the information

provided to the Auditors and its timeliness was to the usual high quality and integrity of West Midlands Fire Service.

A Member requested clarification on the marginal increase in the Audit Fee of £5,750. Richard Percival explained that the Financial Reporting Council (the Regulator) had raised the requirements placed upon auditors, which superseded the letting of the contract. This situation had been reported before to the Committee due to its occurrence in the previous year and was acknowledged by Members as being anticipated next year.

Richard Percival presented an update to the original audit, covering the period of the pandemic. The outcome was four areas for consideration, namely the impact of remote working, the volatility of property valuations, the uncertainty of financial outlook and disclosures within financial statements. The supplementary work had been completed within the original audit fee.

The Committee **approved** the report.

16/20 **Informing the Audit Risk WMFRA 2019-20**

Richard Percival of Grant Thornton presented the report. The context was explained that each year as part of Audit procedures, the Auditor must ask Management key questions. The responses to these questions should be considered by the Committee as part of the process and in fulfilling its Governance role.

The six areas under review are General Enquiries of Management, Fraud, Laws and Regulations, Going Concerns, Related Parties and Accounting Estimates. It was reported there were no issues arising or unexpected/unusual items for concern; it was considered that appropriate arrangements were in place to advise and manage risk.

Richard Percival drew the attention of the Committee to the on-going consultation on Firefighter Pension Reform. It was not anticipated to affect the 2019-20 Audit as the deadline was beyond its conclusion, however there were potential implications for future years. There were no questions from Members.

The Committee **noted** the content of the report and appendix.

17/20 **Audit Fees and the Sustainability of the Local Audit Market**

Richard Percival of Grant Thornton presented the report. The context was explained of a public sector audit market that had a high-risk profile and a low financial return. Consequently, the number of firms seeking market entry was low, together with recruitment and retention of skills and experience to deliver. The Committee were assured that Grant Thornton, as the largest provider, were not intending to leave the market. They are seeking to influence changes to the Public Sector Audit processes via their contribution to the Redmond Review.

There was additional commentary from Mike Griffiths who referenced content of previous reports to this meeting regarding impact upon Audit Fees, additional responsibilities on External Auditors placed by the Regulator and the general operability of the Public Sector Audit process.

The Committee **noted** the content of the report and appendices.

18/20 **WMFS Internal Audit Plan 2020-21**

Peter Farrow of Sandwell MBC presented the report detailing the Internal Audit Plan 2020-21. The Terms of Reference of Audits and sources/documents used were provided to the Committee. The functional areas within which subjects would be audited during the year will include Strategic Hub, Response, People, Community Risk Management, Finance and Resources. It was confirmed the plan will be relatively fluid in delivery, to account for the resetting of priorities and resource availability within the Service to accommodate the recovery phase of the pandemic.

A Member enquired why the Audit Plan appeared to feature so much 'high' within the RAG (Red, Amber, Green) rating. It was explained that the ratings were an assessment of risk assurance need for the Service and not a rating of performance as would be reported in a Risk Register.

A Member enquired why Data Protection featured as a high-risk assurance need. It was explained that the application of General

Data Protection Regulations was still relatively new and assurance of the understanding of their protocols was considered a business need.

The Committee **approved** the report.

19/20 **Governance Statement 2019-20**

Mike Griffiths presented the report. The context of the Governance Statement was introduced as a legal requirement and provided on an annual basis for approval by the Committee. The purpose of the statement is to illustrate the Service has lawfully operated to good standards, both recognises and manages risk. It was referenced that it will also feature in the Statement of Accounts report later in the meeting.

A summary explanation was provided of the scope of the Governance Framework and the interactions therein. This cover, but not by exception, links of systems of internal control, delivery of internal and external audit process and outcomes, engagement of Members of the Fire and Rescue Authority and its Committees, the role of Statutory Officers and the delivery of Best Value.

The Governance Statement is required to be certified by the Chair of the Fire and Rescue Authority and the Chief Fire Officer. This will be undertaken upon the approval of the Statement of Accounts at the meeting of the Fire and Rescue Authority, provisionally scheduled for September 2020.

