West Midlands Fire and Rescue Authority

Audit and Risk Committee

You are summoned to attend the meeting of Audit and Risk Committee to be held on Monday, 27 July 2020 at 14:00

at Fire Service HQ, 99 Vauxhall Road, Nechells, Birmingham B7 4HW

for the purpose of transacting the following business:

Agenda – Public Session

Distribution:

David Barrie - Member, Manjit Gill - Vice Chair, Catherine Miks - Chair, Peter Miller - Member, Sybil Spence - Member

Clerk Name: Karen Gowreesunker

Clerk Telephone: 0121 380 6678

Clerk Email: Karen.Gowreesunker@wmfs.net

Agenda prepared by Stephen Timmington

Strategic Hub, West Midlands Fire Service

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This agenda and supporting documents are also available electronically on the West Midlands Fire Service website at www.wmfs.net

Minutes of the Audit and Risk Committee

01 June 2020

Conducted as a virtual meeting

Present: Councillor Catherine Miks (Chair), Councillors Barrie, Edwards, Miller, Spence and Mr Ager

Apologies: Councillor Gill (Vice Chair), Richard Percival (Grant Thornton) Neil Chamberlain (Chair, WMFS Pension Board)

The following officers attended: Karen Gowreesunker,

Mike Griffiths, Paul Gwynn, Kal Shoker and Gary Taylor

01 **Declarations of Interest**

Councillor Edwards declared receipt of a Fire Service Pension. As substitute for the Vice Chair of the Committee, he considered further participation would be inappropriate regarding discussion of item 2 on the agenda. The Chair agreed that Councillor Edwards should leave the meeting and the decision process would be unaffected as the meeting was quorate.

02 **Review of Ill Health Retirement Pensions Decision**

Resolved that the Committee, as Scheme Manager, agree with the approach proposed that the frequency of a review will be a matter for the Independent Qualified Medical Practitioner (IQMP) at the time they consider the Ill Health request and; approve the service to review the nine Ill Health Pensions currently in payment under the rules of the 1992 Pension Scheme.

The Committee discussed the recommended approach the service should take to the review of Ill Health Pensions. The Chair invited Paul Gwynn (Pensions and Payroll Manager) to summarise the content and context of the report.

It was explained that West Midlands Fire and Rescue Authority, are responsible to manage the requirements of three Firefighter Pensions Schemes legislated in 1992, 2006 and 2015. There are variances between each, specific to the review of Ill Health

Pensions. There is a requirement to review those paid under the 2006 or 2015 schemes, whilst there is no requirement to review those paid under the 1992.

It is proposed that the service should align reviews across the three schemes to ensure equity. Additionally, the frequency of the review be a matter for the IQMP at the time they consider the Ill Health request. Should the application for Ill Health Retirement be supported by the IQMP, they be asked to confirm a suitable review time.

Councillor Barrie considered it equitable to review all three schemes in a consistent manner, enabling a discharge of duties in a proper manner. The Chair supported this position and emphasised the importance of the service being guided by the IQMP in case management.

Councillor Spence enquired how inflation affected the duration of a review process. Mike Griffiths (Strategic Enabler for Finance and Resources) assured the Committee that adjustments are made to Pension payments reflecting acknowledged percentage levels of inflation within the economy.

The Chair sought clarification on the context of Section 7.0 Legal Implications. Mike Griffiths informed Members that reviews may lead to changes in pension payment amount, hence their awareness of the appeals process against decisions made by the IQMP and the Fire and Rescue Authority.

The Chair requested that the nine persons affected by the review be advised of the decision of the Committee.

Mike Griffiths thanked the Committee for its decision and assured them that a process to enact it would be promptly progressed.

03 **Minutes of the Pension Board held on the 16 December 2019**

The Committee noted the minutes of the Pension Board held on 16 December 2019.

The minutes were presented for information to the Audit and Risk Committee in their role as Scheme Manager.

04 **Minutes of the Audit and Risk Committee held on 13 January 2020**

Resolved that the minutes of the Audit and Risk Committee held on 13 January 2020 be approved as a correct record of proceedings.

05 **Audit and Risk Committee Work Programme**

The Committee noted its Work Programme.

The Chair requested that all reports outstanding from the postponed Committee meeting of 23 March 2020, be bought forward to the next meeting of 27 July 2020. Karen Gowreesunker (Clerk to the Fire Authority) confirmed this intention.

The meeting closed at 14.00 hours.

Phil Fellows

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WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

27 JULY 2020

1. **AUDIT PLAN 2019/2020**

Joint report of the Chief Fire Officer and Treasurer

RECOMMENDED

THAT the Committee approve Grant Thornton's Audit Plan (Appendix A) and Audit Plan Update (Appendix B) to enable the delivery of the audit of financial statements and the value for money conclusion 2019/20.

2. **PURPOSE OF REPORT**

The purpose of the report is to seek Committee approval of Grant Thornton's Audit Plan. The plan (Appendix A) and an update (Appendix B) sets out the audit work Grant Thornton will undertake in respect of the audit of the Authority's financial statements and the delivery of its value for money conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

3. **BACKGROUND**

3.1 The Audit Plan 2019/20 sets out the audit work that Grant Thornton propose to undertake and the key deadlines and milestones associated with the delivery of this work. The plan has 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.

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

The National Audit Office (NAO) has issued guidance for auditors on value for money work for 2019/20. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place.

The guidance identifies 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".

3.3 The Accounts & Audit Regulations 2015 require that the accounts be submitted to Members for approval by the end of July. However, for 2019/20 only the Regulations have been amended by the Accounts & Audit (Coronavirus) (Amendment) Regulations 2020. The amendments to the Regulations were made in response to the unprecedented situation across the UK relating to COVID-19 and the need to reduce the pressure on all Authorities to comply with legal deadlines. As such, these Regulations provide the Authority with additional time to complete the 2019/20 audit, given the likely impact of the COVID-19 virus on the availability of staff and auditors to complete the audit process within current deadlines due to sickness or redeployment.

3.2 The deadline to publish the Authority's unaudited 2019/20 Statement of Accounts has been changed from 31 May 2020 to 31 August 2020 with the deadline to publish the audited accounts being pushed back from 31 July 2020 to 30 November 2020.

3.3 The plan sets out the key phases and activities for the delivery of the audit work. All reports arising from this audit work will be discussed and agreed with appropriate officers prior to submission to Members.

3.4 Representatives from Grant Thornton will be in attendance at the Audit and Risk Committee.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required as the matters contained in this report do not relate to a policy change.

5. **LEGAL IMPLICATIONS**

The production of the Audit Plan complies with the statutory requirements set out within the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office.

6. **FINANCIAL IMPLICATIONS**

The scale fee for undertaking West Midlands Fire and Rescue Authority's external audit work for 2019/20 was set at £29,750, although the Audit Plan highlighted a fee variation (increase) of £5,750 on this figure.

BACKGROUND PAPERS

None.

The contact officer for this report is Wayne Brown, Deputy Chief Fire Officer, 0121 380 6907.

PHIL LOACH CHIEF FIRE OFFICER	MIKE GRIFFITHS TREASURER

DRAFT

Grant Thornton

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

External Audit Plan

Year ending 31 March 2020

West Midlands Fire & Rescue Authority

March 2020

Contents

Your key Grant Thornton team members are:

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of West Midlands Fire & Rescue Authority ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of West Midlands Fire & Rescue Authority. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit & Risk Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit & Risk Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Revenue cycle includes fraudulent transactions • Management Override of controls • Valuation of net pension fund liability • Valuation of land and buildings We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	• We have determined planning materiality to be £2.40m (PY £2.49m) for the Authority, which equates to 2% of your prior year adjusted gross expenditure for the year. • We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25k for senior officers' remuneration disclosures. • We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £120k (PY £124k).
Value for Money arrangements	Given the uncertainty over future funding arrangements there is a residual VFM risk in respect of planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.
Audit logistics	Our interim visit took place in January and February and our final visit will take place in May/June. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £35,500 (PY: £33,750) for the Authority, subject to the Authority meeting our requirements set out on page 13.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

2. Key matters impacting our audit

Factors		
The wider economy and political uncertainty Local Government funding continues to be stretched with increasing cost pressures and demand from residents. The Authority is currently forecasting that it will deliver its planned budget position for 2019/20 and has a set a balanced budget for 2020/21. In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the Authority until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists. The Authority will need to ensure that it is prepared for all outcomes, including those with any impact on contracts, on service delivery and on its support for local people and businesses.	**Financial reporting and audit – raising the bar** The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1. Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.	**Financial Statements** We have commenced our detailed planning for 2019/20 and have started the process of meeting with your Executive team. We have started initial discussion around key risk areas including and disclosure requirements around IFRS 16.
Our response		
We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.	As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audi Plan, has been agreed with the Strategic Enabler of Finance and Resources and is subject to PSAA agreement.	We continue to liaise with your finance team on a regular basis in order to ensure key risks areas are kept under appropriate consideration.

3. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (Rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including West Midlands Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable	Therefore we do not consider this to be a significant risk for West Midlands Fire & Rescue Authority.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1.8 billion in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtain assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	The Authority revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£131.2 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020. We therefore identified valuation of land and buildings, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding of the Authority's valuer's report and the assumptions that underpin the valuation. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

4. Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset where the underlying asset is an item of property, plant and equipment is measured in accordance with section 4.1 of the Code.	We will: • Evaluate the processes the Authority has adopted to assess the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. • Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to The Code and CIPFA/LASAAC Local Authority Leasing Briefings.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

5. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
    - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

6. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

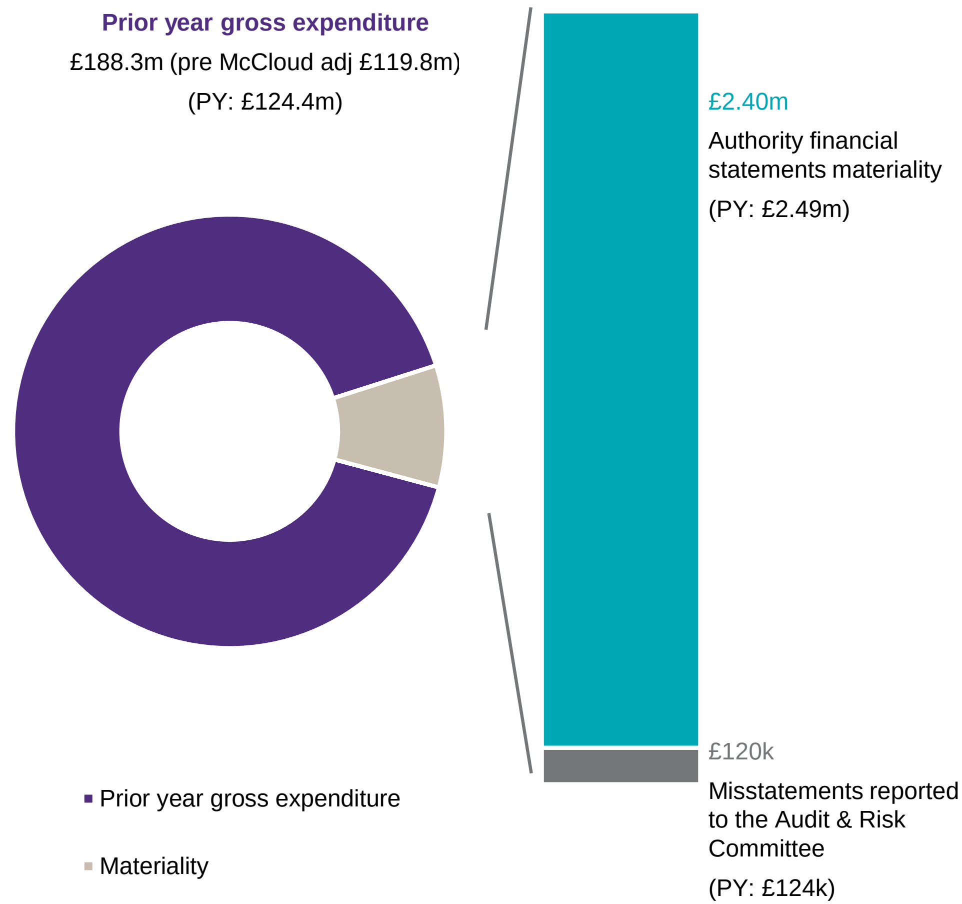
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £2.40m (PY £2.49m), which equates to 2% of your prior year gross expenditure for the year, adjusted for the one off adjustment for McCloud. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £25,000 for senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit & Risk Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Risk Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £120k (PY £124k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit & Risk Committee to assist it in fulfilling its governance responsibilities.



7. Value for Money arrangements

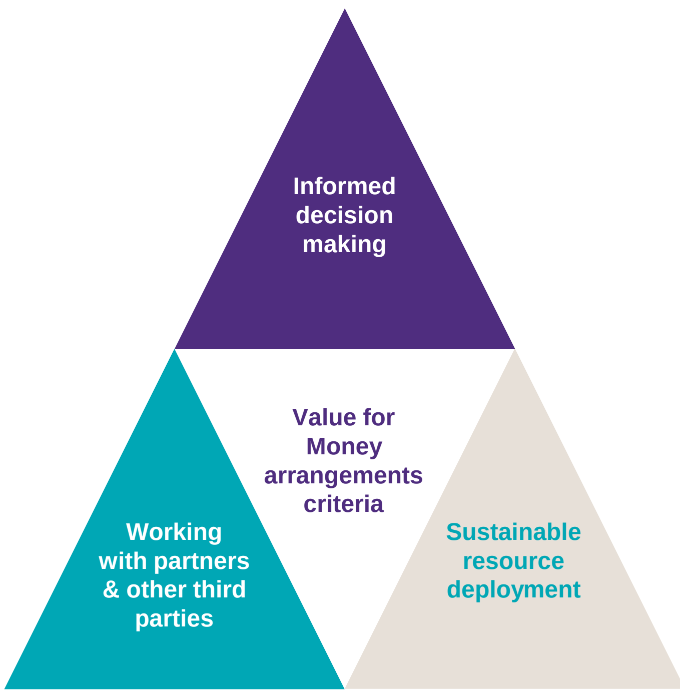
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies 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."

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

Financial Sustainability

The Authority is forecasting that it will deliver a balanced position for 2019/20, broadly in line with its budget.

The 2020/21 settlement was positive for the Authority resulting in core funding being £2m higher than anticipated. The Authority has utilised the additional funding to:

- Reduce the scale of savings required from the ongoing flexible appliance availability process from a target saving of £3.8 million to £2.8 million;
- Defer the use of £0.750 million General Balances to balance the 2020-21 budget to use in future years; and
- Investing £0.250 million in digital services to enhance future operational capability

The forecast budget for 2021/22 and 2022/23 shows a balanced budget. However, given the number of issues that could have a significant impact on the Authority's budget position over the period of the medium term financial plan i.e. future Government funding allocations to the Fire Sector, the introduction and impact of the Fair Funding Review and the treatment of firefighter pension related issues, the need for and scale of budget savings required over the period of the medium term financial plan needs to be kept under review. The Authority has assumed a 2% core funding reduction in 2021/22 with a further 1% in 2022/23. However, until the outcome the issues above is known, detailed medium term forecasts cannot be made, given that a 1% change in funding gives a £0.5m impact on the Authority.

Given the financial uncertainty in future funding arrangements there is a residual VFM risk in respect of planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We will keep the Audit and Risk Committee updated with our assessment.

8. Audit logistics & team

Richard Percival, Engagement Lead

Richard's role will be lead to our relationship with you and be a key contact for the Chief Fire Officer, Treasurer and the Audit & Risk Committee. Richard will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority as well as ensuring that Grant Thornton's full service offering is at your disposal.

Javed Akhtar, Audit Manager

Javed's role will be to manage the delivery of a high quality audit, meeting the highest professional standards and adding value to the Authority.

Kiran Hussain, Assistant Manager

Kiran's role will be the day to day contact for the Authority's finance staff, will take responsibility for ensuring there is effective communication and understanding by finance of audit arrangements. Kiran will focus on the on the technical matters raised by you throughout the audit.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

9. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Strategic Enabler of Finance and Resources and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Total audit fees (excluding VAT)	**£38,636**	**£33,750**	**£35,500**

Assumptions:
In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

10. Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. . Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	29,750	
Raising the bar	1,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	1,750	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we plan to increase the level of scope and coverage of our work in respect of IAS 19 this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion. Specifically, we have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	1,750	As above, the FRC has also determined that auditors need to improve the quality of audit challenge on PPE valuations across the sector. We have therefore increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
New Standards	750	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we will both be responding to the introduction of IFRS16. IFRS16 requires a leased asset, previously accounted for as an operating lease off balance sheet, to be recognised as a 'right of use' asset with a corresponding liability on the balance sheet from 1 April 2020. There is a requirement, under IAS8, to disclose the expected impact of this change in accounting treatment in the 2019/20 financial statements. We know the Council has appreciated our responsiveness in the past and we would wish to continue to be able to do this in the future.
Revised scale fee (to be approved by PSAA)	**35,500**	

DRAFT

11. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No other services were identified.

The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf

DRAFT

Appendices

A. **Audit Quality – national context**

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

External Audit Plan update

West Midlands Fire and Rescue Authority
Year ending 31 March 2020

22nd April 2020

Introduction & headlines

Purpose

This document provides an update to the planned scope and timing of the statutory audit of West Midlands Fire and Rescue Authority ('the Authority') as reported in our Audit Plan dated March 2020.

The current environment

In addition to the audit risks included in our Audit Plan, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020, however we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Authority financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2020/21.

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit . We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19.

Changes to our VfM approach

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

Significant risk identified – COVID-19 pandemic

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Covid-19	The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement	We will: • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

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.

Grant Thornton

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WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

27 JULY 2020

1. INFORMING THE AUDIT RISK ASSESSMENT - WEST MIDLANDS FIRE AND RESCUE AUTHORITY 2019/20

Joint report of the Chief Fire Officer and Treasurer

RECOMMENDED

THAT the Committee note the content of the Informing the Audit Risk Assessment – West Midlands Fire & Rescue Authority 2019/20 attached as an Appendix.

2. PURPOSE OF REPORT

The report is provided to keep the Audit and Risk Committee Members informed upon the progress of the external auditor (Grant Thornton UK LLP) in delivering their responsibilities.

3. BACKGROUND

3.1 In order to ensure that the Audit and Risk Committee members continue to remain informed upon audit matters, the external auditor has provided a report to the Audit and Risk Committee report. It is the intention of the external auditor to provide an update at all Audit and Risk Committee meetings.

3.2 The report 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.

3.3 Representatives from Grant Thornton will be in attendance at the meeting to discuss the report with Members.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. The matters contained in this report will not lead to a policy change.

5. **LEGAL IMPLICATIONS**

The course of action recommended in this report does not raise issues which should be drawn to the attention of the Authority's Monitoring Officer.

6. **FINANCIAL IMPLICATIONS**

The scale fee for undertaking West Midlands Fire and Rescue Authority's external audit work for 2019/20 was set at £29,750. However, Grant Thornton have notified the Authority of a fee variation (increase) of £5,750 on this figure.

BACKGROUND PAPERS

None.

The contact officer for this report is Wayne Brown, Deputy Chief Officer, telephone number 0121 380 6907.

PHIL LOACH
CHIEF FIRE OFFICER

MIKE GRIFFITHS
TREASURER

Informing the audit risk assessment for West Midlands Fire and Rescue Authority 2019/20

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between the Authority's external auditors and the Authority's Audit and Risk Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Risk Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit and Risk Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit and Risk Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Risk Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Risk Committee and supports the Audit and Risk Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Risk Committee's oversight of the following areas:

- General Enquiries of Management;
- Fraud;
- Laws and Regulations;
- Going Concern;
- Related Parties; and
- Accounting Estimates.

General Enquiries of Management

Purpose

This section includes a series of questions which we have posed and the response we have received from the Authority's management.

The Audit and Risk Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?	Pensions – McCloud / Sargant remedy hearing outcome.
2. Have you considered the appropriateness of the accounting policies adopted by the Authority?	Yes – Accounting policies are reviewed annually
3. Have there been any events or transactions that may cause you to change or adopt new accounting policies?	None Known
4. Is there any use of financial instruments, including derivatives?	None Known
5. Are you aware of any significant transaction outside the normal course of business?	None Known
6. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	None Known

General Enquiries of Management

Question	Management response
7. Are you aware of any guarantee contracts?	None Known
8. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	None Known
9. Other than in house solicitors, can you provide details of those solicitors utilised by the Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Authority's legal services are provided by the Monitoring Officer and Sandwell (MBC) Legal Services. Any specific specialist legal advice is obtained from external professional legal firms.
10. Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	None Known
11. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Pensions – West Midlands Pension Fund & Government Actuaries Department Asset Valuations – Sandwell MBC & Wilks Head & Eve Clinical / Medical Governance – Andrew Thurgood

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Risk Committee and management. Management, with the oversight of the Audit and Risk Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Risk Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As the Authority's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Risk Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Risk Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Risk Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Authority's management.

Fraud risk assessment

Question	Management response
1. Have the Authority assessed the risk of material misstatement in the financial statements due to fraud?	Although there is an on-going risk of fraud being committed against the Authority, arrangements are in place to both prevent and detect fraud. These include work carried out by Internal Audit on overall fraud risk areas. However, the risk of material misstatement of the accounts due to undetected fraud is considered to be low.
2. How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?	The Authority has a Anti Fraud & Corruption standing order in place. This is also supported by a Whistleblowing Policy which includes a confidential reporting framework; these are reviewed in a timely manner. Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud. Regular reports are made to Audit and Risk Committee. In addition, the Authority receives advice from the Audit Fraud Team at Sandwell Metropolitan Borough Council.
3. How do the Authority's risk management processes link to financial reporting?	Regular monthly monitoring of finances are reported to the Strategic Enabling Team (SET). Monitoring of Finances report at the Fire Authority meeting. Internal Audit provide an update of their work to the Audit & Risk Committee.
4. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	None Known
5. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Authority as a whole or within specific departments since 1 April 2019?	There are no known instances of fraud that have been identified during the year.
6. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Internal and External Audit reports to the Audit and Risk Committee

Fraud risk assessment

Question	Management response
7. Have you identified any specific fraud risks?	None known. Head of Internal Audit Opinion in 2018/19 did not highlight any weaknesses
8. Do you have any concerns there are areas that are at risk of fraud?	No Specific concerns. Head of Internal Audit Opinion in 2018/19 did not highlight any weaknesses
9. Are there particular locations within the Authority where fraud is more likely to occur?	None known. Head of Internal Audit Opinion in 2018/19 did not highlight any weaknesses
10. What processes do the Authority have in place to identify and respond to risks of fraud?	The Authority has a Anti Fraud & Corruption standing order in place. This is also supported by a Whistleblowing Policy which includes a confidential reporting framework; these are reviewed in a timely manner. Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud. Regular reports are made to Audit and Risk Committee. In addition, the Authority receives advice from the Audit Fraud Team at Sandwell Metropolitan Borough Council.
11. How would you assess the overall control environment for the Authority, including: • the process for reviewing the effectiveness the system of internal control; and • internal controls, including segregation of duties exist and are working effectively? If not where are the risk areas and what mitigating actions have been taken?	There are adequate processes in place for reviewing the system of internal control via the work of Internal Audit. Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud.

Fraud risk assessment

Question	Management response
12. What other controls are in place to help prevent, deter or detect fraud?	Financial Regulations Anti fraud and corruption standing order Internal controls and segregation of duties
13. Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	None known. Head of Internal Audit Opinion in 2018/19 did not highlight any weaknesses in this area.
14. Are there any areas where there is potential for misreporting?	None known.
15. How do the Authority communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	There is an Employee Code of Conduct and Financial Regulations. Staff are regularly reminded of these. There is a Anti Fraud & Corruption standing order in place and a Whistleblowing procedure in place which explain the procedures to follow. No significant issues have been reported under the Bribery Act No issues of significant fraud have been reported.
16. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	Posts within Financial Management and Revenues Compliance with Financial Regulations and Standing Orders Internal Audit Reports Segregation of duties

Fraud risk assessment

Question	Management response
17. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	The 2018/19 financial statement disclosure of related party transactions does not identify potential fraud risk. Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Authority and Committee meetings.
18. What arrangements are in place to report fraud issues and risks to the Audit and Risk Committee? How does the Audit and Risk Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud. Regular reports are made to Audit and Risk Committee.

Fraud risk assessment

Question	Management response
19. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	Audit & Risk Committee – 3 June 2019 “Monitoring Policies on Raising Concerns at Work – Whistle Blowing Standing Order 2/20 and Regulation of Investigatory Power Act 2000” reported that there were no allegations of whistle blowing
20. Have any reports been made under the Bribery Act?	There are no known instances that have been identified during the year.

Law and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Risk Committee, is responsible for ensuring that the Authority's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Risk Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?	The Monitoring Officer is responsible for ensuring the Authority is compliant with laws and regulations. These responsibilities cover: •complying with the law of the land (including any relevant Codes of Conduct); •complying with any General Guidance issued, from time to time, by the Standards Committee and / or advice of the Monitoring Officer; •making lawful and proportionate decisions; and •generally, not taking action that would bring the Authority, their offices or professions into disrepute. This officer has access to all Authority Committee reports. The Monitoring Officer raises awareness on legal requirements at meeting where needed. In addition in terms of any specific legal issues the Monitoring Officer would get involved at an early stage. Further information on how the Monitoring Officer carries out these responsibilities are detailed in the Constitution. The Strategic Enabler of Finance & Resources, the Authority's s151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements. The Senior Financial Accountant also attends the West Midlands Support Group for Financial Matters to exchange information, share best practice and discuss the implementation of relevant changes. This is supplemented by the annual technical accounting workshops run by CIPFA and also by Grant Thornton.
2. How is the Audit and Risk Committee provided with assurance that all relevant laws and regulations have been complied with?	See response above

Impact of laws and regulations

Question	Management response
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	None noted
4. Is there any actual or potential litigation or claims that would affect the financial statements?	None noted

Impact of laws and regulations

Question	Management response
5. How does management gain assurance that all relevant laws and regulations have been complied with?	See response to 1 above
6. What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?	See response to 1 above
7. Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?	None noted
8. How is the Audit and Risk Committee provided with assurance that all relevant laws and regulations have been complied with?	See response to 1 above
9. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?	None noted

Impact of laws and regulations

Question	Management response
10. Is there any actual or potential litigation or claims that would affect the financial statements?	None noted
11. What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	See response to 1 above
12. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	None noted

Going Concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for the Authority? What was the outcome of that assessment?	The Authority's latest Medium-Term Financial Strategy indicates a balanced position. The budget report also highlighted a number of issues which could influence future core funding, and budget pressures which the Authority would need to consider and monitor progress. The Authority has appropriate levels of reserves to support the MTFS. This strategy, as well as the in-year budget (2018/19) reflects government changes in terms of core funding and the financial settlement. The 2020/21 budget was approved by the Authority on 17/02/2020.
2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with the Authority's Business Plan and the financial information provided to the Authority throughout the year?	The Medium-Term Financial Strategy sets out detailed assumptions and makes clear reference to the Authority Plan as the basis for the financial considerations in setting the medium-term budget. The MTFP has been prepared by appropriately qualified and experienced staff in consultation with Service Managers. The financial assumptions are therefore consistent with the Authority Plan. Monitoring of Finances are reported to Members of the Fire Authority throughout the year.
3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes, see response above.

