

## Minutes of the Audit and Risk Committee

26 October 2020 at 10.30hrs

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 John Matthews (Sandwell MBC)

**Apologies:** Mike Griffiths (WMFS) Neil Chamberlain (West Midlands Police and Chair of WMFS Pension Board)

Officers in attendance: Karen Gowreesunker, Paul Gwynn, Kal Shoker, Gary Taylor

### 27/20 Declarations of Interest

There were no declarations of interest registered.

### 28/20 Minutes of the Audit and Risk Committee held on 27 July 2020

**Resolved** that the minutes of the Audit and Risk Committee held on 27 July 2020 be approved as a correct record of proceedings.

### 29/20 Audit and Risk Committee Terms of Reference

Karen Gowreesunker presented the report detailing the Terms of Reference for the Audit and Risk Committee. The confirmation of Terms of Reference for each West Midlands Fire and Rescue Authority (WMFRA) Committee are presented at the first meeting of each municipal year. It was confirmed that neither Committee membership nor its Terms had changed for 2020-21.

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

### 30/20 Treasury Management Mid-Year Review 2020-21

Kal Shoker presented the report, confirming WMFRA approved the Treasury Management Strategy within the Budget Setting Report at its meeting of 17 February 2020. WMFRA is required to produce a mid-year review report of its Treasury Management activities. The Committee was advised and updated on the three principal Treasury indicators.

1. Capital Expenditure - the WMFRA approved £6.6m capital programme for the current financial year, has been updated to reflect the subsequent outturn position and financing decisions for 2019/20. The Capital Programme has been increased to £8.1m, primarily due to activity slippage from the previous financial year and was reported to the 06 October 2020 meeting of WMFRA. The forecast outturn as at 30 September 2020 for 2020/21 is £5.9m, a variance of £2.2m.

The context of the variance within the capital programme for the current year relates to the Vehicle Replacement Programme (£1.6m) with the delayed purchase of a number of vehicles, most notably six Pump Rescue Ladders (PRL) slipping into 2021/22. Also, the replacement of windows and doors (£0.5m) at seven Fire Stations has been re-phased to 2021/22 due to supplier lockdown during the Covid-19 pandemic.

It was confirmed no borrowing has been undertaken to finance any capital expenditure during the first half of the current financial year.

A Member enquired if the delay in PRL purchase would impact upon service delivery and financial performance. It was confirmed that vehicle maintenance and fleet availability were assured, whilst vehicle depreciation was factored into the Statement of Accounts.

2. Debt – WMFRA total external debt as at 30 September 2020 was £34.9m of which £32.3m is in respect of borrowing undertaken with the Public Works Loans Board and the balance of £2.6m is in respect of WMFRA share of the ex-West Midlands County Council debt. The estimated average rate of interest payable on this debt in the current financial year is 5.25%.

The Chair enquired if debt re-scheduling opportunities had been impacted due to the Covid-19 pandemic. It was confirmed that

liaison with Sandwell MBC was a pre-requisite for monitoring financial performance of the wider economy and significant forecasted changes that would impact on WMFRA treasury management would be advised as a matter of urgent notification.

3. Investment - as at 30 September 2020, WMFRA investments totalled £61m invested with Sandwell MBC. Interest received on investments is based on the average return achieved by Sandwell MBC plus 10 basis points, which for the first six months of 2020/21 was 0.327%. This compares favourably to the average three-month LIBID rate of 0.11%.

It was advised that interest to be received this financial year will be considerably less than the £0.3m budget following the reduction in the Bank of England Base Rate to 0.1%, which occurred to help control the economic impact of Covid-19. The loss of income has been reflecting in the WMFRA return to the Home Office (sent via the National Fire Chiefs Council) against the additional government grant allocation of £2.8m received by WMFRA.

A Member commented it was pleasing that WMFRA was able to continue investing during these challenging times.

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

31/20 **Request from Dependant for the Reinstatement of a Widows Pension**

The Chair summarised the context of the previous report on this item presented to the Committee on 27 July 2020. The Committee had deferred decision pending further clarity and detail on the request. Paul Gwynn was invited to update Members on progress, the content of this report and options placed for their decision.

Members engaged in discussion upon the entitlement for reinstatement, consideration of potential hardship and precedence of such a request either past or into the future. The four options available to the Committee were considered regarding these subject areas. Paul Gwynn confirmed to the

Committee of this being the third request during an approximate ten-year period, for which in this case, the rules of the Firefighters' Pension Scheme 1992 provide no specific guidance to advise discussion on the items being considered.

The conclusion of the Committee was the request to reinstate the pension could not be upheld. The Widow was in receipt of pension from a second marriage, which superseded the receipt of that from the Firefighters Pension Scheme upon re-marriage; the case for hardship was insufficient to the request and; the precedent for such a request was not set but may do so if upheld in this instance. The Chair and Paul Gwynn confirmed to the Committee the appeals process as referenced in the Legal Implications section of the report.

The Committee **decision** was to reject the application.