Members commented positively upon the accessible language used enabling interpretation of a substantially detailed report.

The Committee **approved** the report.

20/20 **WMFS Internal Audit Annual Report 2019-20**

Peter Farrow of Sandwell MBC presented the Annual Report 2019-20 in their role of WMFS Internal Auditor. He explained the purpose of Internal Audit is to give an opinion on the adequacy of the Service system control measures and risk management processes. The Committee has received progress reports

throughout the municipal year, this report providing an overall unqualified opinion of reasonable assurance.

The Committee were advised the increase in recommendations during the period was due to an increase in the number of audits. The RAG rating system and definitions of opinion were contextualised for Members and confirmation of Nil Red, 3 Amber and 4 Green; all were of Substantial Assurance demonstrating strongly managed systems. Other areas upon which Sandwell MBC have assisted WMFS were also referenced in conclusion to the presentation.

There were no questions from Members and the Chair summarised of good report content and outcome.

The Committee **approved** the report.

21/20 **Statement of Accounts 2019-20**

The Chair acknowledged the length of the report and its appendices, requesting a summary of the most salient aspects for the Committee. Mike Griffiths presented the report and referenced its relationship to the accounts workshop received by the Committee on 13 July 2020.

The level of General and Earmarked Reserves had reduced during the period, however remained healthy at £38.28 million held at the end of the financial year. A slight underspend on the anticipated use of £1.1million General Balances during the year had been achieved.

It was explained that the balance sheet can appear distorted when viewing long term liabilities of £1.7 billion. It was clarified that technical adjustments are included for wholesale pension payment, which is a regulatory accounting requirement. The other liabilities of the Fire and Rescue Authority (FRA) are distinctly smaller by comparison.

There had been no long-term borrowing undertaken during the period, and some monies had been paid off. The value of FRA

property and assets totalled £135.6 million, which covers the borrowing requirement.

The Chair sought a definition by example of the term 'Intangible Assets' described in Appendix A, whilst another Member sought explanation on the term 'Unusable Resources' when reporting Long term Liabilities.

Richard Percival confirmed the accounts were supplied for auditing upon the agreed deadline, with all papers enclosed and to the regular high standard of technical competence and presentation. It was stated there were no major issues arising and work continued to complete the accounts approval process. This is anticipated for late September and contingent on completion of the audit of West Midlands Pension Fund, as inclusions of that affect the closure of the audit of the Fire and Rescue Authority accounts.

A Member expressed their appreciation of the excellent level of explanation of accounts to the Committee, enabling decisions to be made in an informed way.

The Summary of Accounts were introduced by Mike Griffiths as a more accessible variant of the preceding discussion. They expressed how much the Service cost (employees 64%/pensions 24%/running costs 12%) and how the Service was funded (Council Tax 39%/Business rates 33%/Government Grant 24%/Interest and other income 4%).

The Chair enquired if there would be additional funding to cover additional activities undertaken by the Service during the Covid-19 pandemic. Mike Griffiths responded that notwithstanding a second spike of virus, the £2.8million allocated by Government should be sufficient for the current financial year. This will be represented in the Statement of Accounts for 2020-21.

The Committee received the report and **approved** Appendix A and **noted** Appendix B.

22/20 **Treasury Management Annual Report 2019-20**

Mike Griffiths introduced the report, which was subsequently presented by Kal Shoker.

Members were advised the report covered a twelve-month period and the financial figures also feature in the Statement of Accounts. A summary was made of the outcomes of the three key areas of Treasury Management activity during the period reported. Firstly, Capital Expenditure and Financing totalled £5.283 million funded by earmarked reserves and capital grants. There was nil borrowing undertaken to finance capital expenditure during 2019-20, of which the largest budgetary expenditure was the redevelopment of Aston Fire Station and the Vehicle Replacement Programme.

Secondly, the Fire and Rescue Authority debt totalled £35.7 million of external debt. An interest rate of 5.4% was payable upon this amount during the period. The Public Works Loans Board and ex West Midlands County Council were the two principal areas of debt.

Thirdly, Investments totalled £45 million at 31 March 2020. These were managed through Sandwell MBC receiving a return of 0.87%. A Member enquired how this compared to market rates, of which it was confirmed favourably when compared to the benchmark 7-day LBID rate of 0.54% for the same period.