Going concern considerations

Question	Management response
4. Have there been any significant issues raised with the Audit and Risk Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	The Authority's latest Medium Term Financial Strategy and 2020/21 budget reflect government changes in terms of the indicated core funding and the financial settlement.
5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?	Review of the latest detailed financial information presented to Authority members (as at January 2020) did not highlight any adverse financial indicators which required specific action. A Treasury Management Strategy is approved by the Authority as part of the budget setting report.

Going concern considerations

Question	Management response
6. Does the Authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Authority's objectives? If not, what action is being taken to obtain those skills?	It is considered that the Authority has the appropriate skills and expertise within its Senior Management Team to enable it to address the financial challenges faced in the medium term. Succession planning is in place for any changes planned for 2020/21.
7. Does the Authority have procedures in place to assess their ability to continue as a going concern?	The Authority publishes its annual "Our Plan" which is supported by the MTFP. It has an established reporting procedure and timetable to Members of the Authority.
8. Is management aware of the existence of events or conditions that may cast doubt on the Authority's ability to continue as a going concern?	Management continually monitor events or conditions which may cast doubt on the Authority's ability to continue as a going concern. Presently, there are non known.
9. Are arrangements in place to report the going concern assessment to the Audit and Risk Committee? How has the Audit and Risk Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?	The Authority and Audit & Risk Committee receive regular up to date information on the Authority's ability to remain a going concern. The Treasurer presented details of the 2020/21 budget and underlying assumptions to Members. No significant issues were raised which cast doubt on the assumptions doubts on the assumptions made. Members recognise that the Authority continues to face a challenging financial position in the medium term, however in the short term the MTFP and level of reserves are sufficient to ensure delivery of priorities.

Related Parties

Issue

Matters in relation to Related Parties

Local Authorities are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Authority (i.e. subsidiaries);
- associates;
- joint ventures;
- an entity that has an interest in the Authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any entity that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Relating Parties

Question	Management response
1. What controls does the Authority have in place to identify, account for and disclose related party transactions and relationships?	A number of arrangements are in place for identifying the nature of a related party and reported value including: • Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions. • Annual return from senior managers/officers requiring confirmation that they have read and understood the declaration requirements and stating details of any known related party interests. • Annual return from Members stating details of any known related party interests. • Review of in-year income and expenditure transactions with known identified related parties from prior year or known history. • Review of related information with subsidiaries, companies and joint ventures, e.g. accounts. • Review of the accounts payable system and identification of amounts paid to assisted or voluntary organisations.
2. What are the Authority's related parties, including changes from the prior period?	The Authority has a number of related parties in which there is a material impact to the financial statements via virtue of whether the Authority might have: • potential either to be controlled or influenced by the party or • the potential to exert control or influence over the party (as defined by guidance in the Code). The Authority discloses its related parties under the following headings: 1.Central Government (Non-Domestic Rates income) – central government has control influence over the Authority as the Authority needs to act in accordance with its statutory responsibilities. 2.West Midland Local Authorities (Council Tax income) – these parties are subject to common control by central government and thus might be empowered to transact on non-commercial terms. There are processes in place to identify related party transactions with Members and Officers – Certain Members and Officers may have controlling influence or related interests with other of the Authority's related party organisations, such that they may be in a position to significantly influence the policies of the Authority. In 2018/19 there were no such related parties identified.

Relating Parties

Question	Management response
3. Has the Authority entered into any transactions with these related parties during the period, and if so, what was type and the purpose of these transactions?	See response above

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

Local Authorities apply appropriate estimates in the preparation of their financial statements. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit and Risk Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates

Question	Management response
1. How are transactions, events, and conditions identified that may give rise to the need for accounting estimates to be recognised or disclosed in the financial statements?	The Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the UK (Code), supported by International Financial Reporting Standards (IFRS) and statutory guidance.
2. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	There are no major changes in circumstances for accounting estimates in 2019/20. Any changes to the Code and IFRS are reflected within the Statement of Accounts.
3. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Yes, where estimates are required appropriate estimation methodology is utilised. Estimates are prepared by those who are best qualified e.g. for pension and asset valuations.
4. How is the Audit and Risk Committee provided with assurance that the arrangements for accounting estimates are adequate?	Accounting polices provide details within the Authority's Statement of Accounts. The Treasurer provide assurance to the Audit and Risk Committee and signs the Statement of Accounts.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Property plant & equipment valuations	Valuations are made by the appointed Valuer (Wilkes, Head and Eve Chartered Surveyors and Town Planners) in line with RICS guidance on the basis of 5 year valuations with interim reviews. The Authority are having a full valuation in 2019/20 following the change in estimation technique for specialised assets which was introduced in 2012/13.	Members of the Finance Team notifies the Valuer of the program of rolling valuations or of any conditions that warrant an interim re-valuation.	Valuer used for PPE valuations	Valuations are made in line with RICS guidance - reliance on expert.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Estimated remaining useful lives of PPE	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Valuer used for PPE and estimated remaining useful life assessments.	Valuations are made in line with RICS guidance - reliance on expert.	No
Bad Debt Provision	A provision is estimated using a proportion basis of an aged debt listing.	Members of the Finance Team calculate the provisions from the aged debt listing based upon prior experience.	No	A consistent proportion of the aged debt listing is applied after any specific debts have been provided for where circumstances of certainty are known. The proportion is based upon the type of debt and historic payment pattern.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Impairments	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.	Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.	Valuer used for PPE valuations	Valuations are made in line with RICS guidance - reliance on expert.	No
Measurement of Financial Instruments	The Authority values financial instruments at fair value based upon current conditions and Senior Finance team judgement.	An estimate is made by senior members of the finance team.	No	The Authority does not have many balances which are required to be disclosed as a financial instrument. Considered straight forward with a low degree of estimation required.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation and Amortisation	The following asset categories have general asset lives: •Operational Vehicles –straight line over 10 years. •Ancillary Vehicles -straight line over 5 years. •Equipment -straight line over 5 years. Depreciation is provided for all fixed assets with a finite life on a straight line basis. Asset lives for buildings are obtained from the Valuer. Freehold land is not depreciated. No depreciation is accounted for in the year of acquisition but is accounted for in the year of disposal.	Consistent asset lives applied to each asset category.	Valuer used for PPE and estimated remaining useful life assessments.	The method makes some generalisations. For example, buildings tend to have a useful life of 50 years. Although in specific examples based upon a valuation review, a new building can have a life as short as 25 years or as long as 70 years depending on the construction materials used. This life would be recorded in accordance with the local qualified RICS or CIB Member.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement, by a transfer of economic benefits or service potential, and and a reliable estimate made of the value. Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Authority becomes aware of the obligation. A Calculation is made by Senior members of the finance team based upon information from third parties e.g. insurers, solicitors.	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Authority.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions for liabilities	Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement, by a transfer of economic benefits or service potential, and and a reliable estimate made of the value. Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.	Charged in the year that the Authority becomes aware of the obligation. A Calculation is made by Senior members of the finance team based upon information from third parties e.g. insurers, solicitors.	No	Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Authority.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Non Adjusting events – events after the balance sheet date	The Treasurer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an adjusting event which is disclosed as a note to the accounts identifying the nature of the event and where possible estimates of the financial effect.	The Treasurer liaises with the Finance team and considers all known information.	Yes – the Actuary for the LGPS and the Uniformed Schemes.	This would be considered individually for each case.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals	The Finance Team collate accruals of income and expenditure from sales ledger, purchase ledger and budget information. Activity is accounted for in the financial year that it takes place, not when the money is paid or received in line with the accounting policies.	Sales ledger, purchase ledger and management accounts information are assessed by the Finance Team.	No	Accruals for income and expenditure have been principally based on known values. Where estimates have to be made these are based upon the latest available information.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension liability	The Authority is an admitted body to the Local Government Pension Scheme (LGPS). The Uniformed Schemes are unfunded and are administered by the Authority based upon guidance from MHCLG. Information is passed from the Authority to the Actuaries upon which they base their assessment for the estimate.	The Actuary reports are reviewed by Finance Staff for reasonableness.	Yes – the Actuary for the LGPS and the Uniformed Schemes.	Reliance upon another auditor – PwC for their work on the Actuary of the LGPS through their audit of the Wolverhampton City Council. Reliance upon the expertise of the Actuary of the Uniformed Pension Schemes.	No
Overhead Allocation	Not Applicable				

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

27 JULY 2020

1. **AUDIT FEES AND THE SUSTAINABILITY OF THE LOCAL AUDIT MARKET**

Joint report of the Chief Fire Officer and Treasurer.

RECOMMENDED

THAT the Committee note the content of the Report and attached Appendices.

2. **PURPOSE OF REPORT**

This update is provided to inform the Audit and Risk Committee Members of audit fees for 2019/20 and the factors that are driving increased work for external auditors and the sustainability of the local audit market in that letter.

3. **BACKGROUND**

3.1 In order to ensure that Audit and Risk Committee Members continue to remain informed on audit matters, the external auditor has provided documents providing information on audit fees and the sustainability of the local audit market.

3.2 The first attached document is an e-mail from Public Sector Audit Appointments (PSAA) which sets out the changes in the audit market and the need for additional fees. It also explains PSAAs approach to the 2020/21 fee consultation and that this will be revisited once there is clarity on the 2019/20 fees and the revised National Audit Office (NAO) Code of Audit Practice.

3.3 The second document is a review undertaken by PSAA on any future audit procurement. Importantly the document considers the sustainability of audit supply alongside improvements in audit quality and the associated fee implications. The research concludes that 'almost all of the approved firms have reservations about remaining in the market'. The report goes on to cite that these reservations have arisen as 'fees have not risen to compensate for the higher risks that the firms perceive they face' and secondly because 'the timing of local audits is problematic [given the 31 July deadline]'.

3.4 Representatives from Grant Thornton will be in attendance at the meeting to discuss the documents with Members.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. The matters contained in this report will not lead to a policy change.

5. **LEGAL IMPLICATIONS**

The course of action recommended in this report does not raise issues which should be drawn to the attention of the Authority's Monitoring Officer.

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

7. **ENVIRONMENTAL IMPLICATIONS**

There are no environmental implications arising from this report.

BACKGROUND PAPERS

None.

The contact officer for this report is Deputy Chief Fire Officer Wayne Brown, telephone number 0121 380 6907.

PHIL LOACH
CHIEF FIRE OFFICER

MIKE GRIFFITHS
TREASURER

APPENDIX 1

Dear S151 officer,

Given all of the turbulence within the audit industry at the moment, it may be helpful to summarise the local audit position in relation to the three financial years spanning 2018-21.

By this time of the year we would normally expect the vast majority of audits of 2018/19 accounts to be a matter of record and consigned to history. However, at the end of January there remain nearly 80 opinions still outstanding. Needless to say, that is an incredibly unsatisfactory position, particularly for all of the bodies and auditors concerned, and a significant concern going forward.

In response to the significant challenges, PSAA has recently commissioned independent research into the sustainability of the audit market which we plan to publish in the near future. As well as informing our own forward planning, we are keen to ensure that this and other research is available to support the work of the Redmond Review.

One of the consequences of the multiple pressures and challenges which have arisen in 2018/19 audits is an increase in the number of proposed fee variations for additional audit work. In previous years the level of such variations has remained relatively stable at around 5% of the sector's aggregate audit fees. However, while PSAA is still awaiting submission of some of the relevant proposals, it is already clear that a higher level of variations is likely to be proposed for 2018/19 than previously.

Meantime, audits of 2019/20 accounts are approaching. In planning for this next round, PSAA has tried to address two of the concerns which featured most frequently in our conversations and exchanges with bodies about their 2018/19 audit experience. Firstly, bodies want greater certainty about when their audit will take place and, if for any reason it cannot be undertaken in time to meet the 31 July target date for publication of audited accounts, they want to know that is the case at the earliest opportunity. Secondly, if there is any likelihood of additional audit work being required which may lead to a fee variation proposal, again bodies want early information and explanation.

Against this backcloth PSAA has therefore worked with auditors to address both of these issues - the planned timetable and any likely fee variations - in their audit planning submissions to bodies as part of a concerted effort to strengthen auditor-audited body communications.

This theme carries through into preparations for audits of 2020/21 accounts. We are currently consulting on the scale of audit fees for this year in accordance with the timetable prescribed in statutory regulations, which requires PSAA to fix the scale of fees before the start of the relevant year of account. https://www.psaa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/. This means having to set the fees ahead of the results of the completion of the 2018/19 round and ahead of the commencement of 2019/20 audits. Additionally, in looking ahead to 2020/21, we can also see a series of new developments which are likely to impact on the audit including revised auditing and accounting standards as well as a new Code of Audit Practice. Although these developments will affect all bodies, their impact will be variable depending on the specific local circumstances of each body.

Again, PSAA is encouraging auditors and local bodies to consider these issues in audit planning discussions, to give proper early notice of factors which may require additional work and have implications for fees, and also to allow time for actions which might mitigate risk to the smooth conduct of the audit. We note that the NAO will be consulting on guidance for auditors' work on the new Code of Audit Practice, and so detailed conclusions about how it will affect individual bodies will need to be reserved until the guidance is finalised.

In discussing the fee implications of any factors, whether they relate to developments which affect all bodies or are more specific to an individual local audit, we particularly need the parties to consider both short and long term implications. Some issues will have a one-off impact, affecting a single year. Any resulting variation proposal is for a one-off adjustment. Others will have ongoing implications which may or may not be the same as the impact in the first year. These are likely to point to a need to vary the body's scale fee. Appendix 1 explains PSAA's approach to fees more fully, and sets out the importance of revising scale fees where new developments or other local factors have clear ongoing implications.

It is important to stress that the 2019/20 local discussions on fees are happening at the planning stage, which is earlier than has generally been the case in previous years (perhaps not until the results of the audit were reported to you). One of the advantages of earlier discussion is that it allows more time for scrutiny and reflection. If you are unsure about a proposed fee variation, it can be deferred for any relevant information to be collated and examined with a view to revisiting the matter at an agreed later date. Please remember that PSAA reviews and determines every proposed additional fee, whether agreed or not – this is a statutory requirement.

We hope that this information is helpful to you and would be grateful if you would share it with members of your Audit Committee and any other relevant members and officers.

Appendix 1

PSAA's approach to fees

PSAA's position is unusual because, as the appointing person for principal local authorities, the company is required to set a scale of fees spanning more than 480 audits, each of which is unique, reflecting differing levels of size, responsibility, complexity, capacity, capability, risk, etc.

The company's current scale of fees reflects the continuation of a methodology developed by the Audit Commission during its tenure. It is intended to reflect a good representation of the risks associated with the conduct of each of the individual audits within PSAA's jurisdiction, assuming the timely production of draft accounts and working papers of an appropriate standard. However, PSAA recognises that every fee within the scale is subject to a margin for error and is also susceptible to change over time. Accordingly, the company's arrangements in relation to fees are designed to include a number of checks and balances to enable the scale to be adjusted as and when appropriate. These include :

i) Placing the extant scale of fees at the heart of any tender process and inviting suppliers to express their bids as a proportion of the current scale;
ii) Pooling winning firms' bids so that the fees of individual bodies are not linked to the bid prices of the individual firm that is appointed as their auditor;
iii) Consulting with bodies, as appropriate, when firms exercise their right to submit proposals to charge additional fees for additional audit work over and above that assumed in the relevant scale fee;
iv) Similarly consulting with bodies when firms submit proposals to amend the scale fee of an individual body to reflect an ongoing change to the level of audit work required.

Each of these arrangements is discussed in more detail below.

i). Linking tender prices to the extant scale of fees

When PSAA goes out to tender for audit services, as it did most recently in 2017, it provides suppliers with details of the then current scale of fees and invites firms to price their bids by reference to that scale. This is a vital opportunity for firms to bring their own experience and judgement to bear about the reasonableness of current scale fees in the context of current and expected future market conditions and risks. If the firm considers the current scale to be generous, it can bid at say, 70 or 80% of scale. Conversely, if current fees are felt to be too low, the firm can bid at say, 120 or 130% of scale. PSAA does not impose any parameters in this process - each firm is completely free to reflect its own considered judgement.

Following a rigorous evaluation of tenders, the contracts awarded to successful suppliers reflect the specific price at which each individual firm has bid.

ii). Pooling firms 'costs

In setting the overall scale of audit fees, PSAA has regard not only to the payments which will be due to firms under the contracts awarded but also the need to fund PSAA's own costs incurred in carrying out its functions - principally letting and managing contracts, appointing auditors and setting a scale of fees.

When re-setting the fees of individual bodies within the scale following a procurement, PSAA does not reflect the specific costs of the particular audit firm appointed to the body. Rather it applies average costs, taking into consideration details of all of the contracts awarded to successful suppliers – with the result that, for example in 2018/19, all bodies received the same proportionate fee adjustment. This shares the risk of price variations between firms across the system and also avoids the need to vary a body's scale fees because it has been allocated a new auditor.

iii). Charging for additional audit work

The nature of an audit is such that it may be necessary for an auditor to carry out more audit work than has previously been required or planned. PSAA has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. In such circumstances, the auditor may therefore be entitled to charge for the additional work depending upon the specific drivers which have given rise to it. If, for example, additional work arises because the auditor has not conducted the audit in accordance with expected standards, the auditor must bear the cost. Alternatively, if additional work is necessary because the local body has not met its obligations to deliver accounts and working papers which enable the auditor to reach the required level of assurance, the auditor may be entitled to propose a fee variation to reflect the scale of the work concerned.

Additional work may also be required as a result of the introduction of new accounting or auditing standards, or new regulatory requirements. Where it is clear that these have arisen after bids have been submitted and could not reasonably have been foreseen, the auditor will usually be entitled to propose an appropriate fee variation.

It is important to emphasise that the process for approving one-off fee variations (and/or ongoing scale fee adjustments - see para 4 below) is itself subject to careful checks and balances. Auditors are required to discuss any relevant proposals with appropriate representatives of the body concerned. All such proposals are subject to approval by PSAA. In making any submissions to PSAA, auditors are required to confirm that proposals have been discussed with the body and to indicate whether or not they have been agreed by the body. In turn, PSAA will consider the legitimacy and reasonableness of the proposals and advise the parties accordingly.

iv). Amendments to scale fees

The vast majority of fee proposals submitted by auditors in respect of additional audit work are limited to one-off fee variations. In some cases it is apparent that this does not reflect possible longer term implications. This is an important conversation which will sometimes alert the body to potential ongoing work and expected further variations which can be avoided by the body taking additional measures or taking other remedial actions. In other circumstances it will highlight the need to adjust the scale fee going forward so that the additional work concerned is properly reflected as a recurring requirement.

By routinely working through longer term implications and engaging in constructive discussions, bodies and firms can play a critically important role in helping PSAA to ensure that the scale of fees is subject to continuous review and, where appropriate, updating.

APPENDIX 2

TouchstoneRenard
Management Consultants

Public Sector
Audit Appointments

Future Procurement and Market Supply Options Review

Final Report

Review Team: Harry Machin, Phil Austin and Andrew Herbert

Touchstone Renard Code: 1296PSAA

Date: 26 February 2020

Touchstone Renard Limited
152-160 City Road, London EC1V 2NX

Contact Name: Phil Austin
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CONTENTS **Page**

Acknowledgements

We would like to thank all the people involved throughout the review process, from PSAA and the firms, who gave us their help and support.

Covering statement

This report and its contents have been prepared for PSAA's use as part of the Future Procurement & Market Supply Options Review project. Statements throughout this work are made in good faith on the basis of the information provided by those involved in the review or otherwise made available or disclosed during the period of the project.

Touchstone Renard Limited
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Email: office@TouchstoneRenard.com Web: www.TouchstoneRenard.com
Incorporated in the United Kingdom on 28th December 1987. Company Registration Number: 02208452.

1. EXECUTIVE SUMMARY

We were tasked with capturing the views of actual and potential external audit providers on how to structure a future procurement approach and audit contracts in order to maximise a sustainable audit supply in the next procurement exercise.

In summary, we have found that sustainability of audit supply will be difficult to achieve and will depend to a great extent on factors that are outside PSAA's control.

PSAA operates in a specific market which covers almost 500 'principal local authorities' with nine approved external audit firms. We have held interviews with all nine of these firms, as well as with six non-approved firms that are active in the government and not-for-profit sectors.

Key issues

Our research has identified a lack of experienced local authority auditors as the main threat to the future sustainability of the market. Across the UK there are only 97 Key Audit Partners (KAPs) who are authorised to act as engagement leads for local audits (which covers both principal local authorities and health audits) and there is also a shortage of audit managers and audit seniors with experience of these audits. It is not clear how the future supply chain of auditors will compensate for the retirement of the current cohort of partners, directors and senior managers.

External auditing is seen as an increasingly unattractive career option, and local auditing is seen as unattractive relative to corporate auditing.

Firms that are not currently approved to operate in this market

Our research shows that it will be difficult to bring the non-approved firms into the market, due to:

- A lack of enthusiasm on their part for getting involved with this market in its current state.
- Barriers to entry, including the accreditation process for both firms and KAPs.
- A lack of belief that they could succeed in winning tenders against the established firms.

If new firms could be encouraged to enter the market, their initial impact would be small – of the order of 5-10 audits per firm for perhaps a couple of firms. New suppliers could improve sustainability in the longer term, but they are not a solution for the next procurement round.

Firms that are approved to operate in this market

Of the nine approved firms, only five have current contracts with PSAA, while four – including KPMG and PwC – do not. The firms that do not have current contracts employ 33 of the 97 KAPs, meaning that 34% of KAPs are not currently active in PSAA's market. If all the approved firms bid for and were awarded contracts in the next procurement round, the market would become more sustainable.

However, our research shows that almost all of the approved firms have reservations about remaining in the market, for two main reasons.

First, the firms perceive that their risks have increased since bids were submitted for the current contracts. Their reasons include:

- The unprecedented scrutiny of the whole external auditing profession, which has made auditing less attractive and riskier for audit partners.
- Regulation and scrutiny have, in their view, become more onerous.
- Audit risk has increased as a result of the impact of austerity, including local authorities cutting back on finance staff and in some cases undertaking more risky commercial ventures.

In this climate, fees have not risen to compensate for the higher risks that firms perceive they face. This makes it harder for local authority audit partners to make the business case to their partners in other sectors and disciplines for continuing to tender in this market.

The firms acknowledge that audit fees are effectively set by the bids which the firms submitted during the 2017 procurement process.

They also recognise their ability to claim for additional work through the fee variations process. Nevertheless, they argue that audit risks have increased since 2017 and that their continued involvement in the market is now much more difficult to justify.

Second, the timing of local audits is problematic. The target date for signing off audits has been set by government as 31st July, two months after the working papers should be (but in some cases are not) ready to be audited. This results in a short peak period during June and July, putting pressure on experienced staff and requiring less experienced staff to be drafted in, potentially compromising quality.

Options available to PSAA

Some of the issues that impact future sustainability are outside PSAA's control, including: the fragmentation of the market for procurement of public sector audits (including different distinctive arrangements in local government, health and central government); the accreditation regime for local audits; the timing of local authority audits; and the regulatory regimes for quality checking of audits. PSAA can, however, lobby for change in some of these areas.

PSAA controls the balance between price and quality in its tender evaluation arrangements. The firms would like to see this balance shifted further in favour of quality and the Kingman report has also expressed concern over this issue. Although it is beyond our remit to comment on the balance of interests between the audit firms on the one hand and audit clients on the other, the firms would like to see higher weightings given to quality aspects of the next procurement, as well as tenders being subjected to close scrutiny on clearly defined and differentiated aspects of quality.

PSAA controls the size and composition of the lots that firms will bid for in the next procurement round. The actual number of audits to be included in the next procurement round will depend on the decisions of eligible bodies about whether to opt into the PSAA national scheme for the next appointing period. Firms would like to see a larger number of smaller contracts, with no one contract accounting for more than 20% of the total market (the two largest lots in the current procurement are for 40% and 30% of the market respectively). In considering any changes to lot sizes PSAA will, of course, need to satisfy itself that it can secure sufficient supplier capacity to ensure the appointment of an auditor to every opted-in body. In our view an ideal outcome would be for PSAA to enter into a sufficient number of contracts to enable all of the approved firms to participate in the market, subject, of course, to them submitting acceptable bids.

The firms almost unanimously agreed that five years was the most suitable duration for the next contract. Although the agreement in itself is positive, there is a risk of resources being eroded from the market if a major approved firm is locked out of the market for a five year period.

Options for attracting new entrants to the market include:

- Introducing 'starter lots' of say 5-10 audits, which would be more attractive if they involve: a) similar types of audit, for example all district councils; and b) locations that are not too widely dispersed.
- Promoting joint audit arrangements between established firms and new entrants. These are more likely to succeed if each firm is responsible for a clearly defined area, such as a stand-alone subsidiary (it should be noted that PSAA has no role in appointing subsidiary auditors, and so this would not be a joint appointment and is a matter for local determination). Approved firms consider this option would increase audit costs.
- Promoting mentoring for the new entrants.

