

Minutes of the Audit and Risk Committee

25 March 2019
at Fire Service Headquarters, Vauxhall Road,
Birmingham B7 4HW

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

Apology: Richard Percival, Grant Thornton

As well as the Members of the Committee the following officers
attended the meeting:

Javed Aktar, Grant Thornton
Peter Farrow, Audit Manager
John Matthews, Internal Audit
Phil Hales, Deputy Chief Fire Officer
Mike Griffiths, Treasurer

10/19 **Declarations of Interest**

There were no declarations of interest.

11/19 **Minutes of the Audit and Risk Committee held on 14
January 2019**

The minutes of the Audit and Risk Committee held on 14
January 2019 were received.

12/19 **Audit and Risk Committee Terms of Reference**

The terms of reference for the Audit and Risk Committee
reflected the Chartered Institute of Public Finance and
Accountancy (CIPFA) position statement “Audit Committees
and Local Authorities”. This statement emphasised the
importance of audit committees being in place in all
principal local authorities and recognised that audit
committees were a key component of good governance.

The Terms of Reference were last reviewed in March 2018 and were subject to their annual review to ensure that they remained relevant and fit for purpose.

Following a review, the Terms of Reference had been updated in order to incorporate new additions to the model terms of reference provided by CIPFA in the latest 2018 edition of the Practical Guidance for Local Authority Audit Committees in the following areas:

- To review the governance and assurance arrangements for significant partnerships or collaborations
- To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.
- To provide free and unfettered access to the audit and risk committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.
- To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
- To publish an annual report on the work of the Committee.

In response to a Member's enquiry about the West Midlands Combined Authority (WMCA) Audit and Risk Committee, the Auditor confirmed that the WMCA Terms of Reference mirrored the Terms of Reference and would be very similar to the CIPFA guidance.

It was also confirmed that a number of discussions had taken place regarding the role of a WMCA Audit Sub Committee, but this had not yet been decided or fully resolved.

Resolved that the revised Audit and Risk Committee Terms of Reference be approved.

13/19 **WMFS Internal Audit Plan 2019/20**

The report presented detailed the proposed Internal Audit Plan for 2019/20, with an indicative plan covering the period 2020/21 to 2021/22.

The Internal Audit Plan was a fluid plan which could be updated periodically to reflect changes in the risks faced by the Authority.

During the period covered by the plan, the priority and frequency of audit work could be subject to amendment to recognise alterations in the assessment of assurance need/risk analysis, caused by changes within the Authority and the requirements of the Audit and Risk Committee and senior managers.

During the year regular meetings were to be held with senior managers and the external auditors to review the plan and discuss the scope, nature and timescales of planned reviews. Any key changes to the plan would then be brought before the Audit and Risk Committee for approval.

It was confirmed that Sandwell Metropolitan Borough Council continued to provide this service using the CIPFA methodology, the risk register, meetings with officers and historic knowledge to produce the list of Auditable Areas. This is known as the audit universe. Each auditable area is scored High, Medium or Low. The high risk areas will be audited annually, medium risks will be visited once in a three-year cycle. A watching brief will remain on the low risks.

The Auditor confirmed that the Internal Audit Plan was still required for 2019/20 until further clarity was received in respect of the Combined Authority and the Authority would be continuing with what we know at the current time

The Combined Authority would also have an audit plan. In future there maybe two plans or one overarching plan. The Deputy Chief Fire Officer explained that there would be a transition period and all Committees would be affected.

This would be discussed by the Governance and Transformation Committee and the governance project, but in the meantime the Authority would continue to work under the current arrangements.

This could be seen as duplication but there was a potential risk that the arrangements would not change so it was best to continue. Once the transfer had been approved, a decision would be made on the best way forward.

The Treasurer confirmed there would be a requirement to continue in the initial stages and wherever possible service delivery would carry on and any risks identified as part of the audit work would be required by the Combined Authority and over the next twelve months, the issues and risk would be tied together.

Resolved that the Internal Audit Plan 2019/20 be approved.

14/19 **Audit Plan 2018-19**

The Audit Plan 2018/19 had set out the audit work that Grant Thornton proposed to undertake and the key deadlines and milestones associated with the delivery of this work. The plan had been developed using a risk-based approach and considers the risks relevant to both the audit of accounting statements and the value for money conclusion.

The Code required Grant Thornton to consider whether the Authority had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This was known as the Value for Money (VFM) conclusion.

The National Audit Office (NAO) had issued its guidance for auditors on value for money work for 2018/19. The guidance stated that for local government bodies' auditors are required

to give a conclusion on whether the Authority had proper arrangements in place.

The guidance identified one single criterion for auditors to evaluate:

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

For 2018/19 the Authority was required to prepare the accounting statements by 30 June 2019 and to submit the audited 2018/19 accounts to the Audit Committee for approval by no later than 31 July 2019. The plan had set out the key phases and activities for the delivery of the audit work. All reports arising from this audit work were to be discussed and agreed with appropriate officers prior to submission to Members.

The Auditor explained that the Audit Plan was an historical looking document and discussions had taken place on the Value for Money conclusion and financial sustainability with the finance team and management.

One Member enquired about financial planning and the risks associated with the use of general balances to prop up the budget of the Authority and the emerging risks of increased employer's pension contributions and the impending court of appeal judgement on pensions. It was questioned whether, following the £3.8m worth of savings required to balance the budget, if the Auditor would find the Authority to be considered a going concern.

The Auditor stated that Grant Thornton would continue to have discussions with management and the Audit Findings Report would be submitted in July 2019.

It was also confirmed that the £1.5m from general balances in the revised 2018/19 budget would only be known following the closedown of accounts at the end of March and when the Audit is undertaken.