The Committee **noted** the report and appendices and **approved** the prudential and treasury indicators.

23/20 **Reinstatement of Widow's Pension**

Mike Griffiths presented the report on behalf of the Payroll and Pensions Manager. The details of the request were outlined from the report and Members advised that Pension Scheme Regulations enabled reinstatement as an option for the Scheme Manager.

Members discussions embraced the substantial time lapse involved, the contextual status of all persons involved, the prevalence of such requests and the precedence arising from these cases.

The Chair summarised on behalf of the Committee, that due to the mitigating circumstances provided within the request, and the Scheme Manager having previously complied with its obligations within the Scheme, that Officers should seek further information from the requestee.

The Committee **deferred decision** pending further clarity and detail on the request. Mike Griffiths assured the Chair this will be progressed within Scheme requirements and the Committee updated.

24/20 **Request for Pensionable Pay Decision Fire Safety trial**

Mike Griffiths presented the report on behalf of the Payroll and Pensions Manager.

Members were advised the trial had been supported by the Joint Consultative Council. The Officers engaged were all part of the 2015 Firefighters Pension Scheme, which did not enable payment unless the trial became permanent. The five Blackburn principles of pensions guidance were introduced to the Committee, being the established reference points for consideration by Scheme Managers when such circumstances described in the report occur.

Members enquired of the duration on the trial, which was confirmed as twelve months. Members also observed that overall, the evidence of duties performed by officers and the intention that these become permanent, when assessed against the Blackburn principles, were sufficient to consider that pay was pensionable.

The Committee **agreed** the decisions recommended

25/20 **Corporate Risk Update March 2020**

ACFO Gary Taylor presented the report. The purpose was explained as provision of the regular six-monthly update on the Corporate Risk Register, those risks that if realised would seriously affect the Fire and Rescue Authority's ability to carry out its core function or deliver its strategic objectives.

The period covered of Quarter 3 2019/20, pertained to corporate risks that were pre-Covid-19. All risks are monitored and assessed by members of Strategic Enabling Team who are Risk Owners and mitigation measure are implemented where necessary. The delay in reporting is a consequence of the cancellation of Committee meetings during the pandemic.

Members were advised that key risks remained stable during the reported period. Attention was drawn to the removal of Corporate Risk 1.1 External (Political and Legislative) Environment Public Service Reform from the register. This was following a decision made by the Committee following a change in position around a potential change to governance arrangements and as such the risk was considered no longer relevant at a strategic level.

The one increase reported for the period was for Corporate Risk 6.1, Business Continuity & Preparedness. If this risk was realised the Fire and Rescue Authority would be unable to provide business continuity arrangements, to maintain delivery of core functions, as a result of extensive disruption to normal working arrangements, resulting in increased community risk; reduced confidence; increased reputational damage; and external scrutiny.

It was referenced that this issue was reported separately to the Audit and Risk Committee at its meeting held on the 13 January 2020. In summary, the Risk Owner considered overall the control measures remain challenged and subject to potential additional level of risk. The risk score has increased from 9 Amber Medium Risk (Likelihood 3 x Impact 3) to 12 Red High

Risk (Likelihood 3 to Impact 4). All High Risks a reviewed on a six-weekly basis and under Operational Matters, Officers continue to consider alternative and additional control measures that will reduce risk and protect the Fire and Rescue Authority.

There has been a decrease in risk and an increase in confidence level for Corporate Risk 4.1 which relates to Protection and Fire Safety. This is resultant of increased staff capacity, skills and resources within Fire Safety to respond to statutory building consultations and the associated confidence in managing outcomes of Phase One of the Grenfell Inquiry Report.

The Chair expressed confidence in the management of Corporate Risk and noted the comment of ACFO Taylor that the report for Quarter 4 will include the initial period of the pandemic.

The Committee **approved** the Assurance Map and **noted** the position statement.

26/20 **Audit and Risk Work Programme 2019-20**

The Committee **approved** progress of its work programme for 2019-20.

The meeting closed at 16.20 hours.

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