We considered the pros and cons of the option to consider establishing a not-for-profit audit supplier. Perhaps understandably this is not something that would be welcomed by firms. In our view this would be difficult to achieve particularly if the timetable for publication of audited accounts remains unchanged. The timetable alone poses a major threat to the viability of the organisation's business model. The most significant potential benefits of this option would lie in the long term if the organisation was able to develop a strong commitment to training and development of staff specialising in local audit. That might enable it to make an important contribution to mitigating the key threats to sustainability of the market.

2. PURPOSE AND SCOPE

2.1 Overview

This exercise is a review of options relating to PSAA's future procurement approach, in preparation for letting audit contracts for the next appointing period (the five years starting with the audit year 2023/24).

PSAA wish to **capture the views of the current cohort of actual and potential audit providers** on how a future procurement approach and audit contracts could be structured so as t**o maximise a sustainable audit supply in the next procurement exercise**, thereby securing a **strong, competitive supply** market.

This work is intended to enable PSAA to contribute to **developing capacity within the audit market** for the next appointing period, providing the evidence from firms currently registered as local audit providers, and the broader audit market, as to the possible options that would support this.

This exercise does not include:

- The prospective decisions from eligible bodies to opt into the appointing person scheme for the next appointing period
- Making recommendations on the procurement approach itself.

2.2 Specific issues to be addressed

The starting point for the review was research that PSAA commissioned and published in early 2018 from Cardiff Business School (CBS), as part of a 'lessons learned' exercise. The CBS work reported very positively on PSAA's project to develop and implement its scheme including its handling of the 2017 procurement process. However, it also highlighted a series of challenges for the next PSAA audit procurement cycle, recommending further, more detailed preparatory work to explore several important variables. Key issues identified for further work were:

- Number of lots and lot sizes
- Lot composition
- Length of contracts
- Price:quality ratio

PSAA also cited the following 'options for consideration':

- How more firms can be encouraged to enter the local audit market, including providing advice and support to enable them to do so.
- Tendering on a basis which could offer a number of smaller "starter pack" contracts for new entrants.
- Introducing a number of joint audit appointments to enable new entrants to gain experience of local public audits alongside established audit suppliers.
- Exploring the possibility of a collaborative response with other audit agencies such as the NAO, Audit Scotland and the Wales Audit Office.
- Exploring the possibility of creating a not-for-profit audit supplier to work alongside existing and any new firms entering the market.

2.3 Other issues

PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme.

3. WORK DONE AND METHODOLOGY

3.1 Interviews

In collaboration with PSAA we prepared three interview questionnaires for the three main groups of interviewees identified by PSAA:

- Current contract holders (Grant Thornton (GT), Ernst and Young (EY), Mazars, BDO and Deloitte). We held interviews with all five of these firms.
- Approved firms that do not hold current contracts (KPMG, PwC, Scott Moncrieff and Cardens). We held interviews with all four of these firms.
- Firms that are not approved to operate in this market ('non-approved firms'). We contacted 13 of these firms and held interviews with six of them.

The questionnaires, which were sent in advance to all interviewees, addressed the specific questions arising from the 'lessons learned' exercise carried out by CBS, as well as the further questions posed by PSAA in their specification for our research.

We carried out a mixture of face-to-face interviews and conference calls, according to interviewees' preferences, in which we invited interviewees to begin by addressing the topics that were of most interest and relevance to them and proceeded from there.

We also interviewed representatives of the NAO and CIPFA, seeking their views on specific issues that had emerged from our conversations with the firms.

ICAEW declined our request for an interview, referencing its timing in relation to the Redmond Review. ICAEW's representations to the Redmond review were published on 19th December 2019 and included suggestions to improve the sustainability of the local public audit market.

The interviews were carried out on the basis that comments would be unattributable, promoting an environment in which interviewees could talk freely and frankly. We therefore needed to record firms' responses without revealing their sources.

3.2 Analysing responses

This report presents a set of mainly qualitative findings, structured as follows:

- The views of approved providers
- The views of non-approved firms
- Our comments on the issues raised and options for the next procurement.

4. BACKGROUND

4.1 The market and PSAA's role

The following comments draw heavily on background notes provided by PSAA, with some additional points that we have added.

Abolition of the Audit Commission

The Audit Commission (AC) had previously controlled and managed the whole system of audit for local public bodies, including local authorities, other local government bodies, local police and NHS bodies. Its responsibilities included setting the scope of audit (by publishing a code of audit practice every five years), appointing auditors, setting scales of fees, and overseeing the quality of auditors' work.

The AC's own arms-length audit force (District Audit) undertook 70% of local audits, with the remaining 30% undertaken by audit firms contracted by the AC. In 2012 all audit work transferred to audit firms, with many District Audit staff transferred under the TUPE regulations as a result.

The Local Audit and Accountability Act 2014 (the 2014 Act) established the new local audit framework which introduced changes including:

- Relevant bodies were given the power to appoint their own auditors, subject to certain procedural requirements.
- The National Audit Office (NAO) became responsible for publishing the Code of Practice.
- Regulatory oversight of the regime and the work of auditors became the responsibility of the Financial Reporting Council, which has a similar responsibility in relation to listed companies.
- The Secretary of State was given the power to specify an 'appointing person' to make auditor appointments on behalf of principal local bodies and giving them the right to opt to subscribe to its services. Essentially this reflected a value for money argument that a single body procuring multiple audits would deliver significant savings.

Establishment of PSAA

PSAA was established in August 2014 and, from April 2015, the company undertook transitional functions delegated by the Secretary of State, including making and managing auditor appointments and setting fees for local public bodies in England, under contracts originally let by the Audit Commission.

In July 2016 the Secretary of State appointed PSAA to a long-term role as the appointing person for principal local government bodies as defined by the 2014 Act and including police and fire bodies. The role of the appointing person is to lead the development, implementation and management of a collective scheme for appointing auditors for these bodies and also the setting scales of fees.

The bodies can choose either to make their own auditor appointments (thereby 'opting out') or to join the collective scheme provided by PSAA ('opting in'). Individual NHS bodies, which are also 'local audits' subject to the National Audit Office's (NAO) Code of Audit Practice, appoint their own auditors in the absence of a national collective scheme for Health.

The current appointing period

The legislation requires the appointing person to discharge its responsibilities for consecutive appointing periods of five years. The first appointing period began in April 2018 and covers the audits of the financial years 2018/19 to 2022/23. Following its appointment, PSAA had a period of eighteen months in which to develop and implement its appointing person arrangements.

PSAA was highly successful in achieving opt-ins of 98% of eligible bodies in 2017, with 484 of the total 494 bodies eligible at that time choosing to opt into the scheme. Once opted-in, an authority remains in the scheme for the duration of the appointing period.

PSAA let audit services contracts to five audit firms in 2017, enabling it to make auditor appointments for all opted-in bodies for the 2018/19 - 2022/23 appointing period.

A further contract was let to a consortium of two further firms, with no guarantee of appointments, however, that contract is now redundant following firm mergers.

Based on the bids received during the procurement exercise, PSAA was able to reduce scale fees for 2018/19 by 23% compared to the previous year. The first audits under these contracts covering the 2018/19 financial statements of opted-in bodies were undertaken during 2019.

Code of Audit Practice

The National Audit Office (NAO) is required to publish a Code of Audit Practice which defines the scope of local auditors' work. The NAO is required to publish the Code at least every five years and consulted during 2019 on the next Code, which will be operational by April 2020.

The Code is currently principles-based and requires local auditors to comply with the detailed technical and professional standards published by the relevant standard-setting bodies.

The impact of any changes in the Code of Audit Practice will not take effect until audits of the 2020/21 financial year are undertaken in 2021. Their full impact on scale fees may not be clear until PSAA sets the scale fees for 2022/23 or possibly 2023/24 (PSAA will, as required, consult on and publish a scale of fees before the financial year to which the scale applies).

Regulation

Local audit is now regulated by the FRC. The first local government FRC reviews of audit quality under the local audit framework will be completed in 2020.

The FRC monitors and enforces audit quality for Major Local Audits (MLAs - eligible bodies with income or expenditure in excess of £500 million per year), and those bodies that meet the Public Interest Entity definition (e.g. with listed debt). PIEs are subject to a further regulatory regime which includes specific rules for: auditor selection and tendering; auditor rotation; restrictions on non-audit services; and the FRC's quality monitoring regime.

Sir John Kingman, in his report of December 2018, has recommended that the FRC be abolished and replaced by a new independent body - the Audit, Reporting and Governance Authority (ARGA) - with a new mandate, new clarity of mission, new leadership, wider powers, and a new regime to identify warning signs when auditees may be at risk. Kingman has been critical of the FRC's approach to local audit regulation, for example:

'The FRC's execution of its functions regarding local audit appear based on an assumption that financial audit is a uniform product based on a uniform process, regardless of the body subject to the audit and the landscape within which it sits. The FRC is an expert in private sector corporate audit; and its expertise on, and detailed understanding of issues relevant to local audit are currently limited.'

The Institute of Chartered Accountants in England and Wales (ICAEW) is the Recognised Supervisory Body (RSB), which monitors audit quality for eligible bodies that are not MLAs or PIEs in England and Wales. The Institute of Chartered Accountants of Scotland (ICAS) has the same role in Scotland.

Registration and licensing

Local public auditors are registered and licensed by the ICAEW in England and Wales, and by ICAS in Scotland. External audits of eligible bodies ('relevant authorities' as defined by the 2014 Act) can, by law, only be carried out by 'registered local auditors'. To become a registered local auditor with ICAEW (ICAS imposes similar requirements in Scotland), a firm must, inter alia: satisfy ICAEW's Audit Registration Committee that it meets certain criteria; comply with the Local Audit Regulations and Guidance; and comply with ICAEW's Professional Indemnity Insurance Regulations.

Individuals who sign local audit reports within a registered local audit firm are called 'key audit partners' (KAPs). To become a KAP, the individual must meet detailed eligibility requirements set by the Act and the FRC's Guidance to RSBs on the Approval of KAPs for local audit.

Continuing change in the external audit and local audit sectors

The five years of the current appointing period are likely to require PSAA, its appointed firms and opted-in bodies, to adapt to continuing change.

Implementation of the local audit legislation has occurred in parallel with a period of government and public concern about the role of the auditor, following a number of high profile corporate failures in the private sector, and questions about the financial resilience of some local authorities after a long period of austerity.

Several reviews are relevant, as summarised in the table below:

Author	Publication date	Subject matter / Recommendations
MHCLG / Rand Europe	March 2018	Baselining and scoping work for a possible future evaluation of the impact of reform of local audit in England.
Sir John Kingman	December 2018	Recommendations re overhauling and replacing the FRC. The report was critical of the 'fragmented' nature of local audit regulation and procurement and its potential impact on audit quality.
NAO	January 2019	Recommendations including: ▪ Local public bodies should take prompt and effective action in response to weaknesses in arrangements to secure value for money (VFM). ▪ Local auditors should exercise their additional reporting powers appropriately, especially where local bodies are not taking sufficient action.
The Competition and Markets Authority	April 2019	Recommendations re: ▪ Separation of audit from consulting services. ▪ Mandatory 'joint audit' to enable firms outside the Big 4 to develop the capacity needed to review the UK's biggest companies. ▪ Introduction of statutory regulatory powers to increase accountability of audit committees.
Sir Donald Brydon	December 2019	Recommendations on quality and effectiveness of audit, including: ▪ A redefinition of audit and its purpose. ▪ The creation of a corporate auditing profession governed by principles. ▪ The introduction of suspicion into the qualities of auditing. ▪ The extension of the concept of auditing to areas beyond financial statements.
Sir Tony Redmond	Due 2020	The arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the 2014 Act.

The Redmond review is particularly likely to have a significant bearing on PSAA's work to prepare for its next procurement approach. The review has already sought the views of audit firms as important stakeholders.

4.2 Supply of auditors

The supply market for audits of principal local authorities can be summarised as below. The number of KAPs as stated below are not all available to do local authority audits in England – some are in Scotland, some work only on NHS audits, some will now no longer be available as firms separate audit from other services, and most of them undertake other work besides local audit.

- Two of the firms commonly referred to as the 'Big 4' (EY and Deloitte) currently hold PSAA contracts.

- Of the two other 'Big 4' firms, KPMG have considerable capability remaining, including 21 KAPs. We understand that they are undertaking only one opted-out local government audit. PwC have eight KAPs but are not undertaking any local government audits. Note that some KAPs who do not carry out audits of principal local authorities, are involved in conducting local audits of NHS bodies.
- Three other 'top 10' audit firms (GT, Mazars and BDO) currently hold PSAA contracts. Moore Stephens (which was a top 10 firm, approved to carry out local audits) merged with BDO earlier this year and is therefore no longer a separate firm itself.
- Two of the 'top 10' audit firms (RSM and Smith & Williamson) are not carrying out local audits and have no KAPs.
- Baldwins, a recent entrant to the 'top 10', acquired Scott Moncrieff (SM) earlier this year. SM are approved to carry out local audits and do so in Scotland but not in England and have three KAPs.
- PKF have a large share of the smaller bodies market covering town and parish councils but are not an approved firm for local audit purposes and do not have any KAPs.
- Many of the other 'top 20' audit firms carry out consultancy and other public sector audit work but are not approved firms for local audits and do not have any KAPs.
- There is one other approved audit firm (Cardens), a local SME firm based in Sussex with one KAP who has an Audit Commission career background.

The following table shows work that firms currently carry out for eligible local government bodies and the numbers of KAPs:

Firm	Current work for PSAA eligible bodies	Number of KAPs
Incumbents		
GT	40% by value of opted in bodies (183 audits)	26
EY	30% by value of opted in bodies (162 audits)	15
Mazars	18% by value of opted in bodies (85 audits)	9
Deloitte	6% by value of opted in bodies (31 audits)	8
BDO / Moore Stephens	6% by value of opted in bodies (26 audits)	6
Others		
Scott Moncrieff / Baldwins	Scotland only	3
KPMG	East Hants only	21
PWC	None	8
Cardens	None	1
Total number of key audit partners		***97***

KPMG and PwC, two firms that do not hold current contracts, between them have 29 (30%) of the 97 registered KAPs, **their absence from the local government audit market significantly reduces the number of active KAPs**. For reference, KAPs are able to and do work in other areas not just local audit.

4.3 Audit fees

Scale fees for 2018/19 for all opted-in bodies were reduced by 23 per cent, as a result of the prices tendered by firms in the last procurement.

The Kingman report noted that this 'follows a period from 2012/13 to 2017/18 in which scale fees reduced in two stages by an aggregate of 55 per cent, in part reflecting reductions in the size and scope of the Audit Commission, for example with the closure of its inspection services.' We understand that audit fee reductions determined by the Audit Commission in 2012 and 2014 reflect the progressive downsizing of the organisation and reduction of the scope and scale of its activities in the run-up to the organisation's closure. There is no doubt, however, that the opportunity for firms to bid for much larger contracts than previously has resulted in the submission of increasingly competitively priced tenders.

4.4 Performance in the 2018/19 round of audits

As stated above, 2019 is the first year of audit work on the contracts awarded following the 2017 procurement. PSAA's quality monitoring for 2019 included the following section (abridged by us, with our highlights in bold font) concerning the timeliness of audit reports that were due for delivery by 31st July 2019:

"The number of delayed audit opinions in local government has risen sharply this year..... **More than 40% (210 out of 486) of audit opinions on 2018/19 statements of accounts were not available by the target date of 31 July 2019**. The comparable position in relation to 2017/18 accounts was that approximately 13% of opinions were not available by the target date.

A number of factors have driven this deterioration in performance, posing challenges for both auditors and audited bodies. As previously reported, the target date has been missed in some cases because of a shortage of appropriately skilled and experienced auditors. In others the standard and timeliness of draft accounts, and/or associated working papers, has been lacking.

Other delayed opinions arise from difficulties in obtaining responses to and resolving audit queries, and unresolved technical issues including matters arising within group accounts. In a relatively small number of cases 2018/19 opinions are delayed by the fact that prior year accounts await sign off.

Whilst the 31st July target date is not a statutory deadline for audit, both audited bodies and auditors strive to meet it wherever possible. The increase in the number of audit opinions not given by the target is therefore a significant concern.

Delayed opinions can result in significant inconvenience and disruption, as well as additional costs and reputational damage for all parties. However, auditors have a professional duty only to give the opinion when they have sufficient assurance. Bodies that do not publish their audited accounts by 31st July are required by the Accounts and Audit Regulations 2015 to issue a statement explaining why they are unable to do so."

5. THE VIEWS OF APPROVED PROVIDERS

5.1 Introduction

This section reports on the views expressed by both the current contract holders (GT, EY, Mazars, BDO and Deloitte) and the approved firms that are not contract holders (KPMG, PwC, Scott Moncrieff and Cardens).

The topics covered by the two questionnaires are identical in most respects.

We summarise below the responses to each of the questions that we asked.

5.2 In the current contract, what works well and what works less well? (Contract holders only)

What works well

Firms believed that one of PSAA's main objectives in the last procurement round was to keep fees lower and ensure a high level of opt-in from eligible bodies, and that PSAA had succeeded very well in those objectives. It is important to note, however, that bodies were required to make decisions about opting in in advance of the completion of the procurement process and the setting of the scale of fees.

Most firms agreed that the length of the contract was appropriate. This is discussed further below.

Some firms considered that PSAA had done a successful job of allocating audits to firms, given the range of different factors involved. This is also discussed further below.

What works less well

Firms were keen to report a multiplicity of issues that they thought worked 'less well'. The strength of feeling, the lack of positivity and the unanimity with which those views were held were all quite striking.

Some of the key issues identified by current contract holders are beyond PSAA's control but nevertheless have implications for the sustainability of the market. **The target date for completing audits by 31st July was mentioned as an issue by every firm, without any prompting from us**. Firms complained about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met – resulting in pressure on the subsequent audits to which staff have been allocated. These pressures contribute to making local audit work unpopular with staff.

Firms perceive a decline in the quality and quantity of finance staff in the authorities, which they believe results in poorer quality of working papers and delays in providing information and answering auditors' questions. At the same time, they perceive higher expectations from the quality regulators and, in some instances, from audit clients too. Firms expressed the view that the risks of operating in this market are higher than they had anticipated when they bid for their current contracts.

The firms identified as another key issue that the rewards have not increased. They stated that if risks are high and rewards are not sufficient, they will find it increasingly difficult to make the case to their colleagues (other partners) for remaining in this market. We will consider this and other issues in more depth below.

5.3 Number of lots and lot sizes

Six out of the nine approved firms said that they would like to see a larger number of smaller lots. Points that they have made include:

- With potentially nine approved firms bidding for five contracts, some approved firms will be excluded from the opted-in market in each procurement round. This leads to further erosion of scarce resources from the firms that fail to win contracts.
- The 40% and 30% lots have proved excessively challenging for firms in terms of size and demand. The concentration of most of the work into two peak months is seen as contributing to this.
- Suggestions for lot sizes varied considerably and were not consistent but there was no support for any one lot having more than 20% of the market.

- Two firms suggested allowing bidders to bid for and win multiple lots. This suggestion would be consistent with having more, smaller sized lots.

5.4 Composition of lots and the allocation of audits to each firm

Six of the nine approved firms felt that the geographical composition of lots could be improved in the next round of procurement. Suggestions included:

- Reverting to a more regional approach, similar to that adopted by the AC in the 2012 procurement.
- PSAA doing more detailed research into each firm's local coverage and modelling the likely impact of different contract compositions and sizes.
- Communicating more closely with firms to understand their preferences.

Several firms would like to know in advance the detailed composition of the lots they are bidding for, rather than having to adjust their local resources after the contracts have been awarded. If they have to bid 'blind' again in the next procurement round, they would increase their prices to cover unforeseen risks. Two firms said that they could not budget for expenses if they did not know the locations in advance and felt that expenses should be separately remunerated outside the main contract.

Some firms felt that allocations of audits would be fairer if each audit was individually priced based on known factors, including size, known risks and geographical situation. One firm stated that the audits viewed as more desirable were cross-subsidising those viewed as less attractive, and questioned whether this was in accordance with ethical standards.

Only two firms expressed a view on the idea of setting up specialist lots containing similar audits. One firm said that this would help firms to build up knowledge quickly and become experts on the specific issues that arise in their particular market. Another firm pointed out that a lot comprising (say) only police audits would be too widely dispersed geographically to be viable.

There were different views about splitting the audits of financial statements and VFM work, with one firm saying that they were too closely interconnected while another firm thought that they could potentially be separated.

PSAA was clear in its procurement process that auditor appointments would be made in a systematic way by reference to a series of explicit criteria. Overridingly, it must ensure the appointment of an auditor to every opted-in body including those which are based in more remote parts of the country.

5.5 The 5 year duration of the contract and PSAA's ability to extend by 2 years

There was widespread support for the five year duration of the contract. There was no support expressed for a shorter duration - most firms regarded five years as the minimum time needed for them to build and grow their teams and benefit from increasing familiarity with their clients. Only one firm would have preferred a longer duration.

Several firms did not like the 'all or nothing' nature of the current contracts. Points made included:

- Letting all the contracts only once every five years locks any losing bidders out of the market for opted-in firms (currently 98% of the market) for a long period and causes some of their resource to be lost to the market, although they can, of course, remain active in the local audit market for Health bodies.
- There needs to be more flexibility to transfer audits between firms during the period of the contract.
- There needs to be more flexibility to adjust fees in line with changes to clients' risk profiles during the period of the contract. Note: we understand from PSAA that Auditors are able to propose changes to scale fees to reflect changing risk profiles but up to now have rarely taken the opportunity to do so. More frequently they rely upon fee variations to cover the costs of additional work required in response to increased risks.
- PSAA could consider letting say 20% of the total workload every year, over a rolling 5 year cycle. Uncertainty about the number of bodies opting into successive appointing periods would, however, require careful consideration if this model was adopted. More fundamentally, PSAA would need to ensure that the Appointing Person Regulations allow such an approach.

5.6 The balance between quality and price used to evaluate the tenders

All the approved firms expressed a wish for more weight to be given to quality relative to price. Various percentages were suggested, ranging from 60:40 to 100:0. Several firms said that they would not wish to bid again if quality had less than 60% of the weighting.

The firms recognize that both price and quality assessment criteria were used in the last procurement. However, several firms made the point that almost all the firms were able to meet the quality criteria and therefore, in their view, supplier selection tended to depend more on price.

Some advocated a more in-depth assessment of each firm's quality offering and track record in the next procurement.

It was suggested that PSAA could consider in more depth which components of quality they should take into account and what weights to give them in the next procurement. Quality might include, for example: track record in this market; resilience of resources at KAP level and at all grades of staff; ability to adapt to new audit clients; sustainability of supply generally; depth of technical resources. We are aware that PSAA did carry out detailed evaluation of various aspects of quality, and that its methodology will be reviewed for the next procurement exercise.

One firm mentioned that the objective of expanding the market might not be compatible with maintaining quality standards. They believed that this was because new entrants to the market would take time to get up to speed and smaller firms might not provide the same quality as the larger, more experienced firms. They suggested that the regulators might need to make allowances in some unspecified way, to encourage larger firms to support smaller firms into the market.

5.7 The degree of emphasis on social value / apprenticeships

This topic elicited little spontaneous interest from the firms, and we had to prompt them for responses. Two firms made the point that clients want firms to deliver an efficient and effective audit and have little sympathy with inexperienced staff, whether apprentices or not.

5.8 Timing issues

Apart from fee levels, the timing of audits was the most problematic issue for the approved audit firms. The target date for audits to be signed off by 31st July (compared to the pre-2017/18 target date of 30th September, which still applies in Scotland), was stated as exacerbating the peak workloads between May and July and onwards and the reported impacts on the firms included:

- Difficulties in resourcing the audits, which tends to require resources to be drafted in from other parts of the firm as well as a considerable amount of overtime working.
- 'The shorter the period for auditing, the more staff are needed'. Since experienced local audit staff are a limited resource, firms need to draw in more staff, with less relevant expertise, from other areas. This contributes directly to the quality of the audits experienced by clients.
- Putting undue pressure on staff, especially as regards excessive travel, overtime and weekend working. This contributes to staff leaving local auditing and, in some cases, leaving the profession altogether.
- Typical comments included: 'people are exhausted to the point of breakdown, and even then, we can't deliver'; and 'people have delivered out of professional pride this year, but they will not come back and do it again'.
- Particular pressure on senior staff and partners at the end of each audit.
- Failure to deliver audits within the target date, resulting in a perception of failure by the auditors themselves and by other stakeholders.
- Delays to local audit completions have a knock-on effect, delaying the start of future audits to which the staff have been allocated.

A further reason for auditors not always meeting target dates is when clients are unable to provide adequate papers to review or are unable to react in a timely way to queries.

5.9 The Code of Audit Practice

This topic was of some interest but was not at the top of the firms' agendas. Again, we had to prompt for responses.

Three firms expected requirements around VFM, risk and financial sustainability to increase. Two firms welcomed this, because it would enable firms to add value and demonstrate quality in this area. One firm added that the main impact would be on senior managers and partners' time.

5.10 CIPFA's Code of Practice for local authority accounting

Three firms commented that local authority accounts are (a combination of) too long, not user-friendly, 'almost impossible for lay people and even non-specialist auditors to understand', and needed to be simplified.

Two firms specifically commented that the Code of Practice put too much emphasis on technical accounting issues that do not affect operations or council tax and are therefore not of great interest to councillors, officers or electors.

5.11 The quality monitoring regime

Four firms commented along the lines that the regime had become tougher and that this has changed the balance of risk and reward since they bid for PSAA contracts in 2017.

The FRC regime was regarded as being more onerous than before. For example, firms are now working on the basis that they are expected to achieve scores of at least 2a (limited improvements required) on the 4 point scale used by FRC, whereas under the previous scheme under Audit Commission contracts scores of 2b (improvements required) were considered acceptable. We note that this is further complicated by changes in the definition of 2a and 2b.

5.12 Other issues – fees

All the firms believe that fees are now too low across the board and do not offer adequate rewards to compensate for the risks that they perceive they are taking. Although they acknowledge that the current fees are based on bids that they themselves have made, they feel that the audit environment has now changed – especially as regards regulatory expectations and technical complexity. PSAA's contracts allow firms to submit fee variations in respect of new regulatory expectations and new (auditing or accounting) technical requirements. We understand from PSAA that a significantly increased number of variation requests are currently being evaluated or are anticipated.

