# Minutes of the Audit Committee

**14 November 2016 at 10.30 am**
**at Fire Service Headquarters, Vauxhall Road, Birmingham B7 4HW**

**Present:** Councillors Aston, Barlow, Idrees, B Singh, P Singh and T Singh (Chair)

**Apologies:** Mr Ager (Independent Member)
Cllr Sealey

45/16 **Minutes of the Audit Committee held on 5 September 2016**

**Resolved** that the minutes of the meeting held on 5 September 2016, be approved as a correct record.

46/16 **Annual Audit Letter 2015-16**

The Audit Committee received and noted the Annual Audit Letter (AAL). The letter 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 charged for audit and non-audit services and the titles and dates of when reports had been issued.

The report set out the key findings for the previous 12 month period and thanked the Authority for the assistance and co-operation provided by the Authority's staff. The letter looked forward to the changing landscape that the Authority faced and reflected on the low level of borrowing that had not increased for several years.

The Auditor referred to the significant savings following reductions in central government funding and the further reductions in core funding of approximately £10m over the next four years. The Authority had submitted its Efficiency Plan to the Home Office on the 14 October 2016 which was available on the internet.

The Audit of Accounts identified risks in the audit plan and how the Authority responded to the risks and the Auditor gave a favourable Value for Money conclusion.

The final fees charge for the audit and provision of non-audit services was just over £38,000.

47/16 **Annual Committee Update**

The Committee noted the contents of the Audit 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 for 2016/17 was reported. Work was in progress and dates had been set for interim and accounts works.

The information contained within the report included the CFOA Members vote to change the Articles of Association and the CFOA response to Home Office workforce statistics.

48/16 **Treasury Management Mid Year Review Report 2016-17**

The Committee considered the Treasury Management Mid Year Review Report 2016/17.

The Authority agreed its Treasury Management Strategy Statement and Annual Investment Strategy and its Prudential Indicators in February 2016 and part of the requirements of the Treasury Strategy and Prudential Code are that periodic reports are presented to Members. The Mid Year update was presented to the Audit Committee with the key areas being:

Capital expenditure was approved in February 2016 at £6.5m, this has been updated and now reflects the outturn position and financing decisions for 2015/16. The Forecast Outturn was revised to £7.3m, the increase due mainly to slippage from the vehicle replacement programme and the relocation of secondary fire control. There had been no borrowing in the first six months of this year to fund capital expenditure.

The Authority had outstanding Debt of £39.7m as at 31 March 2016. Borrowing of £36m has been undertaken with the Public Works Loan Board, (PWLB) the remaining £3.7m relates to the ex-West Midlands County Council. The estimated average rate of interest payable on this debt in the current financial year is 5.6%.

The Authority holds £76m investments as at the 30 September 2016 this is invested with Sandwell MBC as part of the pooling of bank accounts arrangement. The interest received for the first six months of the year is 0.41% which is favourable when compared against a benchmark, the average 7 day LIBID rate at 0.28%.

In response to a Members' enquiry about the interest rates, it was explained that the loans were taken out over a number of years and that there was a portfolio of loans with different interest rates for different amounts and the figure of 5.6% represents an average interest rate.

It was also explained that if debt restructuring was considered, the Authority would be required to pay a premium which often meant that this option was unattractive.

Any new loans in the future with the Public Works Loan Board would generally be for a fixed term up to 50 years, however, the Authority was not in a position where it needed to borrow to fund capital expenditure.

It was agreed to produce, for member's information, a schedule showing details of loan and interest rates, as part of the next Treasury Management Update. It was confirmed that Sandwell MBC undertook borrowing in previous years on behalf of the Authority.

In response to a Member's suggestion to lobby the government about the interest fees when paying off loans or changing them, the Treasurer stated that the PWLB rates would have been competitive at the time and that PWLB would assume a level of repayment over a period of time.

If borrowing is required a business case would need to be produced and interest rates would need to be considered at the time.

**Resolved** that the Treasury Management – Mid Year Review Report 2016/17 be noted and prudential and treasury indicators approved.

## 49/16 Arrangements for the Appointment of External Auditors

The Committee received a report on the options available for the Appointment of External Auditors following closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 Audit of Accounts. The Committee considered the options in order that a further report on the preferred approach would be presented to the Authority as its meeting on 20th February 2017.

On the 5th October 2015 the transitional arrangements were extended to include the Audit of Accounts to 2017/18. The current External Auditors (Grant Thornton) would continue to complete the accounts.
This was appropriate as the Public Sector Audit Appointments Limited (PSAA) who have taken over from the Audit Commission in managing the contract need to seek new national procurement arrangements. The Authority would need to determine its preferred approach by March 2017.

The Committee considered three broad options open to the Authority under the Local Audit and Accountability Act 2014 (the Act):

1. to make a stand-alone appointment
2. to set up a Joint Auditor Panel/local joint procurement arrangements
3. to opt-in to a sector led body

The Authority would want an External Auditor of the correct quality and who provided value for money and the Audit Committee considered the strengths and weaknesses of each Option.

The Treasurer had liaised with the other West Midlands authorities and five of the seven local authorities had indicated that they were intending to take the PSAA route in order to take advantage of a national procurement arrangement, although Members would not be directly involved in the appointment process.

The Committee considered the risks of appointing from a limited number of companies and also using companies based in the West Midlands.