32/20 **The Remedy Report**

Paul Gwynn advised the Committee of a proposed withdrawal of the report. There had been further legal guidance received by the Home Office upon the progression of immediate detriment cases arising from the McCloud/Sargeant ruling. Upon notification on 23 October 2020, the Service had referred details to the WMFRA legal advisors for their subsequent review. Until receipt of an updated legal opinion, the Committee cannot be advised of a final or fully informed recommendation.

The Chair acknowledged this development and the Committee **agreed** to the withdrawal of the report.

33/20 **Audit Progress and Sector Update**

In advance of presenting the report, Richard Percival provided an update on progress of the West Midlands Fire Service (WMFS) audit for 2019/20. He confirmed that assurance of the West Midlands Pension Fund audit remained incomplete, however was anticipated imminently. Upon that receipt, the WMFS audit could be finalised, for which additional peer review would be completed given the recent consultation announcements regarding the McCloud/Sargeant judgement on Fire Fighter pension remedy.

A contextual overview of the Redmond Review on Public Audit and its outcome was provided. The purpose of the review was to assess the effectiveness of audit in local authorities and the transparency of financial reporting. The background was of an external audit market requiring a system of audit that guaranteed coherence and public accountability, a current local audit market that is very fragile, together with a current fee structure that does not enable auditors to fulfil the role in an entirely satisfactory way. These factors combined to a significant risk that the firms currently holding local audit contracts will withdraw from the market.

The recommendations of the review are; to establish a new regulator; revise the audit fee structure (i.e. increase) to ensure that adequate resources are deployed to meet the full extent of local audit requirements; return to a 30 September deadline (from 31 July) for publishing audited local authority accounts each year; simplify the presentation of statutory accounts; recognise the role of authorities in improving governance and reporting and; development of audited and reconciled accounts summaries.

Richard Percival confirmed Grant Thornton are supportive of the review and its recommendations, aspects of which have been discussed with the Committee during previous meetings, by example market capacity and skills therein, fee structures, reporting deadlines and account formats.

A Member enquired why the publication deadline should be set back to September. Richard Percival explained the complexity and scope of an audit was challenging for completion by 31 July, which was a short period of four months since closure of accounts on 31 March each year. The extension would enable the provision of resources and skills to cover all aspects of an audit.

The Chair stated an appreciation of the work undertaken by Officers of WMFS and Grant Thornton to meet the required deadlines and quality of audit. Richard Percival confirmed the

audit for 2020/21 would be completed within the existing audit system and that remote email sign off for the current audit year was permissible given the Covid-19 situation.

A contextual overview of the Revised Value for Money Audit Arrangements was provided to the Committee. The National Audit Office (NAO) will adopt from 2021 a new Code of Audit Practice comprising three main changes; a new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness; more extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach and; the replacement of the binary (qualified / unqualified) approach to value for money conclusions, with more sophisticated judgements on performance and key recommendations on any significant weaknesses in arrangements identified during the audit. Attention of Members was drawn to the detail of these broad areas being contained within the report, concluding with reference to the Auditor's Annual Report being replaced with an Annual Audit Letter to be published at the same time as the Auditor's Report on the Financial Statements.

Richard Percival confirmed that Grant Thornton intend to work closely with the NAO and other audit firms to ensure consistency of application of the new guidance. He stated the new approach will potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. The reporting, planning and risk assessment which underpins the approach will require more audit time, requiring delivery through a wider skill mix than in previous years. Grant Thornton estimate an increased fee of £6,500 for the WMFS audit in 2021/22, an increase that is line with those proposed for their other public sector audits.

A Member enquired if the revised approach enabled the Committee to be sighted of draft reports in advance as is current practice. Richard Percival confirmed affirmatively and draft reports would not be withheld.

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

34/20 **Internal Audit – Progress Report**

John Matthews of Sandwell MBC presented the report. The definitions, context and activities for completion within the Internal Audit Plan and how they advise overall Audit Opinion were summarised for the Committee. 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 were advised of Covid-19 related staff redeployments delaying progress of the annual plan for this municipal year. There were six audits in progress and six to be commenced, however it was assured that historically most audit activity with WMFS was completed during the second half of a year. The Chair expressed reassurance on progress of the audit plan.

A Member sought clarification on what constituted ad-hoc training, that being confirmed by John Matthews as mainly Counter Fraud and the roles and responsibilities of Members in fulfilling their duties on the Committee. In follow up the Member enquired should training be a continuous cycle for Members. The Chair commented to Members that Internal Audit were also reliant on being advised of their training needs. John Matthews affirmed the Committee receives Chartered Institute of Public Finance and Accountancy (CIPFA) Audit updates for general issues awareness, which can advise potential training requirements.

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

35/20 **Update on Topical, Legal and Regulatory Issues**

The Committee **noted** there were no further updates arising.

36/20 **Verbal Update on Audit and Risk Work Programme 2020-21**

The Committee **noted** the progress to develop its work programme for 2020-21 and proposed presentation at its meeting scheduled for 07 December 2020.

The meeting closed at 11.50 hours.

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