One firm (not Scott Moncrieff) has claimed that fees for comparable audits are three times as high in Scotland as in England. However, it should be noted that the scope of audits is wider in Scotland in relation to Best Value/value for money arrangements.

Firms have also commented that other types of external audit clients are much more profitable than local audit. They stated generally that the lack of profitability changes the way that local audit work is perceived within the firm and that consequently:

- It is harder for an experienced local audit manager to make the desired case for promotion to partner, since their contribution to partnership profits is relatively low.
- Experienced auditors are not attracted by local auditing as a career path.
- Partners in other parts of the firm are questioning whether local auditing is worthwhile, in terms of risks and rewards, for the firm as a whole.

Several firms believe that fees now need to be re-based to reflect the current risks and scope of work for each audit. There was widespread criticism of the level of the current scale fees, though some firms acknowledge their own role in setting fee levels via their bids in the last procurement round.

Some audits are now perceived by firms as being uneconomic – such as Police and Crime Commissioners and the smaller District Councils – while leaving other audits reasonably attractive.

Four firms made particularly critical comments about the systems for approving fee variations.

Their comments included:

- The time delay in checking and approving fee variations was far too long.
- It is too difficult to get fee variations agreed. It was questioned whether PSAA had the capacity to deal with a high number of variations.
- Average fees for additional work caused by overruns are insufficient to breakeven on the resources involved.

5.13 What factors would influence the firm's decision to bid in the next procurement round?

Seven of the nine firms specifically referenced fees in answer to this question. When we commented that they could bid at any price level they wanted, the firms responded that they would need to have a good expectation of winning a contract at higher fee levels to justify the resources they would put into the tendering process.

Four firms said that they were waiting to see what developed, particularly as regards the Redmond review.

Two firms mentioned the target dates for completing audits as a factor that would affect their decision to bid. Other factors mentioned (by one firm each) were:

- Size of lots.
- Codes of audit and accounting practice.
- The firm's staffing levels.
- Their ability to assess TUPE risks (in terms of the costs that they might need to incur to take on staff from another firm).
- Whether their fellow audit partners would approve the business case for continuing in this market.

5.14 Is your firm's capacity to deliver local audits increasing or decreasing?

Two firms made the point that resources are scarce for external auditing generally and that local audit had to compete for these scarce resources. **The shorter the time period available to complete local audits, the more resource has to be borrowed from other parts of the firm and the less capacity there is in the system.** Several firms mentioned that the CIPFA qualification used to provide a pool of qualified public sector staff, but this is becoming less popular with trainees. ICAEW qualified staff are more marketable across all sectors but are less likely to remain in local auditing.

Three firms identified a shortage of KAPs as an issue – one from the perspective that there were not enough KAPs to enable audit engagement partners to be rotated as required. Another firm stated that some of their KAPs were retiring and would not be replaced. A third firm commented that engagement leads were too stretched at the end /sign off of audits when their main contribution had to be made.

Two firms commented on a shortage of experienced audit managers and seniors in charge. This was linked, in their view, to a 'lost generation' of new auditors who were not recruited because recruitment by the AC was put on hold during its final years.

Several firms felt that their overall resources had not declined in terms of the number of staff available, but the quality of these resources had declined, with more trainees and fewer experienced staff being involved.

5.15 Is local auditing an attractive career option?

External auditing in general is perceived as being less attractive than in earlier years, with 'Long hours and criticism from all sides' for audit generally.

Local auditing is more or less unanimously regarded as being unattractive at present, for reasons stated, including:

- For newly qualified staff, local auditing is not as well remunerated compared with most of the available alternatives.

- Within auditing, local audit is 'outshone by the corporate sector' and has 'Cinderella status'.
- Colleagues within the firm do not give 'kudos' or respect for doing work on the PSAA contract, mainly because it is less profitable than other work.
- It is hard for a local audit manager to make the case for promotion to more senior levels, especially since promotion depends significantly on the profits made for the firm.
- The peak period for PSAA work is very stressful, with long hours and often time spent away from home.
- The work itself is frustrating, especially for junior staff, because clients are often unprepared and slow to obtain the answers to auditors' questions.
- For those local authorities that meet the criteria for PIEs, the quality standards have become more onerous and reputational risks have increased.

On the positive side, the senior local audit staff we interviewed are clearly committed to the sector and generally find their work worthwhile, interesting and relevant to peoples' lives.

5.16 Would your firm consider participating in a joint or shared audit appointment with a new entrant to the market?

Of the seven approved firms that commented on this issue, none would consider participating in a joint audit that required both firms to sign off on the accounts. Comments included that this arrangement 'would double or triple costs'; would incur additional costs to quality assure the joint auditor; and would leave councils and electors without one clear focal point to address their questions and concerns.

5.17 How can more firms be encouraged to enter the local audit market? What advice and support could / should be provided to enable them to do so?

Three firms did not comment on this question, while two firms had no interest in mentoring other firms at current fee rates.

One firm, while noting that 'the barriers to entry are significant', said that they would consider mentoring other firms subject to receiving some financial reward and 'risk mitigation from the regulator'. This second point was presumably a way of pointing out one of the risks of mentoring an inexperienced firm, since it seems unlikely that the regulator would reduce its standards to accommodate new entrants to the market. This firm cited support with training, software, quality and ethics as areas where mentoring support could be valuable.

One firm saw some scope for them to use other firms' staff on audits controlled by their own KAPs, and perhaps enabling those staff to build up expertise by learning on the job.

5.18 What are your views on creating a not-for-profit (NFP) supplier to work alongside existing firms and any new firms entering the market?

Three firms pointed out the practical difficulties of introducing an NFP supplier, including that the senior staff would presumably have to be transferred over under TUPE from existing firms in the market. One firm thought it was a good idea but did not offer any detail as to how it might work alongside the firms in the market.

6. THE VIEWS OF NON-APPROVED PROVIDERS

6.1 Introduction

It has been difficult to persuade non-approved firms to engage with our review. Out of the 13 firms contacted, we have been able to obtain interviews only with five, with one firm completing and returning the questionnaire without an interview.

We summarise below the responses to each of the questions that we asked.

6.2 What capability does your firm currently have to carry out local audits?

The firms we interviewed had limited capability to carry out local audits. Experience levels varied from firm to firm and included:

- Internal auditing, consultancy and other services for local authorities and emergency services.
- External auditing including other government bodies, NFP organisations, academies, other educational bodies, NHS bodies and social housing organisations.

6.3 Awareness of the local audit environment

Two firms were well aware of the local audit market and its issues; two firms had some knowledge of the local audit framework and PSAA's role in it; while the remaining two firms had very little knowledge of this area.

6.4 Would your firm consider bidding for any local audits in the next round of procurement?

There was limited enthusiasm about bidding for work in the next round of procurement, even amongst the firms that were sufficiently interested to talk to us.

The following table summarises the position of each of the firms we spoke to:

Firm	Overall position	Comments
1	Mildly interested	Very limited understanding of what local audit involves.
2	Would not rule anything out	The balance of risk and reward is critical. 'If fees are high enough, why not consider it?'. The partnership would have to approve the business case for getting involved. 'The more hurdles there are, the more benefits there would need to be'.
3	Doubtful	They see many obstacles to getting involved in this market. They would need 'very positive assurances' that they had a near certainty of winning some work before they would consider bidding.
4	Negative	'We should stick to our knitting'.
5	Doubtful	Current fee levels would negate any interest.
6	Interested	Would need guidance, support and a small lot(s) to bid for.

6.5 How important would the following factors be?

The need to register as an approved firm / key audit partners

Those firms that were aware of the requirements saw them as a deterrent to entry.

Fee levels and reward structures

These were seen as unattractive.

The comparative complexity of local government accounts

This was not specifically seen as an issue by five of the six firms. However, it contributes to the costs of entry, which three firms saw as a deterrent for reasons including:

- A significant 'learning curve'.
- The need to understand the sector and the risks.
- The need to prepare audit programmes.

- Investment in technology.

If PSAA provided 'starter pack' contracts for new entrants

This was seen as advantageous. One firm mentioned Parks bodies and another firm mentioned smaller authorities as possible starting points (though it should be noted that these bodies have very little flexibility to accommodate higher fees).

Two firms felt that as newcomers to the market they would find it hard to compete with the established firms as regards quality and that they would need some form of protection to enable them to win any bids.

Advice and support being available to assist with your entry to the market

There was a degree of indifference noted in response to this question. Two firms felt that advice and support from an external source could do little to offset the bulk of the work that they would need to do themselves.

However, one firm explained in some detail the support that they would welcome, including:

- Technical advice on emerging / current issues in the market and on VFM auditing
- Practical advice on timing and budgets, to enable them to plan any future bid
- Courses to train staff.

Other factors

Three firms mentioned aspects of the tendering process as a deterrent, including the resources needed to make a bid and the need for full TUPE implications information.

One firm said that they saw better opportunities for using their scarce resources in their current markets, while another firm made similar comments but would not dismiss the idea if fees were at an acceptable level.

6.6 As regards the procurement itself, would any of the following factors affect your decision to bid?

Lot sizes, locations, values and composition of lots

The main point, made by three of the firms, was that they would be more interested in local lots. Three of the firms said that they would only be interested in smaller lots and a fourth firm implied this as well. One firm said that they would not bid unless they knew the locations in advance.

The duration of the contract

All firms agreed that five years is an appropriate term, with one firm expressing a preference for the additional two-year extension in the right circumstances.

The balance between price and quality used to evaluate the tenders

Three firms favoured a higher weighting for quality, with 80:20 and 70:30 ratios being advocated. One firm added that 'quality' needed to be clearly defined. However, another firm 'would expect about 50:50' and felt that higher weightings for quality would favour the incumbent firms.

Whether lots include audits subject to FRC review

One firm said that 'the FRC is a tough regulator. If your file gets picked it can add 20-25% to time and costs (for that audit)'. Three of the other firms had no comment on the issue and the fifth firm made the general point that 'external reviews increase time and costs' – and, by implication, that they would look for higher fees to compensate for factors like this.

The legal right of electors to object

One firm described this as problematic, and said that they would find it more attractive if another auditor could deal with the objections. Other firms did not see it as a major issue.

6.7 Is local audit an attractive career option? What would make it more attractive?

The comments from the non-approved firms broadly echoed those made by the approved firms, in that external audit is perceived as an unattractive career option, while local audit is less attractive again.

Positive comments included:

- One firm saw some commonality between NFP and local audit clients, such as the need for both types of client to improve their systems and governance.
- One firm saw local auditing as being less risky than the private sector.
- Two firms mentioned that the social responsibility aspect of local auditing is attractive.

6.8 How can more firms be encouraged to enter the local audit market?

One firm summed up the tone of many of our discussions by saying that it would be difficult to encourage new entrants to the market, 'given where we are currently', while another firm saw the image of local government as an underlying problem.

Suggestions made by firms for making the market more attractive included:

- 'Communication and encouragement from PSAA and others; wider dissemination of information about the opportunities.'
- Transfers of technology to smaller firms.
- Reducing barriers to entry.
- Support and information about both technical and practical aspects of these audits.
- Being able to participate in relevant courses.

6.9 Would your firm consider participating in a joint audit appointment? On what basis?

Four of the six firms said they would be prepared to consider a joint audit appointment. Three firms commented on the need for clear separation of responsibility and identifying which firm would be liable in different circumstances. One of these firms would also look to the 'senior' firm to provide technology transfers and professional indemnity cover.

Another firm stated that they would only be interested in auditing stand-alone commercial subsidiaries, with a joint audit partner taking sole responsibility for the group audit (note that PSAA does not appoint to subsidiaries and so this example would be a matter for local determination). Their comment that 'most people are nervous of joint audits' reflects the tone of our conversations with other firms as well.

6.10 What are your views on creating a not-for-profit (NFP) supplier to work alongside existing firms and any new firms entering the market?

Only two firms commented on this issue. One firm implied that they would not want another supplier such as the AC, while the other firm commented that an issue for the AC was a lack of quality and they would not want to see that situation replicated.

7. ISSUES AND OPTIONS

7.1 Introduction

The two previous sections of this report have focused on capturing the views of the firms. In this section we provide our own analysis and commentary.

7.2 SWOT analysis for the market for audits of PSAA's eligible bodies

The table below summarises the strengths, weaknesses, opportunities and threats to the market for external audits of PSAA's eligible bodies, based on both the conversations we have had with firms and our own views. **The most striking aspect of the table is how many weaknesses are apparent from our discussions, and how few strengths.**

Strengths	Weaknesses
▪ Current fee levels represent good value for eligible bodies. ▪ A perception amongst some auditors that local authority work is socially responsible, worthwhile and relevant to people's lives.	▪ A perception amongst many auditors that local authority auditing is less dynamic and exciting than corporate auditing. ▪ Negative perception of external auditing generally. ▪ Negative perception of local authorities. ▪ Lack of profitability of PSAA contracts compared to other audit work. ▪ A limited number of firms approved to operate in this market. ▪ Barriers to entry including accreditation; technology; complexity. ▪ Indifference and lack of enthusiasm from non-approved firms about entering this market. ▪ Specialist nature of the work. ▪ Geographical dispersal of the work. ▪ Timing of the work in a restricted window during the summer months makes it difficult to resource. ▪ Unattractiveness to auditors of aspects of the job, including: timing over the summer months; need to travel; need for overtime work; poor quality of working papers and client staff. ▪ Lack of experienced staff, especially at KAP and audit manager level. ▪ Complex and poorly coordinated regimes for procuring local audit contracts (separation between PSAA's eligible bodies and other local audits); quality monitoring (different regimes for PIEs and other bodies. ▪ Mismatch between codes of audit and accounting practice and client needs / expectations, especially as regards balance sheet work. ▪ Current fee levels are unattractive to firms. ▪ Recent increases in regulatory pressure have increased risks and pressures for auditors in relation to local audit work.

Opportunities	Threats
▪ The Redmond review could make recommendations that address the firms' current concerns. ▪ The funding climate for local authorities could improve, putting less pressure on their overall finances and making it easier to fund Finance staff. ▪ Options to make future PSAA contracts more attractive, as discussed below. ▪ To bring other existing approved suppliers back into the market. ▪ Separation of external audit and other services should reduce conflicts of interest	▪ Current contract holders withdraw from the market. ▪ Failure to attract enough new recruits to work on PSAA eligible bodies. ▪ Loss of experienced staff to other disciplines and career paths. ▪ Loss of KAPs to retirement. ▪ Audit risks may continue to increase as local authorities try to alleviate their financial pressures. ▪ Firms being required to separate external audit from advisory and other functions. ▪ Possible further increases in regulatory requirements.

7.3 The CBS report revisited

The specification for our work cites the CBS report (published early in 2019) as the starting point for our research. We set out below some selected 'lessons learned' that CBS highlighted in their report and how these relate to our own findings.

CBS 'Lesson'	Our comments / current situation
A number of aspects of the procurement including the price:quality evaluation rating and lot sizes and compositions remain live issues.	This remains the case. Our comments are set out below.
There are significant challenges to ensuring a long term sustainable competitive and quality audit supply market, including...	**The challenges have increased since the publication of the CBS report. Firms' experiences of the 2019 audit cycle have contributed to this.**
▪ the lower fees, increased regulatory requirements and higher audit risks arising from local government financial challenges may discourage firms from remaining in the market (although firms stated that they are currently intending to stay in the market).	These factors remain and are now more strongly felt than before. It is **no longer the case that 'firms are intending to stay in the market'.** Their position is now less certain and dependent on developments ahead of the next procurement.
▪ there is evidence that gaining new entrants will be challenging.	This remains the case.
▪ the relationship between number and size of audit firms in a market and quality and price is not clear. But there is a clear preference from CFOs for larger firms for their assumed higher quality.	We have not investigated this because the views of the opted-in bodies are outside the scope of this piece of work. If true, it indicates the importance of a procurement regime that aims to attract all the 'big 4' firms into the market.
Given the above factors, positive 'market making' action may be advisable.	If 'market making' means opening up the market to new entrants then this does not seem an obvious conclusion to draw from the points above, given the preference from CFOs for the larger firms and the market's lack of attractiveness to new entrants.

CBS 'Lesson'	Our comments / current situation
There is evidence that the process of gaining agreement to the fee variations or additional work may be unnecessarily protracted.	This remains a concern for some firms. We understand from PSAA that the new IT system, referenced in their response to the CBS report, has not yet been implemented. The volume of variation requests is expected to increase sharply following the many challenges experienced in the 2018/19 audits. PSAA acknowledge the likely need to strengthen their staffing to process all of the anticipated submissions on a timely basis.
In light of the concerns raised by CFOs regarding future quality standards and their views on what constitutes audit quality there is a need to engender and communicate a common understanding of audit quality.	This concern is shared by the audit firms, who would like the scoring of tender bids to give more weighting to quality.

7.4 Opening up the market to new entrants

Issues

Our research suggests that this would be difficult to achieve and would not significantly increase the supply capacity of the market.

Firms that are not currently approved to operate in this market were reluctant to engage with our review, and those that did engage were (with one exception) unenthusiastic. The issues that they raised are covered in detail in section 6 of this report, and several themes stand out:

- **The barriers to entry make it difficult a) to become accredited as a firm and b) to get KAPs accredited.**
- Current fee levels are perceived as unattractive.
- This is a specialised market and new entrants will need advice and guidance with both technical and practical issues.
- The initial impact of any new firm would be small – of the order of say 5 to 10 audits. A package of audits of similar entities – say smaller District Councils – would reduce the learning curve and set-up costs.
- The non-approved firms find it hard to see how they could win a tender against the established firms and would need convincing that such a bid could succeed.

It is important to attract new entrants into the market as part of a longer-term strategy, but this does not appear to be a solution to developing sustainability in the next procurement round.

Options for PSAA

Options include:

- **Offering small lots that are attractive to new entrants and making it clear to the interested firms a) that they have a real chance of winning the lots and b) what they have to do to win them.**
- Encouraging approved firms to mentor new entrants to the market and offering incentives for them to do so. 'Mentoring' could include support with technology, training, risk assessment and audit programmes.
- In tendering for public sector contracts in other sectors small and medium-sized firms (SMEs) are assured that a stated percentage of the contracts let will be awarded to them.

  In May 2019 the Cabinet Office made the following statement:

  'The government is committed to 33% of central government procurement spend going to small and medium-sized enterprises (SMEs), directly or via the supply chain, by 2022.'

7.5 Supply side resources

Issues

A **lack of experienced staff is the main threat to the sustainability of this market**. If new firms win contracts for PSAA audits, or if a NFP auditor is created from scratch, in the short to medium term they will still be looking to the same limited pool of experienced auditors to lead the work.

The firms already have a shortage of experienced auditors, with bottlenecks at the levels of senior auditors, audit managers and engagement partners. Factors that have contributed to this situation include:

- A 'lost generation' of trainees because the AC stopped recruiting during its final years.
- The growth of the wider ICAEW qualification (which gives newly qualified accountants wider opportunities and mobility across all sectors) at the expense of the CIPFA qualification (which is specifically for the public sector).
- Reduced popularity of external audit generally, including the continuing growth of non-audit career paths within the firms themselves.

This situation is set to get worse as the current cohort of senior managers, directors and partners retires and firms cannot see who will replace them. The **barriers to entry make it difficult to develop new KAPs**.

When firms cease to operate in this market, their experienced auditors are drawn into other work and their capacity diminishes. Local audit staff can remain active in the market for Health bodies (provided that their firms can win enough of these audits), but that can only slow the attrition rate rather than offsetting it altogether.

Options for PSAA

PSAA could consider setting a specific target to keep all the approved firms, especially the 'Big 4', active in the market and plan the next procurement accordingly. However, we acknowledge that a commissioning body would not normally undertake a procurement with targets as to its preferred successful suppliers and that any such approach would have to be contingent on the suppliers concerned submitting acceptable bids

7.6 Timing of audits

Issues

The government has set a target date of 31st July for the audits of principal local authorities in England to be signed off by their auditors. This is two months earlier than the previous target date of 30th September, which still applies in Scotland.

This **target date is causing problems for the audit firms**, as described in section 5 of this report. It is the single most important factor, apart from fees, that makes the market unattractive to audit firms and therefore threatens its sustainability.

One **important effect of the current target date is that it reduces capacity**, which is already stretched, by restricting the number of auditor hours available to a two-month period. This encourages firms to fill the gap with inexperienced resources drawn from other sectors and disciplines, which impacts quality as well.

Options for PSAA

It is hard to see what PSAA can do, other than lobbying for the target date to be extended.

7.7 Fees and quality

Issues

The firms have been keen to emphasise the extent to which, in their view, the risks of operating in this market have increased since they submitted their bids in the last procurement round.

Their unanimous view is that the rewards, in the shape of fees, have not kept pace with the risks. Where firms perceive that risks and audit costs have increased, they can submit requests for fee variations, but many firms do not trust this mechanism to provide them with adequate compensation on a timely basis.

The Kingman report (paras 6.24 and 6.25) references the reductions in audit fees for principal local authorities (both the 23% reduction achieved by PSAA and earlier reductions which amounted to some 55% compared to previous fees) and states that: 'The Review has serious concern that these arrangements, in practice, may well be prioritising a reduction in cost of audit, at the expense of audit quality. The Review understands that CIPFA has raised publicly its concerns that local public audit fees have been driven too low.'

The audit firms will consider the price:quality ratio as an important indicator of PSAA's intentions as regards fees in the next procurement round. The **higher the weighting given to quality, the more confident they will feel about submitting bids at higher fee levels** – which in several cases is likely to be a precondition for them bidding at all.

Options for PSAA

Of all the issues that PSAA can influence, fees are by far the most important to the firms. Their perception of what level of fees could be acceptable will influence the decisions of most firms whether to bid or not, and at what price level. PSAA can influence these perceptions by the tone and content of their discussions with the firms and by the weighting given to quality compared with price in the next procurement round. It is important to note that the way that the spread of the marks allocated to each category is as important as the headline price:quality ratio.

PSAA must of course act in the interests of the eligible bodies, one aspect of which involves ensuring that audit costs represent good value. This aspect of PSAA's work is outside our brief so we cannot comment on how the potentially opposing interests of audit clients and auditor firms should be balanced.

7.8 Number of lots and lot sizes

Number of lots

By simple arithmetic, if the number of lots available is fewer than the number of bidders, then one or more of the bidders will not win any work. In a more robust market this might not matter, but in this market, there is a strong case, subject to their bids, for attempting to keep all the key players involved.

PSAA do not yet know how many eligible bodies will opt in to the next procurement. If more bodies opt out then the force of this argument will diminish, as there will be more opportunities for the losing bidders to win work with eligible bodies outside the PSAA contract.

Size of lots

All the firms favour smaller lot sizes in the next procurement with no support for any lot being tendered for more than 20% of the total. Again, if fewer eligible bodies opted in to the next procurement then higher percentage lots would become relatively more manageable because they would involve fewer audits.

The market appears to us to involve three 'sizes' of potential bidders, reflecting the resources and aspirations of the different suppliers:

- Firms capable of handling the larger (say 20%) contracts.
- Firms that are comfortable with the 6-7% / £2m contract size.
- Firms, including those non-approved firms that expressed an interest in the market, that would only be interested in lots of say 5-10 audits.

Options for PSAA

Actions could include **modelling the potential outcomes for different distributions of lot numbers and sizes**, based on PSAA's knowledge of the different firms' attitudes and intentions. The number of eligible bodies that choose to opt in will be a key variable that can also be modelled for different scenarios.

The possibility of **introducing starter lots**, perhaps restricted to new entrants to the market and/or joint bids involving new entrants, could be considered.

7.9 Composition and location of lots

Allocation of audits

PSAA's strategy for allocating auditors to individual audited bodies in the last procurement round was based on the following six principles, illustrating the range of issues that have to be taken into account:

1. Ensuring auditor independence
2. Meeting PSAA's contractual commitments
3. Accommodating joint/shared working arrangements amongst auditees
4. Ensuring a blend of authority types in each lot
5. Taking account of a firm's principal locations
6. Providing continuity of audit firm if possible, while recognising best practice on maximum length of tenure.

Principles 1 and 2 above are non-negotiable. Auditors must be independent, which for some authorities narrows the choice of auditor very considerably (principle 1), and contractual commitments must be met.

Principle 3 is highly desirable for both auditors and clients, as is principle 6.

We would question the need for principle 4 as a separate principle in its own right. The issues facing authorities vary between different authority types, and blending them **in each lot** reduces firms' ability to obtain economies of scale and efficiencies by specialising in particular types of audit. For new entrants to the market there will be less of a learning curve if their initial lots include only one type of authority, say district councils, rather than exposing them to multiple new types of audit at the same time.

Principle 4 appears to be needed to avoid the risk of firms bidding for an averagely onerous lot only to discover in due course that the composition of the lot awarded is skewed in some way to what are perceived to be less attractive audits. Different firms have different perceptions of the factors which make a particular audit unattractive. They include the size of the body, its geographical location, its reputation and audit track record, its fee level and how it is classified (as a PIE or non-PIE) for regulatory purposes.

Locations

Regarding principle 5, some firms believe that PSAA could do more to take their office locations into account, but they may be seeing the issue from their own perspective without understanding the other factors that PSAA must take into account.

Local authorities tend by their nature and purpose to be more widely dispersed to serve communities and to have a higher proportion of remote locations than other types of organisation.

The geographical distribution of the audit firms' resources does not match the distribution of the client locations. Locations like Manchester and London are well served by audit firms, while the opposite applies to more remote areas such as Cornwall, Cumbria and Lincolnshire.

Combined with the need to rotate auditors, these aspects of the market are always likely to create difficulties for the audit firms in terms of inconvenience and travel expenses.

In the last procurement round the firms did not know the geographical locations of the audits that they were bidding for, resulting in uncertainty about how much to allow for expenses and increasing the risks associated with each bid. However, they were asked to indicate in advance the regions in which they were prepared to accept audits.

The increasing automation of audit processes is seen by some as potentially reducing the need for on-site working, but not to a significant extent within the current period. However, it may impact the next contract period.