It was noted that many of the larger companies are based in the West Midlands, they work with other fire authorities and many of their staff work and live in the area. The companies have standard terms of reference regardless of how they are appointed which may not be the case for smaller companies.

Members of the Audit Committee considered the options available and elected to recommend Supporting the Local Government Association (LGA) in setting up a national Sector Led Body by indicating intention to “opt-in” to the Authority.

50/16 **Corporate Risk Briefing Report**

The Committee noted and discussed the Audit Committee Corporate Risk Briefing Document.

The Deputy Chief Fire Officer stated that the update was provided to keep Members informed of a change to an overall risk rating and provided clarity.

The briefing document provided details for the increase in Corporate Risk 4.1, Delivery of Services – Protection. It was explained that an internal bespoke piece of software called the Intelligence Led Audit Programme (ILAP) serves the purpose of a risk based programme. The IT system is used by sixty members of staff and enables them to prioritise and determine risk scores and provides intelligence on business premises as within the National Framework for enforcing prosecutions under the Regulatory Reform (Fire Safety) Order 2005 (RRO) and a programme of Inspections. This system has helped reduce the number of prosecutions down from 100 to 60 in accordance with the Authority's aims of making the West Midlands Stronger, Safer and Healthier

There has been an increasing awareness of issues with the software in respect of data availability and data quality with mitigating steps put in place. However, it has been necessary to increase the likelihood factor associated with the risk from 2 to 3 with the impact of moving it from a low risk to a medium risk.

It was noted that arson fires had been increasing in business premises.

In order to respond to the risk, Officers will utilise Command Risk Profiles to provide information and intelligence for the Fire Safety Officers to identify risk within their command areas. They will collect performance information to understand how effective they are using the command risk profiles.
A revised ILAP system will be developed to address the issues identified and enhance the current system. Work will continue with the data providers to understand what data they can provide.

The Fire Safety Strategy will be revised to determine a schedule of inspection over the next three years. Performance Monitoring of PI 13 and 14 will continue with the direction of travel moving forward.

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The Service are focussing on educating businesses and have not reduced the number of its Fire Safety Officers with the aim of enabling businesses to comply with legislation. However, prosecutions do occur if advice is not adhered to. It was noted that many large companies have their own fire safety officers to enable them to comply with the RRO.

51/16 **Breach of Disclosure Regulations**

The Committee received a report in respect of a Breach of the Disclosure Regulations. The breach was caused by a failure to issue an annual Benefit Statement to all scheme members by the 31 August 2016.

A report was received by an extra-ordinary Pension Board on the 25th October 2016 setting out the details of a Breach of the Disclosure Regulations. The Annual Benefit Statements had not been issued by the 31

August 2016. The first Statements were issued on the 23rd September 2016. The software update to enable the statements to be prepared was not delivered until the 29 July 2016. As well as the additional work required to prepared the Benefit Statements, the Government Actuaries had asked for additional information by the 12 August 2016. This had also an impact on the workload of the pensions team.

An Employer representative had attended the Pensions Annual General Meeting and it was noted that the WMFS were not the only Service to issue their Benefit Statements after 31 August 2016 and the lateness of the specialist software was the main issue.

The software providers, Haywards plc, are used by 75 – 80% of fire services and 40% of police services.

It was noted that Members of the Pension Schemes were not informed, but in future it was felt advisable to flag up any possible issues to the Members. The Annual Benefit Statements have been received positively by Members and they will now be issues annually. There has been no adverse impact on Members of the Pension Schemes.

The Pension Board agreed to hold an additional meeting in May 2017 to ensure that the process was in place for the preparation of the 2017 Annual Benefit Statements.

**Resolved** that:

1. the processes, set out in Appendix 2 to the report, are in place to avoid a recurrence of the delay when statements are issued in 2017 and subsequent years.

2. the Scheme Administrator to consider the option of a self-service system.

3. the Pension Board, at their next meeting, to consider their Terms of Reference in respect of the reporting of breaches of the law to The Pensions Regulator.

4. a Risk Register is added as a Standing Item on future Pension Board agenda.

52/16 **Internal Audit Progress Report**

The Committee noted a report which detailed the progress made against the delivery of the 2015/16 Internal Audit Plan. The information contained within the report included a summary of the work completed with no significant issues.

53/16 **Minutes of the Pension Board held on 11 July 2016**

The Committee received the Minutes of the Pension Board held on the 11 July 2016.

The Committee noted that the Independent Chair was leaving his post with West Midlands Police, but his successor Mr Neil Chamberlain would be taking on the role on a temporary basis and would be attending the Pension Board scheduled for the 6 February 2017.

54/16 **Audit Committee – Self Assessment of Good Practice and Effectiveness**

The Committee noted the results of stage two of their self-assessment of good practice and effectiveness exercise.

Six responses had been received from the Members with an average score of 3, there was a good breadth of core knowledge. The specialist area of accountancy and internal audit scored 2, and there was good knowledge in the core skills, scoring 3.

The third and final part of the exercise, evaluating the effectiveness of the committee will be undertaken.

Members were interested in receiving information on training courses to meet their individual needs.

54/16 **Audit Committee Work Programme 2016/17**

The Committee noted its Work Programme for 2016/17 and that the next meeting of the Audit Committee would be on 16 January 2017.

55/16 **Update on Topical, Legal and Regulatory Issues**

There was no new information to be presented

(The meeting ended at 1130 hours)

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