Resolved that the Audit Plan 2018/19 be approved

Cllr Iqbal left the meeting at this point.

15/19 **Corporate Risk Update**

The report included the Corporate Risk Assurance Map Summary and the Position Statement for Quarter 3. This was the combined six-monthly report as agreed by Members at the Audit Committee Meeting held on the 25 July 2016.

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

Corporate risks were 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, 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 3 2018/18 (Appendix 1) and the Position Statement for Quarter 3 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 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.

It was noted that during the previous six months (Quarter 2 2018/19 and Quarter 3 2018/19) there had been no increase or decrease in any of the risk scores.

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. These two risks had materialised and Officers were unable to provide assurance for these risks.

The DCFO explained that the Overall Confidence level of the Business Development Risk had changed from Green and Amber as set out in Appendix 1.

It was noted that following the change in the Authority's strategy, the Business Development Risk had been given an amber rating as business development had been put on hold whilst Officers assessed and reviewed the next steps to generate income and to look at alternatives.

Alternative funding, social value, commercial opportunities, sponsorship and new opportunities to raise funds would be considered.

The timeline of governance change had moved due to the delay in the parliamentary process in the laying of the Order. Officers would see the impact on the Authority over the next few months.

In response to a Member's enquiry, the DCFO stated the current ICT system was generally resilient. One or two vulnerabilities had been identified during a recent independent assessment by a local company, Aristi. The issues identified had been caused by poor house-keeping and had been rectified. Following business decisions and strategies, a number of changes would be made in the following months.

The Oracle system, that provides a number of applications including the people management system, would be moving to a new system. Officers were looking at providing a balance between the usability and accessibility of systems.

An automatic protective marking system was also being introduced to comply with GDPR.

The DCFO explained there had been a lot of issues with the Emergency Services Network (ESN) and Emergency Services Mobile Communications Projects (ESMCP).

Airwave would be extended as it was required to maintain national security.

Vehicle Radios would not be switched until the ESN was available. The public accounts committee are scrutinising the system, there is no assurance but nationally the project is said to be going ahead.

ESMCP was progressing with:

- Regional programme board
- National Board
- Police and Ambulance

The Service would not be switching off its current system until the new product was considered to be reliable and would continue to operate on the national system.

ESMCP had been paired back to just a communication tool but there were still challenges

Resolved that the Corporate Risk Assurance Map Summary (Quarter 3 2018/19) be approved and the Position Statement (Quarter 3 2018/19) be noted.

16/19 Informing the Audit Risk Assessment WMFRA 2018/19

To ensure that Audit Committee members continue to remain informed upon audit matters, the external auditor had submitted the report 'Informing with Audit Risk Assessment

WMFRA 2018/19. It was the intention of the external auditor to provide an update at all Audit and Risk Committee meetings.

The document provides the Audit and Risk Committee with an update on Grant Thornton's progress in delivering their responsibilities and includes:

- Matters in relation to fraud;
- Matters in relation to law and regulations;
- Matters in relation to going concern;
- Matters in relation to related parties; and
- Matters in relation to accounting estimate

17/19 **Audit Progress Report and Sector Update**

To ensure that Audit and Risk Committee Members continued to remain informed on audit matters, the external auditor had provided an Audit and Risk Committee Update report. It was the intention of the external auditor to provide an update at all Audit and Risk Committee meetings.

The update provided the Audit and Risk Committee with a report on Grant Thornton's progress in delivering their responsibilities as the Authority's external auditors and was noted by the committee.

The external auditor was happy with the progress made. Risk and Value for Money audits had been scoped into the Plan the External Audit was planned for June 2019 and the final accounts would be signed off at the July 2019 Audit and Risk Committee.

18/19 **Audit and Risk Committee Workplan**

The Committee noted the Work Programme for the remainder of 2019. It was noted that the meeting to sign off the accounts on the 22 July 2019 would now be held on the 15 July 2019.

19/19 Update on Topical, Legal and Regulatory Issues

The Deputy Chief Fire Officer informed the Committee of the National review of employer's pension contributions. This year the budgeted figure for WMFS had amounted to £5.3m. In 2019/20, the Home Office agreed to pay £4.9m resulting in a £400,000 increase in employers' costs for the Authority.

Nationally the anticipated increase in employers pension costs had been calculated at £108m but that figure had subsequently been revised to circa £130m.

The Treasury had initially agreed to fund all but £10m of the employers' pension increase, but there was now an additional funding gap and the impact on WMFS was an increase of approximately £900,000 and officers were trying to clarify the position.

Each Fire Service in the country will be in a broadly similar position with London Fire Brigade facing an increase of circa £5m.

This information had been received after the Authority had set its budget.

The Home Office were working with the Treasury to provide additional grant funding in 2019/20 to meet the overall national increase.

20/19 Firefighters Scheme Advisory Board Employers Survey

The Audit and Risk Committee noted the Authority's response to the Firefighters' Scheme Advisory Board Employer's Survey.

21/19 CIPFA Audit and Risk Committee Update

CIPFA had continued 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 was published approximately three times a year. Each one included a main feature, together with pointers to new developments or guidance that audit committee members may need to be aware of. The focus for this edition was on the Audit Committees Role in Risk Management and a Briefing on Current Issues. Issue 27 Update was noted by the Committee.

The Internal Auditor highlighted

- CIPFA training opportunities during 2019
- the increase in the number of qualified conclusions on the value for money arrangements
- Police, fire and other bodies had a 3% percentage of bodies qualified
- Local Authority Governance
- Local Government Ethical Standards report from the Committee on Standards in Public Life

22/19 **Members Private Meeting with Internal Audit**

Members of the Audit Committee met privately with the Internal Auditor.

The meeting finished at 1320 hours.

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