Specialist lots

One point that the firms made against specialist lots is that they would be too widely dispersed geographically. However, this need not necessarily be the case, especially where smaller sized lots (say 5-10 audits) are concerned - for example it would be possible to find groups of district councils or Police / Crime authorities that are reasonably close together and could form the basis for specialist lots, while taking into account principles of joint working and continuity.

Options for PSAA

A re-basing of the scale fees, aimed at making each individual audit equally desirable in terms of risk and reward, would address the imbalances between risks and rewards mentioned above. However, PSAA have pointed out the technical difficulties and resource implications of such an exercise.

The **composition of all or perhaps some lots could be specified in advance, removing uncertainty for the firms**. However, this would potentially disbar firms which have independence conflicts in relation to one or more of the bodies within a lot. PSAA's current methodology enables the composition of lots to be designed around such conflicts.

If the composition of lots cannot be specified in advance, PSAA could devise a mechanism to take some of the risks associated with unknown travel expenses away from the firms, perhaps by enabling expenses to be charged at cost on the basis of agreed guidelines.

Specialist lots could be considered, perhaps as a feature of the starter lots mentioned above.

7.10 Contract duration

Issues

The **5 year contract duration is popular with firms and any shorter period would not be welcomed**. There was little support for a longer duration.

Options for PSAA

PSAA has the option to extend the existing contracts for a further 2 year period. However, firms have indicated little or no support for this option.

7.11 Contract structure

Issues

The last procurement included a lot that was let with no guarantee of appointments, but that contract became redundant following the merger of one of the firms to which it was let. Such a contract provides a ready-made alternative if one of the incumbent firms needs to give up one of their allocated audits for any reason – for example due to a conflict of interest or if a firm's resources become over-stretched. However, this could be difficult to price given comments on pricing for the less attractive audits.

This principle could be extended so that a framework agreement contract becomes the basis for the whole procurement, or a significant part of it, providing PSAA with greater flexibility to offer individual audits or groups of audits to selected firms within the framework agreement.

There are precedents for this approach in the public sector audit market e.g. the Eastern Shires Purchasing Organisation (ESPO) Framework 664 that includes 'Audit Services' within its service offering – PSAA approved audit firms may also be ESPO framework holders.

Also, we note that a procurement notice was issued in July 2019 by Crown Commercial Services, via Contracts Finder, with the purpose 'to establish a pan government commercial agreement for the provision of audit services to be utilised by UK Public Sector Bodies...........including: local government.....'

Options for PSAA

PSAA can consider a range of options involving pre-qualifying firms to carry out audits via framework agreements.

7.12 Joint audit options

Issues

Joint audits, in the sense of audits for which two different firms are equally responsible and for which both firms sign the audit opinion, were not a popular option with the approved firms. However, not all of these firms would rule them out and several of the non-approved firms said that they would consider them as a route into the market, provided other objections and barriers to entry were resolved.

Firms were more relaxed about having one auditor signing the group accounts of an entity for which other firms have audited discrete units such as stand-alone subsidiaries. One of the non-approved firms, that was otherwise not interested in local auditing, saw the audit of commercial subsidiaries of local authorities as an area that they could become involved with.

The idea that new entrants could carry out the VFM aspects of some audits, while established firms take responsibility for the audit as a whole, did not appeal to most firms. VFM work requires understanding and experience of the local authority environment, which is exactly what new entrants do not have.

Options for PSAA

Consider tendering for joint audits as a potential future option. Consider whether there is potential for 'match-making' between approved and non-approved firms.

7.13 Collaborative response with other audit agencies

The current system, with PSAA procuring only the audits of principal local government bodies while other public entities are subject to different procurement and regulatory regimes is, in our view, structurally flawed. Issues include the creation of a brief but very intense peak audit period for the work procured by PSAA, with a lack of other work to occupy specialist local auditors during a prolonged trough period.

Areas where collaboration could be conceivable, under a different structure, are briefly noted below.

SAAA

The Smaller Authorities' Audit Appointments (SAAA) commissions desktop reviews for more than 9,000 smaller authorities. These are not full audits and are not subject to the same Code of Audit Practice and regulation as the principal authorities. They do have certain features in common, such as the requirement to deal with electors' objections. However, firms would still need to be accredited to carry out principal local audits and the audit requirements are of a completely different magnitude compared to those for smaller audits.

NAO

The NAO is responsible for auditing central government departments, government agencies and non-departmental public bodies. The NAO also carries out value for money (VFM) audits into the administration of public policy.

Scotland, Wales and Northern Ireland

Some of PSAA's current contract holders also carry out work in the other jurisdictions. For example, EY, GT, Deloitte and Mazars carry out audits in Scotland, along with Scott Moncrieff and KPMG.

The obstacles to achieving closer co-operation include:

- Different codes of practice – for example the requirements for auditing 'best value' in Scotland are different from those of auditing VFM arrangements in England.
- Different fee structures. One firm stated that fees for comparable audits are higher in other jurisdictions than in England, notwithstanding the differences in the scope of audits.

Options for PSAA

PSAA's options are constrained by the current fragmented structure of the market and by PSAA's precisely defined role within it.

7.14 Creating a not-for-profit supplier

Issues

Most firms did not comment on this option. We see its key features as follows:

- In the short to medium term the not-for-profit (NFP) supplier would be competing for the same scarce resources that the firms are currently using and would probably have a more limited appeal than the private firms. It could therefore struggle to recruit and retain the best staff. However, if in the longer term the NFP supplier developed a strong commitment to staff training and development it might be able to make a distinctive contribution to growing local audit capacity.
- It would suffer from the same issues as the current suppliers, especially the peaks and troughs in workloads, without having the same opportunities to redirect its resources to other work during the troughs.
- It would take time and resource to set up.
- To some it might appear as a retrograde step, recreating the direct labour force element of the AC. Its creation would cast doubt on the claims made at the time of the breakup of the AC, about the capacity of the private sector to handle this market.
- The NFP entity might be designed for a particular set of circumstances that then changed due to the ongoing reviews within the sector.

The case for the NFP supplier would involve it working alongside other agencies, such as perhaps CIPFA, ICAEW, the NAO and others, to actively develop resources for this market; and acting as the employer of last resort for staff who would otherwise be lost to the market.

Options for PSAA

If PSAA chooses to pursue this option, it should carry out a careful assessment of the viability of the prospective NFP supplier having regard to the various challenges it would be likely to face.

GLOSSARY

Initials	Definition
AC	Audit Commission
ARGA	Audit, Reporting and Governance Authority
AS	Audit Scotland
CBS	Cardiff Business School
CFO	Chief Finance Officer
CIPFA	Chartered Institute of Public Finance Accountants
FRC	Financial Reporting Council
ICAEW	Institute of Chartered Accountants in England and Wales
ICAS	Institute of Chartered Accountants of Scotland
KAP	Key Audit Partner
LGA	Local Government Association
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office
NFP	Not for profit
PIE	Public Interest Entity
PSAA	Public Sector Audit Appointments Ltd.
RSB	Recognised Supervisory Body
SAAA	Smaller Authorities' Audit Appointments
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2006
WAO	Wales Audit Office

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

27 JULY 2020

1. **INTERNAL AUDIT PLAN – 2020/21**

Report of the Audit Services Manager [Sandwell MBC].

RECOMMENDED

THAT the Internal Audit Plan for 2020/21 be approved.

2. **PURPOSE OF REPORT**.

2.1 This report is submitted for member comment and approval.

3. **BACKGROUND**

3.1 The attached report details the proposed Internal Audit Plan for 2020/21, with an indicative plan covering the period 2021/22 to 2022/23.

3.2 The Internal Audit Plan is a fluid plan which may 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 may be subject to amendment in order 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.

3.3 During the year, regular meetings will 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 will be brought before the Audit and Risk Committee for approval.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. The matters contained in this report will not lead to and/or do not relate to a policy change.

5. **LEGAL IMPLICATIONS**

The Accounts and Audit Regulations Act states that a relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”.

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

BACKGROUND PAPERS

Internal Audit Plan 2020/21 and indicative plan for 2021/22 to 2022/23.

Peter Farrow
Audit Services Manager, Sandwell MBC

APPENDIX 1

Internal Audit Plan 2020/21

A quick guide to the audit planning process

Step 1 – audit universe/auditable areas and the Authority's objectives

Identify the audit universe (i.e. a list of areas that may require auditing) using a variety of methods:

- Areas of risk identified by the Authority as having the potential to impact upon its ability to deliver its objectives and its statutory responsibilities, captured through a strategic risk register.
- Mandatory areas, such as the key financial systems work we do to, where appropriate, support the work of the external auditors, grant claim certification etc.
- Areas where we use auditor's knowledge, management requests and past experience etc.

▼

Step 2 – ranking

Score each auditable area as high, medium or low risk using the CIPFA scoring methodology: materiality/business impact/audit experience/risk/potential for fraud.

▼

Step 3 – the 2020/21 audit plan

Identify the areas where assurance will be provided in 2020/21. High risk areas will generally be audited annually, while medium risks may be visited once in a three-year cycle. A watching brief will remain on the low risks.

Glossary of terms

Governance

The arrangements in place to ensure that the Authority fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an economical, effective, efficient and ethical manner.

Control environment

This comprises the systems of governance, risk management and internal control. The key elements include:

- establishing and monitoring the achievement of the Authority's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded
- ensuring the economical, effective and efficient use of resources and for securing continuous improvement
- the financial management of the Authority and the reporting of financial management; and
- the performance management of the Authority and the reporting of performance management

System of internal control

The totality of the way an organisation designs, implements, tests and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

Risk management

A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

Risk based audit

An audit that:

- identifies and records the objectives, risks and controls
- establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives
- evaluates the controls in principle to decide whether or not they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks
- identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate
- determines an appropriate strategy to test the effectiveness of controls i.e. through compliance and/or substantive testing; and
- arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment

Audit Committee

The governance group charged with independent assurance of the adequacy of the internal control environment and the integrity of financial reporting.

Internal audit

Definition of internal auditing

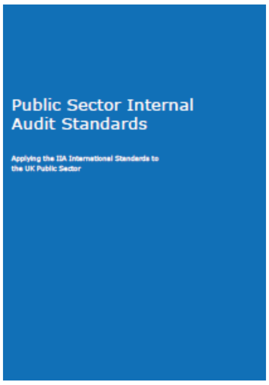
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Assurance

A confident assertion, based on sufficient, relevant and reliable evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance will be set out and it may be qualified if full comfort cannot be given. The Head of Audit may be unable to give an assurance if arrangements are unsatisfactory. Assurance can come from a variety of sources and internal audit can be seen as the 'third line of defence' with the first line being the Authority's policies, processes and controls and the second being managers' own checks of this first line.

The Three Lines of Defence

Internal Audit standards



The Internal Audit team comply with the standards as laid out in the Public Sector Internal Audit Standards that came into effect on 1 April 2013.

1 Introduction

The purpose of internal audit is to provide the Authority with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the Authority's agreed objectives. To provide this opinion, we are required to review annually the risk management and governance processes within the Authority. We also need to review on a cyclical basis, the operation of internal control systems within the Authority. Internal audit is not a substitute for effective internal control. The proper role of internal audit is to contribute to internal control by examining, evaluating and reporting to management on its adequacy and effectiveness.

There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. The Authority has an internal audit charter which was approved by the Audit Committee and defines the activity, purpose, authority and responsibility of internal audit, and establishes its position within the Authority. This document sits alongside the charter and helps determine how the internal audit service will be developed.

The purpose of this document is to provide the Authority with an internal audit plan based upon an assessment of the Authority's audit needs. The assessment of assurance need exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will be used to direct internal audit resources to those aspects of the Authority which are assessed as generating the greatest risk to the achievement of its objectives.

2 Assessing the effectiveness of risk management and governance

The effectiveness of risk management and governance will be reviewed annually, to gather evidence to support our opinion to the Authority. This opinion is reflected in the general level of assurance given in our annual report and within separate reports covering risk management and governance. This review will cover the elements of the risk analysis which we regard as essential for annual review to provide a positive, reasonable assurance to the Authority.

3 Assessing the effectiveness of the system of control

To be adequate and effective, management should:

•	establish and monitor the achievement of the Authority's objectives and facilitate policy and decision making
•	identify, assess and manage the risks to achieving the Authority's objectives
•	ensure the economical, effective and efficient use of resources
•	ensure compliance with established policies, procedures, laws and regulations
•	safeguard the Authority's assets and interests from losses of all kinds, including those arising from fraud, irregularity or corruption; and
•	ensure the integrity and reliability of information, accounts and data

These objectives are achieved by the implementation of effective management processes and through the operation of a sound system of internal control. The annual reviews of risk management and governance will cover the control environment and risk assessment elements, at a high level.

The internal audit plan contained within this report is our assessment of the audit work required to measure, evaluate and report on the effectiveness of risk management, governance and internal control.

4 Assessment of assurance need methodology

Internal audit should encompass the whole internal control system and not be limited only to financial control systems, the scope of internal audit work should reflect the core objectives of the Authority and the key risks that it faces. As such, each audit cycle starts with a comprehensive analysis of the whole system of internal control that ensures the achievements of the Authority's objectives.

Activities that contribute significantly to the Authority's internal control system and to the risks it faces, may not have an intrinsic financial value necessarily. Therefore, our approach seeks not to try and measure the level of risk in activities, but to assign a relative risk value. The purpose of this approach is to enable the delivery of assurance to the Authority over the reliability of its system of control in an effective and efficient manner.

We have undertaken the assessment using the following process:

- We identified the core objectives of the Authority and, where available, the specific key risks associated with the achievement of those objectives.
- We then identified the auditable areas that impact significantly on the achievement of the control objectives.
- We assigned risk values to the auditable areas, based on the evidence we obtained.

The plan is drawn out of the assessment of audit need. The proposed internal audit plan covering the period 2020/21 is detailed towards the back of this document.

5 The assessment of internal audit assurance needs

Identifying the Authority's objectives and the associated risks

The Authority's objectives are as follows:

- Safer and healthier communities.
- Stronger business communities.
- Dealing effectively with emergencies.

The key risks to the Authority in meeting these objectives, as identified through its risk management process, at the time this plan was prepared, were:

Risk Ref	Risk
CR1 1.1	Public Service Reform enables new duties and/or major changes to the governance, structure, role or activities of the fire and rescue service requiring major re-organisation, resulting in an inability to deliver against organisational strategy and planned community outcomes.
CR1 1.2	The Fire Authority is unable to positively position itself within public service reform to sustain and create new services resulting in reduced confidence, credibility and/or reputational damage.
CR2 2.1	The Fire Authority is unable to maintain positive staff consultation and engagement, resulting in an inability to deliver strategic objectives, outcomes and continuous improvement.
CR2 2.2	The Fire Authority is unable to deliver its Service Delivery Model effectively, as a result of insufficient or ineffective employees, throughout the organisation, resulting in reduced confidence and credibility; and increased reputational damage.
CR2 2.3	The Fire Authority is unable to meet statutory duties to provide a safe and healthy workplace and protect the environment, resulting in a significant failure and reduced confidence and credibility; and increased criminal proceedings, litigation and reputational damage.
CR3 3.1	The Fire Authority is unable to engage with the most vulnerable members of the community and reduce community risk resulting in increased fire and non-fire related incidents, fatalities and injuries.
CR3 3.2	The Fire Authority is unable to establish effective partnership arrangements and deliver community outcomes, resulting in a significant impact upon the organisation's financial standing, reputation and ability to deliver key objectives.
CR4 4.1	The Fire Authority is unable to effectively discharge its duties under the Regulatory Reform (Fire Safety) Order and associated legislation, resulting in a decline in non-domestic fire safety standards; reduced confidence and credibility; and increased litigation and reputational damage.
CR5 5.1	The Fire Authority is unable to ensure that operational incidents are dealt with safely, assertively and effectively using appropriate levels of resources and personnel, resulting in increased firefighter and community risk; reduced confidence and credibility; and increased reputational damage.
CR5 5.2	The Fire Authority is unable to maintain its command and control function, resulting in an inability to receive, process and respond to emergency calls effectively, so increasing community risk; reducing confidence and credibility; and increasing reputational damage.
CR6 6.1	The Fire Authority is unable to provide business continuity arrangements, to maintain delivery of core functions, as a result of extensive disruption to normal working arrangements, including national and international deployments, significant and major events, resulting in increased community risk; reduced confidence; increased reputational damage; and external scrutiny.
CR7 7.1	The Fire Authority is unable to provide and maintain an effective ICT provision to support the delivery of core functions, resulting in significant disruption to the

	organisation's functionality, reduced confidence, credibility, reputational damage and external scrutiny.
CR7 7.2	The Fire Authority is unable to provide effective management and security of organisational information and documentation including the receipt, storage, sharing and transfer of information and data, resulting in reputational damage, litigation, substantial fines and external scrutiny.
CR8 8.1	The Fire Authority is unable to deliver its statutory responsibilities, predominantly through the Service Delivery Model, due to insufficient funds, resulting in external scrutiny and intervention; reduced confidence and credibility; and increased reputational damage.
CR8 8.2	The Fire Authority is unable to deliver effective financial management arrangements, due to misuse of funds, resulting in external scrutiny, intervention and litigation.

These risks are then used to drive a substantial part of the internal audit plan.

Identifying the "audit universe"

The audit universe describes all the systems, functions, operations and activities undertaken by the Authority. Given that the key risk to the Authority is that it fails to achieve its objectives, we have identified the audit universe by determining which systems and operations impact upon the achievement of these objectives in section 3 above. These auditable areas include the control processes put in place to address the key risks.

Assessing the risk of auditable areas

Risk management is the process of identifying risks, evaluating their probability and potential consequences and determining the most effective methods of controlling or responding to them. The aim of risk management is to contribute to continued service improvement through improved risk-taking activities, reducing the frequency of loss events occurring, and minimising the consequences if they do occur.

There are a number of key factors for assessing the degree of risk within the auditable area. These have been used in our calculation for each auditable area and are based on the following factors:

- Risk
- Business impact
- Materiality
- Audit experience
- Potential for fraud and error

Deriving the level of risk from the risk values

In this model, the overall scores are translated into an assessment of risk. The risk ratings used are high, medium or low to establish the frequency of coverage of internal audit.

6 Developing an internal audit plan

The internal audit plan is based on management's risk priorities, as set out in the Authority's own risk analysis/assessment. The plan has been designed to, wherever possible, cover the key risks identified by this risk analysis.

The level of risk, and other possible sources of assurance, will always determine the frequency by which auditable areas will be subject to audit. This ensures that key risk areas are looked at on a frequent basis. The aim of this approach is to ensure the maximum level of assurance can be provided with the minimum level of audit coverage.

During the period covered by this plan, the priority and frequency of audit work will be subject to amendment to recognise changes in the risk profile of the Authority.

Auditor's judgement has been applied in assessing the number of days required for each audit identified in the strategic cycle.

The assessment of assurance need's purpose is to:
- determine priorities and establish the most cost-effective means of achieving audit objectives; and
- assist in the direction and control of all audit work

This approach builds upon and supersedes previous internal audit plans.

Included within the plan, in addition to audit days for field assignments are:
- a contingency allocation, which will be utilised when the need arises, for example, special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested. This element has been calculated on the basis of past experience
- a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to recommendations agreed by management during the prior year; and
- an audit management allocation, which is used for management, quality control, client and external audit liaison and for preparation for, and attendance at various meetings including the Audit Committee etc.

7 Considerations required of the Audit and Risk Committee and Senior Management

Are the objectives and key risks identified consistent with those recognised by the Authority?
Does the audit universe identified include all those systems which would be expected to be subject to internal audit?
Are the risk scores applied to the audit universe reasonable and reflect the service as it is recognised by the Authority?
Does the Internal Audit Plan cover the key risks as they are recognised?
Is the allocation of audit resource accepted, and agreed as appropriate, given the level of risk identified?

8 Information to support the Internal Audit Plan

Resources required

It is envisaged that 185 audit days will be required for delivery of the first year of the strategy.

Communication of results

The outcome of internal audit reviews is communicated by way of a written report on each assignment undertaken. However, should a serious matter come to light, this will be reported to the appropriate level of management without delay.

Staffing

Where appropriate, audit staff are either professionally qualified, or sponsored to undertake relevant professional qualifications. All staff are subject to an appraisal programme, which leads to an identification of training needs. In this way, we ensure that staff are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills and experience.

Quality assurance

The internal audit service will adhere to the Public Sector Internal Audit Standards.

Appendix A

9 Internal Audit Plan for the period 1 April 2020 to 31 March 2021

Auditable Area	Purpose	Risk Category	Estimated Days
Strategic Enabler Strategic Hub			
Risk Management	A review to ensure the Authority is adequately identifying, assessing and managing the risks it faces in achieving its objectives. (The Head of Internal Audit is required to give an annual opinion on the adequacy and effectiveness of the Authority's risk management arrangements.)	High	10
Governance	An annual review of aspects of the Authority's governance arrangements. This audit will evaluate the design, implementation and effectiveness of its ethics-related objectives, programmes and activities. (The Head of Internal Audit is required to give an annual opinion on the adequacy and effectiveness of the Authority's governance arrangements.)	High	10
Strategic Enabler Response			
Fire Stations – Management of Fuel	A review of compliance with established controls over ordering, receipt and dispensing of fuel at a sample of stations. (Linked to risk CR5 5.1)	Medium	10
Strategic Enabler People			
Absence Management	A review of compliance with the requirements of the absence management policy. (Linked to risk CR2 2.2)	Medium	10
Strategic Enabler Digital			
IT	A continuous programme of IT auditing and providing ongoing advice and assistance on IT related controls. This will include focussing upon areas such as information security standards, IT policies, data sharing, cyber security and use of the internet. (Linked to risk CR7 7.1)	High	12

Auditable Area	Purpose	Risk Category	Estimated Days
Data Protection	A review of the Authority's monitoring of adherence to the requirements of the General Data Protection Regulations. (Linked to risk CR7 7.2)	High	15
Strategic Enabler Finance and Resources			
Key Financial System Reviews are undertaken in liaison with the Authority's external auditors where appropriate, to help support them in the work they do. All such reviews are deemed high risk by their very nature.			
Payroll /Pensions	A review of the key financial controls relating to the administration of the Payroll System. (Linked to risk CR8 8.2)	High	15
Pension Certification	A review of the entries on the annual pension statement to confirm the accuracy of the employee and employer contributions calculated in respect of contributors to the fund. (Linked to risk CR8 8.2)	High	3
Accounts Receivable	A review of the key financial controls relating to invoicing and collection of debts. (Linked to risk CR8 8.2)	High	10
Accounts Payable	A review of the key financial controls relating to the ordering and payment of goods and services. (Linked to risk CR8 8.2)	High	10
Fixed Asset Accounting/Asset Planning	A review of the key financial controls relating to the accurate recording of fixed assets, including assessing the impact of potential asset sales and valuation reductions. (Linked to risk CR8 8.2)	High	10
Budgetary Control	A review of the key financial controls relating to Budgetary Control. (Linked to risk CR8 8.2)	High	15
Counter Fraud (Demonstrating a pro-active approach to countering fraud and corruption is a key element of the	The council's Counter Fraud Unit provide support and advice to tackle fraud and corruption, including assistance with the Cabinet Office's National Fraud Initiative. Over the course of the next 12 months officers of the Counter Fraud Unit will liaise with key Chief Officers to access the need for sample and deep dive fraud preventative testing	-	10

Auditable Area	Purpose	Risk Category	Estimated Days
requirements of the external auditors.)	exercises and measure the requirements for fraud awareness training. In addition, the Counter Fraud Unit is available to conduct investigations when required to do so. Days/costs can be discussed on a case by case basis. (Linked to risk CR8 8.2)		
National Fraud Initiative	We will lead on the Authority's NFI requirements. We will work with the Cabinet Office to ensure that the Authority continues to meet all its responsibilities. (It is a requirement that this exercise is undertaken.)	-	10
Other			
Contingency	Special projects, investigations, advice and assistance and ad-hoc work as requested.	-	10
Management	An allocation of time for the management of the internal audit service. To include meeting any training requirements of the Authority or Members and for preparation for, and attendance at, various meetings including the Audit Committee (to include where appropriate, a Committee skills audit and self-assessment workshop).	-	14
Follow up	A follow up of the key audit recommendations made during the previous year. (The Head of Internal Audit is required to obtain assurances that previously agreed actions have been implemented.)	-	11
Total			**185**

Indicative Future Internal Audit Plan

Appendix B

Auditable Areas:	Risk	21/22	22/23
Strategic Enabler of Strategic Hub			
Risk Management	High	✓	✓
Governance	High	✓	✓
Strategic Enabler Response			
Fire Stations – Management of Fuel	Medium		
Strategic Enabler People Support Services			
Absence Management	Medium		
Environmental Protection Targets	Medium	✓	
Workforce Planning	Medium	✓	
Strategic Enabler Organisational Preparedness			
Business Continuity Plan	Medium	✓	
Strategic Enabler Community Risk Management			
Partnerships	Medium		✓
Strategic Enabler ICT			
IT	High	✓	✓
Freedom of Information	Medium		✓
Data Protection	High	✓	✓
Strategic Enabler Finance and Resources			
Payroll/Pensions (KFS)	High	✓	✓
Pension Certification	High	✓	✓
Accounts Receivable (KFS)	High	✓	✓
Accounts Payable (KFS)	High	✓	✓
Fixed Asset Accounting/Asset Planning (KFS)	High	✓	✓
Budgetary Control (KFS)	High	✓	✓
Counter Fraud	-	✓	✓
National Fraud Initiative	-	✓	✓
Other			
Contingency	-	✓	✓
Management	-	✓	✓
Follow Up	-	✓	✓
Total		**185**	**185**

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

27 JULY 2020

1. GOVERNANCE STATEMENT 2019/20

Joint report of the Chief Fire Officer, Treasurer and Monitoring Officer.

RECOMMENDED

THAT the Committee approves the Governance Statement for 2019/20.

2. PURPOSE OF REPORT

This report is submitted to Members to seek comments and consideration of the Governance Statement for 2019/20.

3. BACKGROUND

3.1 West Midlands Fire and Rescue Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

3.2 In discharging this overall responsibility, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs, which includes arrangements for the management of risk.

3.3 Every Local Authority has to produce a Governance Statement (see attached Appendix) with its audited Statement of Accounts, which for 2019/20 are due to be made available by the end of November 2020.

3.4 The Governance Statement is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The Governance Statement is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3.5 The Statement is signed by the Chair of the Authority and the Chief Fire Officer who have a responsibility to ensure that the document is supported by reliable evidence and accurately reflects the Authority's internal control environment. The Governance Statement has operated throughout the year ended 31st March 2020 and up to date of the approval of the annual report and accounts.

4. EQUALITY IMPACT ASSESSMENT

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out because the matters contained in this report do not relate to a policy change.

5. LEGAL IMPLICATIONS

The Authority has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. As part of this it has to produce a Governance Statement.

6. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

BACKGROUND PAPERS

None.

The contact officer for this report is Deputy Chief Fire Officer Wayne Brown, 0121 380 6907.

PHIL LOACH CHIEF FIRE OFFICER	MIKE GRIFFITHS TREASURER	SATINDER SAHOTA MONITORING OFFICER

APPENDIX

ANNUAL GOVERNANCE STATEMENT

1. Scope of Responsibility

1.1 West Midlands Fire and Rescue Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2 In discharging this duty, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

1.3 The Authority has complied with the code of corporate governance which is consistent with the principles of the revised CIPFA/SOLACE Framework 2016 published by CIPFA in association with the International Federation of Accountants (IFAC) – Delivering Good Governance in Local Government. The Authority has also complied with the requirements of CIPFA's statement on the role of the Chief Financial Officer in Local Government. This Annual Governance Statement explains how the Authority has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015, regulation 6 which require the Authority to prepare an Annual Governance Statement.

2. The Purpose of the Governance Framework

2.1 The governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled and its activities through which it accounts to and engages with the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, value for money services.

2.2 The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place for the year ended 31st March 2020 and up to the date of the approval of the annual report and statement of accounts.

3. The Governance Framework

The key elements of the systems and processes that comprise the Authority's governance arrangements include the following:-

3.1 The Authority has produced a Corporate Strategy setting out its objectives and there is regular performance monitoring in which achievement of the Authority's objectives is measured and monitored.

3.2 The Authority has established clear channels of communication with the community and stakeholders regarding the production of the Annual Report and consultation on the key priorities of the Service. This also encourages open communication.

3.3 The Authority facilitates policy and decision-making via regular Policy Planning Forums and Authority and Executive Committee meetings. An Audit and Risk Committee provides independent assurance to the Authority on risk management and internal control and the effectiveness of the arrangements the Authority has for these matters. The constitution of the Committees including the terms of reference is reviewed annually and available on the Internet.

3.4 The Authority ensures compliance with established strategies, procedures, laws and regulations – including risk management. The Authority also maintains and reviews regularly its code of conduct and whistle blowing policy. There is a comprehensive induction programme in place and information regarding strategies and procedures are held on the intranet, which continues to be developed. The Authority has a strong Internal Audit function and established protocols for working with External Audit.

3.5 West Midlands Fire and Rescue Authority will continue to enhance and strengthen its internal control environment through the review of current policies and procedures.

3.6 The Authority has corporate risk management arrangements in place which are supported by an approved Risk Management Strategy enabling Managers and other senior officers to identify, assess and prioritise risks within their own work areas which impact on the ability of the Authority and its services to meet objectives. To consider the effectiveness of the Authority's risk management arrangements is a specific term of reference for the Audit and Risk Committee and risk management is a specific responsibility of both the Chair and Vice Chair.

3.7 The Authority's Corporate Risk Register identifies the principal risks to the achievement of the Authority's objectives and assesses the nature and extent of those risks (through assessment of likelihood and impact). The Register identifies risk owners whose responsibility includes the identification of controls and actions to manage them efficiently, effectively and economically.

3.8 The Authority ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. The Authority plans its spending on an established planning cycle for policy development, budget setting and performance management through the business planning process. This ensures that resources are aligned to priorities and secures best value from the resources that are available.

3.9 The Chief Financial Officer is a key member of the leadership team, helping to develop and implement the Authority's strategy. The Authority's financial system is an ORACLE based general ledger and management information system, which integrates the general ledger function with those of budgetary control and payments. Financial Regulations and Contract Procedure Rules are approved and regularly reviewed by the Authority. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way, and corrective action initiated.

3.10 The Authority's performance management and reporting of performance management continues to be improved with a more focused Corporate Strategy, the setting of priorities and is supported by regular performance monitoring. Corporate performance is reported on a quarterly basis and this process provides officers and Members with the opportunity to share knowledge and understanding about key performance issues affecting services.

3.11 The Authority within its committee framework has an Appointment, Standards and Appeals Committee to promote high ethical standards amongst Members. This Committee leads on developing policies and procedures to accompany the Code of Conduct for Members and is responsible for local assessment and review of complaints about members' conduct. The Authority also has a Scrutiny Committee which undertakes performance management functions and informs policy development.

3.12 The Fire and Rescue National Framework for England sets out a requirement for Fire and Rescue Authorities to publish 'Statements of Assurance'. Specifically, Fire and Rescue Authorities must provide assurance on financial, governance and operational matters and show how they have had due regard to the expectations set out in their integrated risk management plan and the requirements included in this Framework. The Authority has approved the Statement of Assurance which is available on the Service's website.

4. Review of Effectiveness

4.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the statutory officers and principal managers of the Authority who have responsibility for the development and maintenance of the governance environment, the internal audit annual report and comments made by the external auditors in their annual audit letter and other reports.

4.2 Section unit business plans contain a variety of performance indicators and targets that are regularly reviewed.

4.3 The Authority's political governance arrangements, which are appropriately reviewed by officers, set out the responsibilities of both Members and senior managers. In particular the Authority has identified the following statutory post holders:-

- Chief Fire Officer
- Treasurer
- Monitoring Officer

In addition to the statutory posts, the post of Clerk to the Authority has been maintained.

4.4 The arrangements for the provision of internal audit are contained within the Authority's Financial Regulations. The Treasurer is responsible for ensuring that there is an adequate and effective system of internal audit of the Authority's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2015. The internal audit provision operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government. The Authority's Audit Plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Authority's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to Authority establishments and fraud investigations. Internal Audit leads on promoting a counter-fraud culture within the Authority.

4.5 The resulting Audit Plan is discussed and agreed with officers of the Strategic Enabling Team and the Audit and Risk Committee and shared with the Authority's external auditor. Meetings between the internal and external auditor ensure that duplication of effort is avoided. All Authority Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any areas needing improvement.

4.6 The Authority’s review of the effectiveness of the system of internal control is informed by:-

- The work undertaken by Internal Audit during the year;
- The work undertaken by the external auditor reported in their annual audit;
- Other work undertaken by independent inspection bodies.

4.7 From the work undertaken by Internal Audit in 2019/2020 the Internal Audit has given a ‘reasonable assurance’ that the Authority has adequate and effective governance, risk management and internal control processes. This represents an unqualified opinion and the highest level of assurance available to Audit Services. In giving this opinion it is recognised that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Authority’s governance, risk management and control processes.

4.8 The Authority is able to confirm that its financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

4.9 Audit Services have reported and advised on the implications of the result of the review of effectiveness of the governance framework by the sources noted above and that the arrangements continue to be regarded as fit for purpose in accordance with the Authority’s governance framework. The areas to be specifically addressed are outlined in 5.5.

5. <u>Significant governance arrangements within the Authority</u>

5.1 West Midlands Fire & Rescue Authority has a legal duty to provide an efficient, safe and effective fire and rescue service. The key priorities are:-

- Prevention – Safer and healthier communities
- Protection – stronger business communities
- Response – dealing effectively with emergencies

5.2 These form the basis of the Authority’s Corporate Strategy known as The Plan 2019-2022 which sets out the outcomes and priorities based on the Community Safety Strategy. The five-minute attendance standard lies at the heart of the Service Delivery Model. The model shows how staff provide the core prevention, protection and response services to make the West Midlands safer, stronger and healthier.

5.3 Grant Thornton, the Authority’s External Auditors, published the Audit Findings Report for its 2018/2019 audit work which reported an unqualified opinion on the financial statements. It also issued an unqualified value for money conclusion stating that the Authority had proper arrangements in all significant respects to ensure it delivered value for money in the use of resources.

5.4 Based on audit work undertaken during the year an Annual Internal Audit Report was presented to the Audit and Risk Committee on 27 July 2020, Audit work which was completed in 2019/2020 included:-

- Risk Management
- Fixed Asset Accounting
- Accounts Receivable
- Accounts Payable
- Budgetary Control
- Payroll
- Governance
- Data Protection / IT
- Freedom of Information
- Partnerships

5.5 As a result of these audits the following was identified as the main issue:-

Payroll

A review of the payroll process was undertaken to ensure that the Fire Service had appropriate controls in place to mitigate the risk of fraud and error in the calculation, recording and payment of the payroll. We identified two issues of significance, the first of which is a re-iteration of the recommendation made in last year's report relating to:

- the People Support Services section did not have formal procedure notes which detailed the process for obtaining and evidencing approval for new starters.

- end dates for employees with temporary contracts were not recorded, which could lead to the overpayment of salaries to these individuals

5.6 The issues outlined above, together with any other issues highlighted in the Annual Internal Audit Report have been raised with relevant managers and actions have been taken to achieve improvements.

5.7 As part of the Finance Settlement for 2016/17, an offer was made for a multiyear funding settlement. Any Authority wishing to take up the four year funding settlement to 2019/20 was required to set out their proposals in an Efficiency Plan to qualify for the four year settlement from April 2016. The Authority considered and approved the Efficiency Plan which was submitted to the Home Office.

5.8 In February 2020, the Secretary of State for Ministry of Housing, Communities and Local Government (MHCLG) confirmed the Authority's funding settlement for 2020/21, which was a one-year settlement only. In the Secretary of State for MHCLG settlement announcement, there was no indication of further funding levels beyond 2020/21. In planning for 2021/22 onwards, a reduction of 2% was assumed to the overall core funding. It should be noted that this is a very provisional figure and there is the potential for the scale of reductions to be of a greater magnitude than this base assumption. Every 1% reduction in core funding represents a loss of circa £0.5m funding for the Authority.

5.9 With the anticipation of cuts to government funding continuing into future years, the Authority faces considerable financial pressures which could result in difficulties to deliver an efficient and effective service, which in turn would increase the risk to the communities of the West Midlands. A key aim for the Authority is to therefore identify and deliver further Service efficiencies to ensure the ongoing stability of the Authority's financial position.

5.10 Covid-19 Governance Impact

During March 2020, the Coronavirus pandemic resulted in a nationwide lockdown and an emergency response, which had an impact on the Authority's "business as usual". This has and will continue to have an impact on the Authority's governance arrangements.

During the lockdown period temporary governance arrangements have been approved by the Chief Fire Officer to enable decision making to continue where needed, including:

- approval of the appointment of a deputy monitoring officer,
- approval of the WMFS key performance targets.

A number of meetings were cancelled during the early weeks of the lockdown period and arrangements were made for Authority Members to be kept informed through the use of weekly Authority briefings via video conferencing. For future meetings, the Authority will hold these virtually in accordance with the Regulations published by the Government allowing participation by remote attendance, during the period that physical meetings are not permitted.

Whilst business continuity arrangements have been in place the Authority's Audit and Risk Committee met virtually on 1 June 2020 and a further meeting is scheduled for 27 July 2020. An extraordinary meeting of the Pensions Board also took place virtually on 8 June 2020. A full meeting of the Authority, which would be the Annual General Meeting is planned for September 2020,

6. **Certification**

6.1 To the best of our knowledge, the governance arrangements, as outlined above have been effectively operating during the year with the exception of those areas identified as requiring improvement. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our annual review.

Greg Brackenridge
Chair
West Midlands Fire & Rescue Authority

Phil Loach
Chief Fire Officer

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

27 JULY 2020

1. **ANNUAL INTERNAL AUDIT REPORT – 2019/20**

Report of the Audit Services Manager.

RECOMMENDED

THAT the Annual Internal Audit report for 2019/20 be approved.

2. **PURPOSE OF REPORT**.

2.1 This report is submitted for member comment and approval.

3. **BACKGROUND**

3.1 The attached report details the work of the internal audit service undertaken in 2019/20. It provides an opinion on the adequacy and effectiveness of the Authority's governance, risk management and internal control processes.

3.2 The contents of the report also provide one element of the evidence that is required to underpin the Authority's Governance Statement.

3.3 It summarises the audit work undertaken during the year in a tabular format, this includes:

- the areas subject to review during the year (Auditable Area)
- the level of risk to the Authority assigned to each auditable area (high, medium or low)
- the number of recommendations made as a result of each audit review
- details of any other work undertaken outside of the original plan

Finally, it provides a summary of the key control issues that arose during the year.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. The matters contained in this report will not lead to and/or do not relate to a policy change.

5. **LEGAL IMPLICATIONS**

The Accounts and Audit Regulations Act states that a relevant body must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices".

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

7. BACKGROUND PAPERS

Annual Internal Audit Report 2019/20.

Peter Farrow
Audit Services Manager, Sandwell MBC

WEST MIDLANDS FIRE SERVICE

Annual Internal Audit Report 2019/20

Audit and Risk Committee
27 July 2020

Ref. AU/AC/2020/July/91507204 OFFICIAL – WMFS PUBLIC

1 Introduction

1.1 Our internal audit work for the period from 1 April 2019 to 31 March 2020 was carried out in accordance with the approved internal audit plan. The plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Authority's governance, risk management and control processes.

In this way, our annual report provides one element of the evidence that underpins the Governance Statement the Authority is required to make within its annual financial statements. This is only one aspect of the assurances available to the Authority as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Authority may rely could include:

- The work of the External Auditors (currently Grant Thornton)
- The result of any quality accreditation
- The outcome of visits by HMRC
- Other pieces of consultancy or third-party work designed to alert the Authority to areas of improvement
- Other external review agencies

1.2 The definition of internal audit, as described in the Public Sector Internal Audit Standards, is set out below:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Overall Assurance

1.3 As the providers of internal audit, we are required to provide the Authority with an opinion on the adequacy and effectiveness of the governance, risk management and control processes. In giving our opinion, it should be noted that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Authority's governance, risk management and control processes. In assessing the level of assurance to be given, we have considered:

- All audits undertaken for the year ended 31 March 2020;
- Any follow-up action taken in respect of audits from previous periods;
- Any fundamental or significant recommendations not accepted by management and the consequent risks;
- Any limitations which may have been placed on the scope of internal audit; and
- The extent to which any resource constraints may impinge on the ability to meet the full audit needs of the Authority.

2 Internal Audit Opinion

2.1 We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out in paragraph 1.3 above, our opinion is as follows:

2.2 Based on the work undertaken during the year and the implementation by management of the recommendations made, Internal Audit can provide ***reasonable assurance** that the Fire Authority has an adequate and effective framework of governance, risk management and control.

*****We are pleased to report that this is an unqualified opinion and the highest level of assurance available to Audit Services. As stated in paragraph 1.3 "In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Authority's governance, risk management and control processes".

Factors Influencing the Opinion and Issues Relevant to the Statement on Internal Control

2.3 In reaching this opinion, the following factors were taken into consideration:

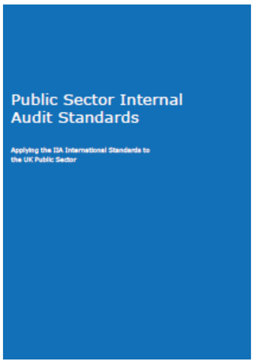
- The need for management to plan appropriate and timely action to implement both our and the External Auditor's recommendations.
- Key areas of significance, identified as a result of our audit work performed in year, are detailed in the Appendix to this report.

2.4 The overall opinion can be used by the Authority in the preparation of the Governance Statement.

2.5 Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter.

3 Performance of the Audit Service

Compliance with the Public Sector Internal Audit Standards



During the year we complied with the Public Sector Internal Audit Standards, which specify rules of conduct for objectivity, due professional care and confidentiality.

Customer Satisfaction

Customer satisfaction questionnaires are issued for all audits. From the responses returned, the average scores were as follows:

Question	2019/20
Usefulness of audit	4.7
Value of recommendations	4.6
Usefulness of initial discussions	4.6
Fulfilment of scope & objectives	4.8
Clarity of report	4.6
Accuracy of findings	4.8
Presentation of report	4.6
Time span of audit	4.5
Timeliness of audit report	4.6
Consultation on findings/recommendations	4.5
Helpfulness of auditors	4.7
Overall Satisfaction with Audit Services	**4.6**

Scores range between 1 = Poor and 5 = very good. We have a target of achieving on average a score of **4 = good.**

Quality Assurance and Improvement Programme

Sandwell Audit Services have a Quality Assurance and Improvement Programme. During the year, the internal audit activity has followed this programme and there have been no significant areas of non-conformance or deviations from the standards as set out in the Public Sector Internal Audit Standards.

Staff are recruited, trained and provided with opportunities for continuing professional development. Staff are also supported to undertake relevant professional qualifications. All staff are subject to a formal staff appraisal process, which leads to an identification of training needs. In this way, we ensure that staff are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills and experience.

Advice and assistance

Finally, throughout the year we provide ongoing advice and assistance to all areas of the Authority on internal control and related issues, including on the development of an assurance framework.

4 Summary of Work Completed to inform the 2019/20 Internal Audit Opinion

A detailed written report and action plan is prepared and issued for every internal audit review. The responsible officer will be asked to respond to the report by completing and returning the action plan. This response must show what actions have been taken or are planned in relation to each recommendation. If the recommendation is not accepted, this must also be stated. Audit Services are responsible for assessing whether the managers response is adequate.

Where appropriate, each report we issue during the year is given an overall opinion based on the following criteria:

	Level	System Adequacy	Control Application
(positive opinions)	Substantial Assurance	Robust framework of controls ensures objectives are likely to be achieved.	Controls are applied continuously or with minor lapses.
	Satisfactory Assurance	Sufficient framework of key controls for objectives to be achieved, but control framework could be stronger.	Controls are applied, but with some lapses.
(negative opinion)	Limited Assurance	Risk of objectives not being achieved due to the absence of key internal controls.	Significant breakdown in the application of controls.

This is based upon the number and type of recommendations we make in each report. Each recommendation is categorised in line with the following:

Fundamental	Action is imperative to ensure that the objectives for the area under review are met.
Significant	Requires action to avoid exposure to significant risks in achieving the objectives for the area under review.
Merits attention	Action advised to enhance control or improve operational efficiency.

During the year we made the following number of recommendations:

	2018/19	2019/20
Fundamental	0	0
Significant	1	3
Merits attention	1	4
Total	**2**	**7**

The following appendices/tables below list all the reports issued by internal audit during 2019/20, alongside their original Assessment of Assurance Need (AAN) risk score, the number and type of recommendations made, whether those recommendations have been accepted and an overall level of assurance for each review.

Summary of Internal Audit Work Completed for the 2019/20 Internal Audit Opinion

Auditable Area	AAN Rating	Recommendations					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Risk Management	High	0	0	1	1	1	Substantial
Fixed Asset Accounting	KFS	0	0	0	0	0	Substantial
Accounts Receivable	KFS	0	0	0	0	0	Substantial
Accounts Payable	KFS	0	0	0	0	0	Substantial
Budgetary Control	KFS	0	0	0	0	0	Substantial
Payroll	KFS	0	2	0	2	2	Satisfactory
Governance	High	0	0	1	1	1	Substantial
Data Protection/IT	High	*	*	*	*	*	*
Freedom of Information	Medium	0	1	2	3	3	Substantial
Partnerships follow up	Medium	0	0	0	0	0	Substantial
TOTAL		**0**	**3**	**4**	**7**		

Key	
KFS	Key Financial System. Generally, this is also a high-risk review.
draft	A draft report has been issued and we are awaiting the management response from the Authority.
*	This review was deferred to start 20 April 2020. Due to Covid19 pandemic, we were not able to commence the review at this time and it has therefore been carried over and will completed when appropriate to do so.

Key issues arising during the year

The following is a brief overview of the key issues identified during the year.

Risk Management

An audit of the risk management processes was undertaken to review the management of risk by the authority and to provide assurance that there is a clear understanding of how risk is to be managed and that risks are identified, recorded and effectively managed.

Fixed Asset Accounting/Asset Planning

An audit of fixed asset accounting was undertaken in respect of planned capital expenditure. The review was undertaken to provide assurance that an appropriate process was in place to maintain details of fixed assets and to record them correctly in the accounts.

Accounts Receivable

A review of the accounts receivable system was undertaken to ensure that an effective system was in place for raising invoices and managing debtors. This included the integrity and reliability of charging information recorded in the accounts, the collection of payments and the process to monitor and report the debtor position.

Accounts Payable

A review of the accounts payable system was undertaken to ensure that adequate key controls were in place. Our review focused on the controls designed to prevent, overpayments, fraud and incorrect accounting.

Budgetary Control

A review of the budgetary control system was undertaken to ensure the Fire Service had established its budget and was managing it appropriately. Our review covered controls over monitoring, reporting, changes to budgets and the process to link budgets to medium and long-term plans.

Payroll

A review of the payroll process was undertaken to ensure that the Fire Service had appropriate controls in place to mitigate the risk of fraud and error in the calculation, recording and payment of the payroll. We identified two issues of significance, the first of which is a re-iteration of the recommendation made in last year’s report relating to:

- the People Support Services section did not have formal procedure notes which detailed the process for obtaining and evidencing approval for new starters.
- end dates for employees with temporary contracts were not recorded, which could lead to the overpayment of salaries to these individuals

Governance

This audit was undertaken to evaluate the design, implementation and effectiveness of the ethics-related objectives, programmes and activities of the Authority, by providing assurance that the Authority demonstrates the values of good governance through upholding high standards of conduct and behaviour, makes informed and transparent decisions which are subject to effective scrutiny and management of risk.

Freedom of Information

The purpose of the audit was to provide assurance that the Authority was compliant with the Freedom of Information Act regarding meeting its publication requirements and for dealing with requests for information. Only one issue of significance was identified, which related to some requests for information not being provided within the statutory timescale of 20 days. This apart, the review concluded that the Authority had clear processes in place for dealing with freedom of information requests and maintained an effective publication scheme.

Partnerships Follow-Up

As part of the 2018/19 Internal Audit plan, a review was undertaken to provide assurance that partnership agreements had been properly established and that effective governance and monitoring arrangements were in place to ensure that expected outcomes were achieved. This identified two issues of significance relating to:

- the “Partnerships Governance Arrangements and Framework” document, which details the key processes to be followed in setting up a partnership, states that the Partnerships Team will undertake quality assurance checks and provide assurance that:
    - each partnership agreement has clearly defined roles and responsibilities and strong governance arrangements in place.
    - effective partnership monitoring arrangements are in operation.

These quality assurance checks had yet to commence. As such, there was a risk that the initial momentum generated by the Partnership Team could stall, resulting in a lack of consistency in approach by partnership facilitators and learning opportunities missed. Thus, undermining a key goal of the authority of establishing effective partnership arrangements.

- it is a policy of the Authority, that as part of the governance and planning of all partnership arrangements and partnership activity, that as a minimum an Initial Equality Impact Assessment (IEIA) is undertaken. However, IEIAs were not being completed and the authority could therefore, be in breach of the Equality Act 2010. This could expose the authority to the risk of enforcement action being taken by the Equality and Human Rights Commission or result in a legal challenge.

A follow up review was undertaken, and it confirmed that all the actions from the original report had been implemented and were being complied with.

Other areas of assistance provided

CIPFA – Audit Committee Updates

We continue to present the regular CIPFA Audit Committee Updates to the Audit and Risk Committee.

Audit and Risk Committee – Terms of Reference

We submitted the Audit and Risk Committee Terms of Reference for annual review at the July 2020 meeting of the Audit and Risk Committee.

Internal Audit Plan 2019/20

We submitted the Internal Audit annual plan for 2019/20 to the committee for approval at the July 2020 meeting.

Internal Audit Annual Report 2019/20

We presented the Internal Audit annual report for 2018/19 to the committee for comment and approval at the July 2020 meeting.

Audit and Risk Committee Annual Report

We assisted in the preparation of the Annual Report of the Chair, on the work of the Audit and Risk Committee.

Internal Audit Charter

We undertake and present to the committee an annual review of the Internal Audit Charter. The latest version was presented for comment and approval at the July 2020 meeting.

Counter Fraud

We continue to lead on the Cabinet Office's National Fraud Initiative and their other associated fraud related activity (such as the Annual Fraud Survey), on behalf of the Authority and to provide the main point of contact for any investigations into potential fraudulent activity.

Ad hoc Training

We provided training to the committee on the purpose and function of Internal Audit and how it links into the role of the Audit and Risk Committee. In addition, we provided training on "Fraud Awareness". Both took place at the meeting held in November 2019.

Review of Procurement Procedure

As part of the Authority undertaking its periodic review of its Procurement policy, we were asked to give our opinion on the proposed changes and offer suggestions as appropriate.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

27 JULY 2020

1. STATEMENT OF ACCOUNTS 2019/2020

Report of the Treasurer.

RECOMMENDED

1.1 THAT the draft Statement of Accounts for 2019/2020 (unaudited) as set out in Appendix A be approved.

1.2 THAT the draft Statement of Accounts summary for 2019/2020 set out in Appendix B be noted.

2. PURPOSE OF REPORT

This report is submitted for Members of the Audit and Risk Committee to approve the Authority's draft Statement of Accounts (unaudited) for the financial year ended 31 March 2020.

3. BACKGROUND

3.1 The Accounts & Audit Regulations 2015 require that the accounts be submitted to Members for approval by the end of July. However, for 2019/20 only the Regulations have been amended by the Accounts & Audit (Coronavirus) (Amendment) Regulations 2020. The amendments to the Regulations were made in response to the unprecedented situation across the UK relating to COVID-19 and the need to reduce the pressure on all Authorities to comply with legal deadlines. As such, these Regulations provide the Authority with additional time to complete the 2019/20 audit, given the likely impact of the COVID-19 virus on the availability of staff and auditors to complete the audit process within current deadlines due to sickness or redeployment.

3.2 The deadline to publish the Authority's unaudited 2019/20 Statement of Accounts has been changed from 31 May 2020 to 31 August 2020 with the deadline to publish the audited accounts being pushed back from 31 July 2020 to 30 November 2020.

3.3 It is a further requirement of the Regulations that Members are informed of any material changes required by the external auditors. Audit work on the draft Statement of Accounts by Grant Thornton is nearing completion and a verbal update will be provided at the meeting.

3.4 The draft Accounts show net cost of services in 2019/2020 of £130.218 million which includes the use of £4.334 million General Fund Balances. Earmarked Reserves have decreased by £3.243 million to £30.137 million and General Reserves have decreased by £1.091 million to £5.823 million.

3.5 The total Provision of Services in 2019/2020 shows a deficit of £77.808 million, after allowing for the required accounting treatment of pensions governed by International Accounting Standard – Nineteen (IAS19). Capital expenditure totalled £5.283 million.

3.6 The draft Statement of Accounts (unaudited) is attached as Appendix A and a draft Summary of Accounts is attached as Appendix B, both are also available on the Fire Service Internet and can be viewed at https://www.wmfs.net/your-fire-service/openness/documents.

3.7 A hard copy of the full draft Statement of Accounts can be supplied to individual Members on request.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out because the matters contained in this report do not relate to a policy change.

5. **LEGAL IMPLICATIONS**

The course of action recommended in this report will enable the Authority to meet its statutory obligations under the Accounts & Audit Regulations 2015 and Accounts & Audit (Coronavirus) (Amendment) Regulations 2020.

6. FINANCIAL IMPLICATIONS

There are contained in the report and the draft Statement of Accounts.

BACKGROUND PAPERS

Accounts & Audit Regulations 2015
Accounts & Audit (Coronavirus) (Amendment) Regulations 2020
Code of Practice on Local Authority Accounting 2019/2020
Final Accounts Files – Finance Office

The contact officer for this report is Deputy Chief Fire Officer, Wayne Brown, telephone number 0121 380 6907.

MIKE GRIFFITHS
TREASURER

WEST MIDLANDS FIRE SERVICE

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

Financial Statements & Notes to the Accounts

2019/2020

(Unaudited – 26 June 2020)

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Independent auditor’s report to the members of West Midlands Fire and Rescue Authority

Report on the Audit of the Financial Statements

NARRATIVE REPORT BY THE TREASURER

1. Introduction

The West Midlands Fire Service (WMFS) covers an area approaching 92,000 hectares (350 sq. miles) and provides a fire and rescue service to a population of approximately 3 million people living in a million dwellings. It covers the cities of Birmingham, Coventry and Wolverhampton and the Metropolitan Boroughs of Dudley, Sandwell, Solihull and Walsall.

WMFS is accountable to the public via the West Midlands Fire and Rescue Authority (WMFRA), made up of 15 Councillors representing the local authorities. They are also joined by West Midlands Police and Crime Commissioner and two co-opted Members. Headed by the Chair of the Fire Authority they set the direction for the Service in the best interests of the community. The Service is managed directly by four Brigade Managers – the Chief Fire Officer (CFO), Deputy CFO and two Assistant CFO's.

The Service's activities are governed by the Home Office and legislative responsibilities are set out in the Fire and Rescue Services Act 2004 and the Fire and Rescue National Framework for England.

WMFS works towards 'Making the West Midlands Safer, Stronger and Healthier'. The CFO together with the Strategic Enabling Team (SET) and Authority work towards achieving three priorities:

Prevention: Making safer, healthier communities.

- The number of people killed or seriously injured by fire-related incidents will reduce as we focus with our partners, on reducing the risks faced by the most vulnerable people in our communities.

- The safety, health and wellbeing of the people in our communities who are most at risk from fire will be improved by our targeted prevention activities.

- Arson-related incidents will fall, supporting safer and stronger communities, as a result of our partnership work.

- Fewer people will be killed or seriously injured on West Midlands roads and we will keep our transport networks moving, as we work with partners in support of the West Midlands Regional Road Safety Strategy.

Protection: Protecting life and property to make businesses stronger and communities safer.

- Life and property will be protected by ensuring that high-risk buildings and vulnerable businesses comply with fire safety legislation, which we will enforce if necessary.

- Community safety will be improved through our work with the owners and managers of tall buildings to ensure the new Fire Safety Bill and supporting Fire Safety Guidance is understood and implemented.

- Prosperity and economic growth will be enhanced by educating and supporting businesses.

- we will collaborate with other regulators and partner agencies to support major developments and events.

- Disruption caused to businesses and WMFS by unnecessary fire alarms will be reduced through the enhanced role of our Business Support Vehicles and our work to manage alarm signals more effectively and efficiently.

Response: Dealing excellently with emergency incidents.

- Through risk management, we will attend the most serious emergency incidents in high-risk areas within five minutes to save life, protect homes and businesses, the environment and our transport networks.

- Risk to life and property will be reduced through our commitment to operational excellence and to providing an assertive, effective and safe emergency response to all incidents.

- Appropriate rescue operations will be led and coordinated by WMFS and we will work collaboratively with other agencies to deliver an excellent response in line with public expectations.

- Our specialist response teams will deliver National Resilience arrangements for responding to local, national and international major incidents, new risks (including weather) and humanitarian situations.

We deliver our priorities with effective delivery through collaboration outcomes:

People – We will create an inclusive workforce by:

- Engaging with employees to create a culture in which everyone can feel valued by developing ways of working together which support and engage employees in responding to the changing environment in which we work, both internally and externally.

- Promoting awareness, good practice and proactive support around health and wellbeing among our employees.

- Enabling personal development opportunities which support their ability to be highly effective and competent in the delivery of excellent services to our communities.

- Using 'positive action' to attract, recruit, retain and support progression for individuals with protected characteristics, to reflect the communities we serve.

Digital transformation – We will enhance and transform services to our communities, underpinning them with innovative and digital solutions, with a commitment to:

- Researching and developing the latest technologies that complement assertive, effective and safe firefighting.
- A digital culture with systems and processes that enables our workforce to work efficiently and effectively.
- Using accurate and timely information which provide assurance and intelligence for evidence-based decisions.
- Reducing community risk through a cost-effective mobile workforce and sharing data reliably and securely with our partners.

Value for Money – Working closely with our partner organisations is key to delivering our services effectively and efficiently. We will ensure that:

- The funding we get from the Government will be used to support our Service Delivery Model (SDM), which focuses on public safety and vulnerability.
- Our services and priorities will be delivered using the most appropriate management of resources and assets.
- We identify and deliver opportunities for efficiency and collaboration which support the delivery of our strategy and safety of the most vulnerable people in our communities.

Further information can be found on our website **www.wmfs.net**

2. This narrative report provides a brief explanation of the financial aspects of the Authority's activities and draws attention to the main characteristics of the Authority's financial position.

3. The Authority's accounts for the financial year 2019/2020 are set out on the following pages and consist of:

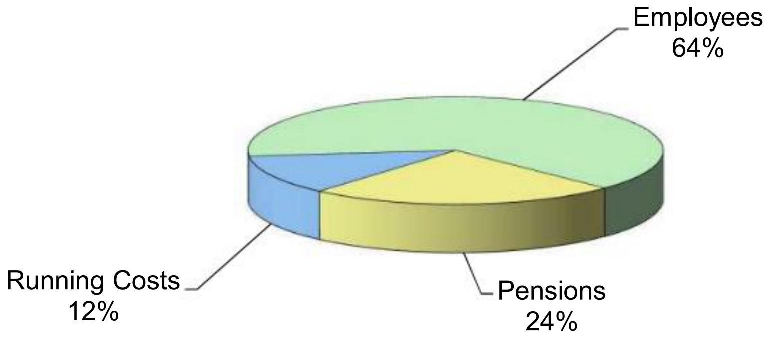
   - The Comprehensive Income and Expenditure Statement (CIES), the Authority's main revenue account, covering income and expenditure on all services.
   - The Movement in Reserves Statement (MIRS), which shows the movement in the year on the different reserves held by the Authority.
   - The Balance Sheet, which sets out the financial position of the Authority at 31st March 2020.
   - The Cash Flow Statement, showing movements in cash and cash equivalents during the year and the cash position at the year-end.
   - The Pension Fund Account, which summarises the movements relating to the firefighters' pension schemes (FPS).

   The accounts are supported by notes to the core financial statements.

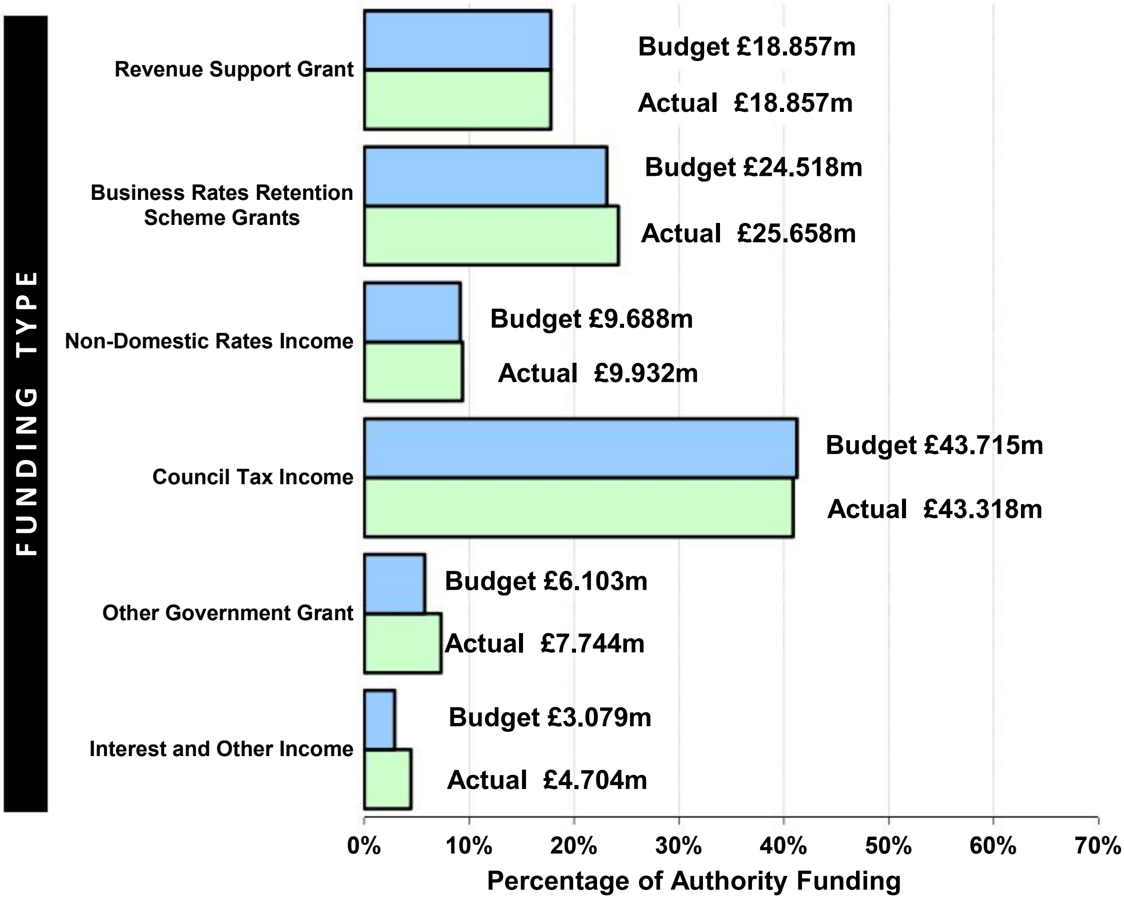
4. The accounting policies adopted by the Authority comply with the relevant accounting standards except where indicated in notes to the accounts.

5. After statutory adjustments, such as the removal of depreciation and impairments and applying International Accounting Standard Nineteen (IAS19) entries in relation to pension costs, the CIES for the Authority shows a deficit on provision of services of £77.808m and an overall surplus of £100.790m.

6. The total expenditure of the Authority in 2019/20 was £188.021m. The types of costs incurred were:



7. The total income of the Authority to fund expenditure in 2019/20 was £110.213m, which came from:



8. In 2019/20 the Authority spent £5.283m on capital projects, the largest of these being £2.324m on the redevelopment of Aston Fire Station and £1.691m on Vehicle Replacements. The total expenditure on capital schemes was financed by a combination of Capital Grants and Direct Revenue Financing. Note 33 provides details of capital expenditure and capital financing.

9. In 2019/20 appropriations of £3.243m were made from earmarked general fund reserves and £1.091m from un-earmarked general fund reserves.

10. The Authority, at its February 2019 meeting authorised the limit for external debt at £40m and the statutory limit for external debt at £44m. As at 31st March 2020, the Authority's actual long-term principal borrowing was £33.675m and short-term principal borrowing was £2.022m as per Note 18.3.

11. The 2019/20 accounts include the impact of IAS19. The effects of IAS19 are shown within the CIES and Balance Sheet. There is no effect on council tax from the implementation of this standard. The figures disclosed represent a snapshot in time. The accounts show that there is a significant shortfall between the forecast cost of pensions and the current level of assets built up in the pension fund. The Government Actuaries Department (GAD) review the defined benefit arrangements and appropriate levels of employer & employee contributions.

12. **Financial Outlook**

On 20 December 2019, the Secretary of State for Ministry of Housing, Communities and Local Government (MHCLG) announced the provisional settlement for 2020/21 at £52.896m, a Consumer Price Index increase of approximately 1.6% (£0.848m) compared to the core funding allocation in 2019/20. The Government also proposed a Council Tax referendum threshold of 2% for Fire and Rescue Authorities. On 6 February 2020, MHCLG confirmed the Authority's 2020/21 total core funding.

The Authority set its 2020/21 budget on 17th February 2020, setting a council tax requirement of £44.485m which resulted in a council tax increase of (1.99%), £1.21 at Band D.

The Corporate Risk Register has identified a number of major risks that would seriously affect the Authority's ability to carry out its functions. The very nature of the risks have made it extremely difficult to quantify any funding impact that would arise were the risk to materialise and in the short term would result in a demand on the Authority's General Balances.

As part of the budget report approved by the Authority on 18 February 2019, a forecast was made regarding the next three financial years (2020/21 to 2022/23). At the time of setting the budget and the forecast for future years, there was no clarity regarding provisional Government funding from 2020/21 onwards. As a consequence, a year on year core funding reduction of 2% was assumed in the forecasts for 2020/21 onwards.

The settlement for 2020/21 has indicated Core Funding at the same level as 2019/20, increased by the Consumer Price Index of approximately 1.6%. Compared to the core funding assumptions original made in the budget report referred to above, this results in core funding being circa £2 million higher than anticipated.

The funding settlement is a one year only arrangement. Whilst there have been indications that some public sector services may continue to receive growth when the anticipated Comprehensive Spending Review process is clarified (circa October/November 2020), potentially for a three or four year funding settlement period, some Services, including the Fire Service, may still face ongoing core funding reductions.

In addition, there are ongoing budget uncertainties, particularly Firefighter pension related issues, that have significant funding implications but at this stage still remain unclear in terms of ongoing cost and whether those costs will need to be found by Fire and Rescue Authorities and/or by Government funding.

Therefore, whilst the position in 2020/21 is more favourable than predicted in the February 2019 budget report (circa £2 million), a high level of caution still needs to be applied to future financial years as the funding position remains volatile for the Fire sector.

The WMFRA agreed that the circa £2 million improved funding position in 2020/21 is utilised as follows:

- Reduce the scale of savings required from the ongoing flexible appliance availability process from a target saving of £3.8 million to £2.8 million. This arrangement was introduced part way through 2018/19 and specifically was highlighted as a requirement when setting the 2019/20 budget with a required saving from this arrangement of £3.8 million. At that stage, the ongoing use and required saving level of £3.8 million was built into the medium-term financial forecast.

- It had been indicated in the February 2019 budget report that in order to set a balanced budget in 2020/2021, the use of £0.750 million General Balances would be required. This use of General Balances can now be deferred.

- Invest £0.250 million in digital services to enhance future operational capability.

The Business Rates Retention Scheme was introduced in April 2013 and provides a direct link between business rates growth and the amount of money local authorities have to spend on local people and services. The Fair Funding Review will affect how funding is allocated and redistributed between local authorities.

13. Covid-19

To enable decision making in the light of the Covid-19 pandemic, from 18 March 2020, the Strategic Enabling Team (SET) formally met as the Business Continuity Management Team, meeting three times a week. The service instigated business continuity plans, in readiness for the virus's potential to affect the activities that could be delivered by firefighters and support staff. An agreement was reached nationally to enable firefighters to support the coordinated efforts of the pandemic and staff volunteers were available to support when required.

The Covid-19 pandemic impacted at the very end of the 2019/20 financial year and therefore the full impact of this is not reflected in this statement of accounts. However, the Authority are expecting significant challenges in the year ahead as it deals with the on-going crisis. To help respond to Covid-19 pressures, the Authority received from the MHCLG on 27 March 2020, a cash advance to assist with cashflow of £2.3m. This payment relates to the section 31 business rates relief grant for 2020/21. To support Covid-19 funding, two separate allocations amounting to £2.8m have been made by the MHCLG to the Authority. The first, issued on 20 March 2020 for £0.6m and the second, issued on 28 April 2020 for £2.2m.

14. **Public Service Pensions – McCloud and Sargeant Judgements**

The McCloud and Sargeant judgements concern the introduction of career average revalued earnings pension schemes to replace the former final salary based pension schemes as part of the Hutton recommendation to reform public service pension schemes.

There was protection provided for older members under each scheme. The McCloud and Sargeant judgements have upheld the claimants' cases that the method of implementation of the new schemes discriminated against younger members. The government was refused leave to appeal the McCloud and Sargeant Judgements on 27 June 2019. This means that the various parties return to the respective employment tribunals to formulate a remedy which will resolve the age discrimination of the pension changes. Note 6 provides further details.

15. **West Midlands Combined Authority**

For the Order to be laid enabling changes to the Authority's governance arrangements, the Home Office required consent from all the seven West Midlands Local Authorities. However, as a number of Local Authorities did not provide their consent to the Home Office, this effectively meant that the laying of the Order in Parliament on 5 June 2019 was unable to proceed.

16. **Performance Indicators (PI)**

The Authority has an established Scrutiny Committee whose role is to scrutinise performance information including progress made against the 'The Plan'.

The setting of targets against operational and other performance indicators enables the Service to identify key areas for improvement which contribute to making the West Midlands safer, stronger and healthier. During 2019/20 the Scrutiny Committee received quarterly updates of the organisation's performance.

The five-minute attendance standard lies at the heart of the SDM which shows how staff based mainly at fire stations deliver the three strategic objectives of prevention, protection and response.

A summary of the performance indicators for prevention, protection and response is provided below and further details of Authority's performance monitoring through the Scrutiny Committee can be found at https://wmfs.cmis.uk.com/cmis5/.

Key:	
Blue	Over performance against the tolerance levels
Green	Performance is within the tolerance levels
Red	Under performance against the tolerance levels

Response

PI 1	**The Risk Based Attendance Standard** Target: under 5 minutes Actual: 4 minutes 41 seconds

Attendance times for Category 2,3 & 4 incidents remain well within target:

- Category 2: 5 minutes 9 seconds (target: under 7 minutes)
- Category 3: 4 minutes 46 seconds (target: under 10 minutes)
- Category 4: 6 minutes 18 seconds (target: under 20 minutes)

Prevention

PI 2	**The Number of Accidental Dwelling Fires** Annual Forecast: 1611 (tolerance 1530 – 1643) Actual for year: 1600

PI 3	**Injuries from Accidental Fires at Dwellings (taken to hospital for treatment)** Annual Forecast: 49 (tolerance 39 – 54) Actual for year: 51

PI 4	**Number of Deaths from Accidental Fires at Dwellings** Annual Forecast: Not applicable Actual for year: 14

PI 5	**Percentage of Safe & Well Visits Referred by our Partners** Annual Forecast: 40.0% Actual for year: 34.5%

PI 6		**Number of Safe and Well points achieved by the Brigade** Annual Forecast: 259,680 Actual for year: 230,233
PI 7		**Number of People Killed or Seriously Injured (KSI) in Road Traffic Collisions** Annual Forecast: Not applicable Actual for year: 727
PI 8		**Number of Deliberate Dwelling Fires** Annual Forecast: 209 (Tolerance 188 – 220) Actual for year: 206
PI 9		**Number of Deliberate Fires in Non-domestic Premises** Annual Forecast: 162 (Tolerance 146 – 170) Actual for year: 130
PI 10		**Number of Deliberate Vehicle Fires** Annual Forecast: 806 (Tolerance 725 – 846) Actual for year: 694
PI 11		**Number of Deliberate Rubbish Fires** Annual Forecast: 1687 (Tolerance 1603 – 1721) Actual for year: 1515
PI 12		**Number of Deliberate Fires in Derelict Buildings** Annual Forecast: 99 (Tolerance 89 – 104) Actual for year: 131

Protection

PI 13		**Number of Accidental Fires in Non-domestic Premises** Annual Forecast: 430 (Tolerance 387 – 452) Actual for year: 435

PI 14		**Number of False Alarm Calls due to Fire Alarm Equipment in Dwellings and Non-domestic Premises** Annual Forecast: 5430 (Tolerance 5349 – 5744) Actual for year: 5925

17. Further information about the accounts is available from:

Finance Manager,
West Midlands Fire Service Headquarters,
99 Vauxhall Road,
Birmingham. B7 4HW.

Telephone : 0121-380-6920
or E-Mail : kal.shoker@wmfs.net

18. Interested members of the public also have the right to inspect the accounts before the Audit is completed. The availability of the accounts for inspection is advertised on the Authority's website.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:

(i) make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Treasurer.

(ii) manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

(iii) approve the statement of accounts.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the C.I.P.F.A. / L.A.S.A.A.C. Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Treasurer has:

(i) selected suitable accounting policies and then applied them consistently
(ii) made judgements and estimates that were reasonable and prudent
(iii) complied with the local authority Code.

The Treasurer has also:

(iv) kept proper accounting records which were up to date.
(v) taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that this statement of accounts gives a true and fair view of the financial position and expenditure and income of the WMFRA for the year ending 31 March 2020.

Mike Griffiths, C.P.F.A
Treasurer

Date: 26 June 2020

STATEMENT OF APPROVAL FOR THE STATEMENT OF ACCOUNTS

The statement of accounts for the year 1st April 2019 to 31st March 2020 was approved by the WMFRA Audit and Risk Committee on 27 July 2020.

Cllr Catherine Miks
Chair of the Audit and Risk Committee

Date: 27 July 2020

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the MIRS and the Expenditure Funding Analysis (EFA).

2018/2019 Restated				2019/2020		
Gross Exp. £000	Gross Income £000	Net Exp. £000		Gross Exp. £000	Gross Income £000	Net Exp. £000
1,133	-	1,133	Democratic Representation & Brigade Managers	1,603	-	1,603
76,322	(11)	76,311	Corporate Charges	12,058	(5,734)	6,324
1,726	(119)	1,607	Strategy & Organisational Intelligence	1,798	(86)	1,712
830	(17)	813	Communications	931	(53)	878
9,369	(1,535)	7,834	Finance & Resources	9,342	(1,117)	8,225
6,430	(170)	6,260	Digital & Data	6,378	(298)	6,080
1,080	(288)	792	People Services	1,131	(254)	877
5,616	(7)	5,609	Training, Health & Wellbeing	6,882	(205)	6,677
3,382	(496)	2,886	Prevention, Preparedness & Response	3,816	(511)	3,305
5,714	(966)	4,748	Protection & Organisational Assurance	8,147	(740)	7,407
77,123	(2,492)	74,631	Command Delivery, Fire Control & Workforce Planning	89,506	(2,376)	87,130
188,725	(6,101)	182,624	Cost of Services	141,592	(11,374)	130,218
411	(90)	321	Other Operating Expenditure (Note 13)	329	(54)	275
44,304	(436)	43,868	Financing and investment income & expenditure (Note 14)	46,100	(426)	45,674
		(97,692)	Taxation and non-specific grant income (Note 15)			(98,359)
		129,121	(Surplus)/Deficit on Provision of Services			77,808
20,311	(5,529)	14,782	Surplus or deficit on revaluation of Property, Vehicles, Plant and Equipment assets (Note 12.1)	5,897	(9,380)	(3,483)
		6,143	Re-measurements of the net defined benefit liability/(asset)			(175,115)
		20,925	Other Comprehensive Income and Expenditure			(178,598)
		150,046	Total Comprehensive Income and Expenditure			(100,790)

MOVEMENT IN RESERVES STATEMENT

This shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the Authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory amounts required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

	Un-earmarked General Fund Reserves £000	Earmarked General Fund Reserves £000	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2018	(8,390)	(38,984)	(47,374)	(2,192)	(461)	(50,027)	1,562,191	1,512,164
Movement in Reserves During 2018/19								
Total Comprehensive Income and Expenditure *	129,121	-	129,121	-	-	129,121	20,925	150,046
Adjustments between accounting basis and funding basis under regulations (Note 10)	(122,041)	-	(122,041)	(57)	304	(121,794)	121,794	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	7,080	-	7,080	(57)	304	7,327	142,719	150,046
Transfers to/from Earmarked Reserves (Note 11)	(5,604)	5,604	-	-	-	-	-	-
(Increase)/Decrease in 2018/19	1,476	5,604	7,080	(57)	304	7,327	142,719	150,046
Balance at 31 March 2019	(6,914)	(33,380)	(40,294)	(2,249)	(157)	(42,700)	1,704,910	1,662,210
Movement in Reserves During 2019/20								
Total Comprehensive Income and Expenditure *	77,808	-	77,808	-	-	77,808	(178,598)	(100,790)
Adjustments between accounting basis and funding basis under regulations (Note 10)	(73,474)	-	(73,474)	-	83	(73,391)	73,391	-
Net (Increase)/Decrease before Transfers to Earmarked Reserves	4,334	-	4,334	-	83	4,417	(105,207)	(100,790)
Transfers to/from Earmarked Reserves (Note 11)	(3,243)	3,243	-	-	-	-	-	-
(Increase)/Decrease in 2019/20	1,091	3,243	4,334	-	83	4,417	(105,207)	(100,790)
Balance at 31 March 2020	(5,823)	(30,137)	(35,960)	(2,249)	(74)	(38,283)	1,599,703	1,561,420

* The total comprehensive income and expenditure is now shown as one line on the basis that the columnar analysis of the usable and unusable reserves automatically separates the movements between the surplus and deficit on the provision of services and other comprehensive income and expenditure.

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences shown in the MIRS line ‘Adjustments between accounting basis and funding basis under regulations’.

31 March 2019 £000		Note	31 March 2020 £000
131,195	Property, Vehicles, Plant & Equipment	16	135,389
66	Heritage Assets		66
143	Intangible Assets	17	112
131,404	Long Term Assets		135,567
688	Inventories	19	689
16,861	Short Term Debtors	20	14,660
40,302	Cash and Cash Equivalents	21	45,097
57,851	Current Assets		60,446
(455)	Short Term Borrowing	18	(2,172)
(9,739)	Short Term Creditors	22	(11,798)
-	Grant Receipts in Advance – Revenue	32	(2,311)
(10,194)	Current Liabilities		(16,281)
(426)	Provisions	23	(664)
(35,697)	Long Term Borrowing	18	(33,675)
(1,805,148)	Other Long Term Liabilities	34	(1,706,813)
(1,841,271)	Long Term Liabilities		(1,741,152)
(1,662,210)	Net Assets		(1,561,420)
(42,700)	Usable Reserves		(38,283)
1,704,910	Unusable Reserves	12	1,599,703
1,662,210	Total Reserves		1,561,420

Mike Griffiths, C.P.F.A
Treasurer

Date: 26 June 2020

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2018/2019 £000		2019/2020 £000
129,121	Net (surplus) or deficit on the provision of services	77,808
(128,612)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 24.2)	(87,945)
82	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 24.3)	50
591	Net cash flows from Operating Activities	(10,087)
9,125	Investing Activities (Note 25)	4,987
1,361	Financing Activities (Note 26)	305
11,077	Net (increase)/decrease in cash and cash equivalents	(4,795)
51,379	Cash and cash equivalents at the beginning of the reporting period	40,302
40,302	Cash and cash equivalents at the end of the reporting period (Note 21)	45,097

1. ACCOUNTING POLICIES

1.1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2019/20 financial year and its position as at the year-end, 31st March 2020. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the Accounts to be prepared in accordance with proper accounting practices.

It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under the Local Government Act 2003.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Statement of Accounts has been prepared on a going concern basis. The Authority's Auditors, Grant Thornton UK LLP, have reported that they are satisfied with the Management's assessment that the going concern basis was appropriate for the 2019/20 financial statements and the Treasurer expectations is that this will continue for the foreseeable future. Using reserves the Authority has a balanced budget for the Medium Term Financial Plan period and robust and deliverable plans for a balanced budget going forward.

1.2. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when or as the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.

- Supplies are recorded as expenditure when they are consumed — where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as Income and Expenditure.

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- Accruals of Income and expenditure are subject to a deminimis level of £1,000.

1.3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in a specified period; no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

1.4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise because of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.5. Charges to Revenue for Non-Current Assets

Services and support services are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance within England.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting Minimum Revenue Provision (MRP) transaction with the Capital Adjustment Account in the MIRS for the difference between the two.

1.6. Council Tax and Non-domestic Rates (NDR)

Billing authorities act as agents, collecting council tax and NDR on behalf of the major preceptors. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

The council tax and NDR included in the CIES is the Authority's share of accrued income for the year. Regulations determine the amount of council tax and NDR that must be included in the Authority's General Fund. The difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the MIRS. The effect on the Surplus or Deficit on the Provision of Services for the year 2019/20 in the CIES is a deficit of £0.564m which is also reflected in the MIRS.

The Balance Sheet includes the Authority's share of the year end balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

Where debtor balances for the above are identified as impaired because of a likelihood arising from a past event that payments due under the statutory arrangements will not be made (fixed or determinable payments), the asset is written down and a charge made to the Collection Fund. The impairment loss is measured as the difference between the carrying amount and the revised future cash flows.

1.7. Employee Benefits

1.7.1 Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services but then reversed out through the MIRS so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

1.7.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

1.7.3 Post Employment Benefits

Employees of the Authority are members of four separate pension schemes:

- Uniformed Firefighters – Original (1992) Scheme

  This is an unfunded scheme, which is administered by the Authority in accordance with the MHCLG regulations. For such schemes, as there are no investment assets, IAS19 requires recognition of the liability and pension reserve in the Balance Sheet and transactions in the CIES for movements in the liability and reserve. The pension costs that are charged to the Authority's accounts in respect of these employees are equal to the contributions paid to the pension fund for these employees. The scheme was only open to those firefighters in the scheme as at 31st March 2006 and the employer's contribution is higher than for the new firefighters' pension scheme. All contributions are made into a pension fund and equally the payments to pensioners are paid out of the same fund. This is then balanced by a contribution to or from the fund by the Government each year.

- Uniformed Firefighters – (2006) Scheme

  On 1st April 2006 a new firefighters' pension scheme was established for new firefighters, retained firefighters and for uniformed employees carrying out operational duties in the old pension scheme who wished to transfer to the new scheme. This scheme is an unfunded scheme and operates in the same way as the old scheme except for the reduced level of contribution from employees and employers which reflects the different conditions and benefits of the new scheme. All contributions are made into a pension fund and equally the payments to pensioners are paid out of the same fund. This is then balanced by a contribution to or from the fund by the Government each year.

  On 1st April 2015 a new modified section was established for employees who were employed as retained firefighters between 1st April 2000 and 5th April 2006.

- <u>Uniformed Firefighters – (2015) Scheme</u>

  On 1st April 2015 a new firefighters' pension scheme was established. This scheme is a career average revalued earnings scheme for members starting after the 1st April 2015. Members of the 1992 and 2006 final salary schemes moved into this scheme, unless protection applied. This scheme is an unfunded scheme. All contributions are made into a pension fund and equally the payments to pensioners are paid out of the same fund. This is then balanced by a contribution to or from the fund by the Government each year.

  The combined pension fund for uniformed firefighters as at 31st March 2020 had a net deficit value of £1,664.6m.

- <u>The Local Government Pension Scheme (LGPS)</u>

  Other employees, subject to certain qualifying criteria, are eligible to join the LGPS, administered by Wolverhampton City Council. The pension costs that are charged to the Authority's accounts, £2.542m in 2019/20 in respect of these employees, are equal to the contributions paid to the funded pension scheme for these employees. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. The scheme is, however, funded.

These schemes provide defined benefits to members (retirement lump sums and pensions), which are earned as employees work for the Authority.

These schemes are accounted for as defined benefits schemes:

- The liabilities of the West Midlands Metropolitan Authorities Pension Fund (WMMAPF) and the liabilities of the Firefighters Pension Schemes attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method — i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and estimates of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 2.25% for the FPS and 2.35% for the LGPS.

- The assets of WMMAPF attributable to the Authority are included in the Balance Sheet at their fair value:

  - quoted securities — current bid price
  - unquoted securities — professional estimate
  - unitised securities — current bid price
  - property — market value.

- The change in the net pensions liability is analysed into the following components:
    - Service cost comprising:
        - Current service cost - the increase in liabilities because of years of service earned this year — allocated in the CIES to the services for which the employees worked.
        - Past service cost — the increase in liabilities because of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years — debited to the Surplus or Deficit on the Provision of Services in the CIES within the corporate charges Service line.
        - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority — the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
    - Remeasurements comprising:
        - The return on plan assets — excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
        - Changes in demographic and financial assumptions — changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions — charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
    - Contributions paid to the Pension Fund — cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits based on cash flows rather than as benefits are earned by employees.

The top up grant is accounted for as a remeasurement of the net defined benefit liability.

1.7.4 Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise because of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the LGPS.

1.8. Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period — the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period — the Statement of Accounts is not adjusted to reflect such events but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.9. Financial Instruments

1.9.1 Financial Liabilities

The Authority has its own portfolio of loans payable directly to the Public Works Loan Board (PWLB); these are initially measured at fair value and carried at their amortised cost except for Other Local Authority debt inherited from the former West Midlands County Council (WMCC) which is held at historic cost. Annual charges are made to the CIES based on the carrying value of the liability multiplied by the effective rate of interest for the instrument.

Debt inherited from the former WMCC is managed by Dudley MBC and redeemed over a period of 40 years from 1st April 1986. Annual charges to the CIES for interest payable were charged on this debt in 2019/20 at a rate of 5.6%.

Creditors are carried on the balance sheet at amortised cost.

1.9.2 Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss, and
- Fair value through other comprehensive income

The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest i.e. where the cash flows do not take the form of a basic debt instrument.

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Debtors are carried on the balance sheet at amortised cost.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

1.9.3 Fair Value Measurement

IFRS 13 requires that local authorities measure some of their non-financial and some of their financial instruments at fair value.

The objective of the fair value approach is to estimate the price at which an orderly transaction to sell an asset or transfer a liability would take place between market participants at the measurement date. The measurement assumes that the transaction takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, the most advantageous market.

The Authority measures fair value using the same assumptions that market participants would use when pricing an asset or liability assuming that they will act in their own economic best interest.

For non-financial assets the Authority considers the participant's ability to generate economic benefits by using the asset in its highest and best use.

When determining fair value the Authority's valuers use techniques that are appropriate in the circumstances and for which sufficient data is available maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

These inputs are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can assess at the measurement date.
- Level 2 – inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

1.10. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the CIES until conditions attached to the grant or contribution has been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as Receipts in Advance. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the MIRS. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital Expenditure.

1.11. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired — any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Software licences are depreciated on a straight line basis over a period of five years.

1.12. Inventories

Inventories are included in the Balance Sheet at the latest price. This does not comply with the standard which requires the lower of cost and net realisable value. The total value of stocks held is approximately £0.689m (2018/19 £0.688m) and therefore any difference in accounting treatment will not materially affect the reasonableness of the figures disclosed within the accounts.

1.13. Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Authority's arrangements for accountability and financial performance.

The costs of support services provided to the Authority by Sandwell MBC have been recharged in accordance with Service Level Agreements. These specify the level of service to be provided and the charge.

1.14. Property, Vehicles, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, vehicles, plant and equipment.

1.14.1 Recognition

Expenditure on the acquisition, creation or enhancement of property, vehicles, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Expenditure along with associated grant income on non-current assets are capitalised subject to a deminimis level of £10,000.

1.14.2 Measurement

Assets are initially measured at cost, comprising:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the CIES, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the CIES, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the MIRS.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction — held at historical cost.
- Residential Homes — the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective. The Authority no longer provides residential homes to new tenants and any properties which become or are vacant, are held as surplus assets.
- All other assets — current value, determined on the basis of market value.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued annually to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. If an event occurs, such as a dramatic fall in land and property prices, which mean the current values are no longer appropriate, the assets will be revalued again. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the corporate charges service line in the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

1.14.3 Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the corporate charges service line in the CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the corporate charges service line in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.14.4 Depreciation

Depreciation is provided for on all property, vehicles, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

The following depreciation policies have been adopted:

- Operational Vehicles - straight line over 10 years.
- Ancillary Vehicles - straight line over 5 years.
- Equipment - straight line over 5 years.
- All property assets have been depreciated in line with their life expectancies.
- Freehold land is not depreciated.
- No depreciation is accounted for in the year of acquisition but is accounted for in the year of disposal.

Wilks Head & Eve (WH&E), of 55 New Oxford Street, London, WC1A 1HB is a RICS (Royal Institution of Chartered Surveyors) Regulated Firm, are the Authority's valuers and were instructed to provide valuations for all land and property assets and recommend the appropriate life expectancies. A full valuation of all land and property assets was completed as at 31st March 2020. The Code requires that land and property assets must be revalued every five years as a minimum but must be revalued more regularly where a five year valuation is insufficient to keep pace with material changes in fair value.

WHE also provide valuations for splitting land and building assets into individual components. Where an asset has major components whose cost is significant in relation to the total cost of the item and which have differing estimated useful lives, these components are depreciated separately. The Authority has adopted this as the basis for depreciation from 1st April 2011.

Where an asset it is deemed to be material for component accounting purposes, i.e. valued in excess of £1m, the following individual components have been identified:

- Main structure
- Roof
- Heating and associated systems
- Tower and associated functions
- Electrical
- Lift
- External

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

1.14.5 Non-Current Assets Held for Sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use. The following criteria must be met before an asset can be classified as held for sale under this section of the Code:

- The asset must be available for immediate sale in its present condition.
- The sale must be highly probable; with an active programme to dispose of the asset.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value
- The sale should be expected to complete within one year of the date of classification.

Assets Held for Sale are valued at the lower of their carrying amount and fair value (market value) less costs to sell at initial reclassification and at the end of each reporting date and are not subject to depreciation. Investment Properties that are to be disposed of are not reclassified as an Asset Held for Sale and remain as Investment Properties until disposed of, reclassified to short term investment properties where they are expected to be disposed of within a year of the balance sheet date.

1.15. Minimum Revenue Provision

Under the Local Government Act 2003, the Authority is required to set aside an amount from revenue as a provision for debt repayment. This amount is known as the MRP.

The calculation is based on Asset Life Method, which is to make a provision over the estimated life of the asset for which borrowing was undertaken.

From 2015/16 onwards the proposed MRP policy was amended to an Annuity base.

The Treasurer has the discretion to make an additional provision.

1.16. Provisions and Contingent Liabilities

1.16.1 Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the CIES in the year that the Authority becomes aware of the obligation and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.
When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year — where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

1.16.2 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

1.17. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the Un-earmarked General Fund Balance in the MIRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then transferred back into the Un-earmarked General Fund Balance in the MIRS so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, local taxation, retirement and employee benefits and do not represent usable resources for the Authority — these reserves are explained in the relevant policies.

1.18. Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

1.19. Restated Figures

For comparative purposes, 2018/2019 figures are provided.

The CIES cost of services, notes 7, 8 and 11 show 2018/19 restated figures for service expenditure and income as there are now eleven service areas which replace the former arrangement of service delivery, service support, corporate management and corporate charges.

1.20. Roundings

Unless otherwise stated, the figures that follow have been rounded to the nearest £'000.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Authority.

The standards introduced in the 2020/21 Code that are relevant to the above are:-

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures. This amendment clarifies that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate of joint venture. This will have no impact on the 2020/21 Statement of Accounts.

- Annual Improvements to IFRS Standards 2015-2017 Cycle

- Amendments to IAS19 Employee benefits: Plan amendment, curtailment or settlement - This will require the remeasurement of net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1st April 2020.

The Code requires implementation from 1 April 2020 and there is therefore no impact on the 2019/20 Statement of Accounts.

The Authority has concluded that there will be no material impact upon the 2020/21 Statement of Accounts.

IFRS 16 Leases – This will require lessees to recognise most leases on their balance sheet as right of use assets with corresponding lease liabilities (there is recognition for low value and short-term leases). The Chartered Institute of Public Finance and Accountancy (CIPFA)/Local Authority (Scotland) Accounts Advisory Committee Local Authority Accounting Code Board has agreed to defer the implementation of IFRS 16 Leases to 1st April 2021.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in the Accounts, the Authority has had to make certain judgments about complex transactions or those involving uncertainty about future events. The critical judgments made in the Statement of Accounts are:-

- Insurance – The Authority continues to operate a self-insure scheme for all of its property and vehicle assets.

- No Residual Value of Assets – The Authority assumes that the residual value of plant and equipment will be nil when they are de-commissioned, as the assets are held to provide a service rather than for resale at the end of their useful life. The Authority has determined that the amounts received when assets are decommissioned are negligible and depend on the market demand for the assets at time of disposal.

- Property valued at Current Value – The Authority has had all its land and property assets valued on the basis of current value as at 31st March 2020. The Code requires that land and property assets must be revalued every five years as a minimum but must be revalued more regularly where a five year valuation is insufficient to keep pace with material changes in fair value. In 2011 the Authority introduced component accounting to its land and property assets as part of its valuations.

- Government Funding - There remains a degree of uncertainty about future levels of core funding for local government. The funding settlement for 2020/2021 is a one year only arrangement. Whilst there have been indications that some public sector services may continue to receive growth when the anticipated Comprehensive Spending Review process is clarified (circa October/November 2020), potentially for a three or four year funding settlement period, some Services, including the Fire Service, may still face ongoing core funding reductions. In addition, there are ongoing budget uncertainties, particularly Firefighter pension related issues, that have significant funding implications but at this stage still remain unclear in terms of ongoing cost and whether those costs will need to be found by Fire and Rescue Authorities and/or by Government funding. The Authority has however determined that the level of uncertainty is not yet sufficient to indicate that the assets of the Authority may be significantly impaired because of a need to close facilities and reduce levels of service provision.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31st March 2020 for which there is a risk of a material adjustment in the following financial year are:

- Pensions Liability – Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes to retirement age, mortality rates and expected return on pension fund assets. The Government Actuary's Department (GAD) and Barnett Waddingham provide the Authority with expert advice about the assumptions to be applied (Note 34).

- Property, Plant and Equipment – The Authority's assets are depreciated over the useful life assigned by the external valuer. Assumptions are made about the level of repairs and maintenance which could affect the useful lives assigned to assets.

- Provisions – The Authority has made an insurance provision for employee and public liability claims. The provision is based on the advice of the Authority's Risk Management advisor. However, the figure could increase or decrease based on the final settlement.

The ongoing impact of the Covid-19 pandemic has created uncertainty surrounding mortality rates and asset values.

5. MATERIAL ITEMS OF INCOME AND EXPENDITURE

5.1 WMMAPF – Employer Pension Contributions 2017/18 to 2019/20

On 28 April 2017 the Authority made a payment of £7.9m to the WMMAPF in respect of pension contributions for the three years from 1st April 2017 to 31st March 2020. The full payment has been accounted for as a reduction in the Authority's net pension liability and accounting regulations require that only the amount due in relation to 2019/20 of £2.5m is recognised as a cost to the General Fund this year. Until 2019/20, there was a difference between the net pension liability and the pension reserve, equal to the amount that was paid in relation to future years.

6. EVENTS AFTER THE REPORTING PERIOD

6.1. WMMAPF – Employer Pension Contributions 2020/21 to 2022/23

On 30 April 2020 the Authority made a payment of £7.9m to the West Midlands Pension Fund. This payment was based on Barnett Waddingham's Rates and Adjustments Certificate for the amounts due for Employer Pension Contributions 1st April 2020 to 31st March 2023. A saving of £0.5m was achieved by making a lump sum payment covering the three year period.

6.2 Taxation and Government Grants

The Authority received the 2020/21 Fire Pensions Grant of £5.7m on 20 April 2020. Funding for future years will be considered as part of the Comprehensive Spending Review therefore it is not possible to confirm any grant from 2021/22 onwards.

To help respond to Covid-19 pressures and to support funding, the Authority received from MHCLG on 14 May 2020, a second tranche emergency government grant of £2.2m.

To drive improvement in fire and rescue services across the country and to support protection work in 2020/21, the Authority received notification from MHCLG that a government grant of £0.6m would be received. It should enable the Authority to have the technical expertise required to fulfil this function and ensure fire protection officers have the skills they need.

The move to 75% business rates retention and changes to how funding is distributed between local authorities under the fair funding review will not be implemented in April 2021 as originally planned.

The government will continue to work with local authorities on the best approach to 2021-22, including how to treat accumulated business rates growth and the approach to the 2021-22 local government finance settlement.

6.3 McCloud/Sargeant Judgement

The timetable for changes to the legislation for each of the FPS and LGPS is uncertain. However, it is anticipated that proposals to provide a remedy for the uniformed firefighters may be drafted in the summer of 2020.

The Fire Brigades Union (FBU) on 24 April 2020 filed a court proceedings claim in conjunction with three other unions in the latest chapter of a lengthy battle over concerns of a breach of the pensions cost gap. The claim intends to force the government to lift the pause and improve employee benefits in line with the FBU's own regulations.

The main issues are:

- The FBU and other unions are challenging the "pause" to the implementation of the public sector pension scheme "cost control" exercise which would have triggered an improvement in some, mainly 2015 Scheme benefits or a reduction in employee contributions (or both), and
- the Government's assertion that the continuation of this "pause" is appropriate while discussions on how to do address the McCloud discrimination continue.

7. EXPENDITURE AND FUNDING ANALYSIS

This shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by the Authority in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the CIES.

2018/2019 Restated				2019/2020		
Net Expenditure Chargeable to the General Fund* £000	Adjustments Between Funding and Accounting Basis (Note 7.1) £000	Net Expenditure in the CIES £000		Net Expenditure Chargeable to the General Fund* £000	Adjustments Between Funding and Accounting Basis (Note 7.1) £000	Net Expenditure in the CIES £000
916	217	1,133	Democratic Representation & Brigade Managers	1,275	328	1,603
3,064	73,247	76,311	Corporate Charges	(2,613)	8,937	6,324
1,409	198	1,607	Strategy & Organisational Intelligence	1,463	249	1,712
720	93	813	Communications	756	122	878
7,130	704	7,834	Finance & Resources	7,485	740	8,225
5,922	338	6,260	Digital & Data	5,667	413	6,080
696	96	792	People Services	716	161	877
4,872	737	5,609	Training, Health & Wellbeing	5,350	1,327	6,677
2,511	375	2,886	Prevention, Preparedness & Response	2,721	584	3,305
3,877	871	4,748	Protection & Organisational Assurance	5,532	1,875	7,407
62,381	12,250	74,631	Command Delivery, Fire Control & Workforce Planning	67,067	20,063	87,130
93,498	89,126	182,624	Cost of Services	95,419	34,799	130,218
(86,418)	32,915	(53,503)	Other Income and Expenditure	(91,085)	38,675	(52,410)
7,080	122,041	129,121	(Surplus)/Deficit on Provision of Services	4,334	73,474	77,808
(47,374)			Opening General Fund Balance	(40,294)		
(40,294)			Closing General Fund Balance @ 31 March	(35,960)		

* As reported to the SET.

7.1 Adjustments between funding and accounting

2018/2019 Restated	Adjustments for capital purposes (Note 7.2) £000	Net change for the pension adjustments (Note 7.3) £000	Other statutory differences (Note 7.4) £000	Total Adjustments £000
Democratic Representation & Brigade Managers	-	206	11	217
Corporate Charges	6,614	66,633	-	73,247
Strategy & Organisational Intelligence	-	206	(8)	198
Communications	-	89	4	93
Finance & Resources	-	726	(22)	704
Digital & Data	-	337	1	338
People Services	-	97	(1)	96
Training, Health & Wellbeing	-	745	(8)	737
Prevention, Preparedness & Response	-	397	(22)	375
Protection & Organisational Assurance	-	872	(1)	871
Command Delivery, Fire Control & Workforce Planning	-	12,509	(259)	12,250
Cost of Services	6,614	82,817	(305)	89,126
Other Income and Expenditure	(9,299)	42,335	(121)	32,915
Total	(2,685)	125,152	(426)	122,041

2019/2020	Adjustments for capital purposes (Note 7.2) £000	Net change for the pension adjustments (Note 7.3) £000	Other statutory differences (Note 7.4) £000	Total Adjustments £000
Democratic Representation & Brigade Managers		346	(18)	328
Corporate Charges	4,586	4,351	-	8,937
Strategy & Organisational Intelligence		245	4	249
Communications		126	(4)	122
Finance & Resources		741	(1)	740
Digital & Data		428	(15)	413
People Services		150	11	161
Training, Health & Wellbeing		1,243	84	1,327
Prevention, Preparedness & Response		561	23	584
Protection & Organisational Assurance		1,770	105	1,875
Command Delivery, Fire Control & Workforce Planning		20,100	(37)	20,063
Cost of Services	4,586	30,061	152	34,799
Other Income and Expenditure	(6,067)	44,178	564	38,675
Total	(1,481)	74,239	716	73,474

7.2 Adjustments for capital purposes

This column adds in depreciation and impairment and revaluation gains and losses in the corporate charges services line, and within other income and expenditure:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. MRP and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. The taxation and non-specific grant income line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

7.3 Net change for the pension adjustments

Net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the Authority as allowed by statute and the replacement with current service costs and past service costs.
- For financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

7.4 Other statutory differences

Other statutory differences between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statute:

- For services this represents the impact of accruals for accumulating compensated absences.
- The adjustment under other income and expenditure for taxation and non-specific grant income represents the difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

8. PRIOR PERIOD RESTATEMENTS

Prior Period Restatement of Service Expenditure and Income

The Code requires that the Authority shows its expenditure and income on a service basis. There are now eleven service areas which replace the former arrangement of service delivery, service support, corporate management and corporate charges. This note sets out how the net expenditure and income has been restated.

Service	As reported CIES 2018/19 £000	Adjustments £000	2018/19 Restated £000	Service
Corporate Management	3,316	(2,184)	1,132	Democratic Representation & Brigade Managers
Corporate Charges	76,365	(54)	76,311	Corporate Charges
Service Support	22,955	(21,348)	1,607	Strategy & Organisational Intelligence
		813	813	Communications
		7,834	7,834	Finance & Resources
		6,260	6,260	Digital & Data
		792	792	People Services
		5,609	5,609	Training, Health & Wellbeing
Service Delivery	79,988	(77,101)	2,887	Prevention, Preparedness & Response
		4,748	4,748	Protection & Organisational Assurance
		74,631	74,631	Command Delivery, Fire Control & Workforce Planning
Net Expenditure	182,624	-	182,624	

Service	As reported CIES 2018/19 £000	Adjustments £000	2018/19 Restated £000	Service
Corporate Management	3,513	(2,380)	1,133	Democratic Representation & Brigade Managers
Corporate Charges	76,376	(54)	76,322	Corporate Charges
Service Support	25,496	(23,770)	1,726	Strategy & Organisational Intelligence
		830	830	Communications
		9,369	9,369	Finance & Resources
		6,430	6,430	Digital & Data
		1,080	1,080	People Services
		5,616	5,616	Training, Health & Wellbeing
Service Delivery	83,340	(79,958)	3,382	Prevention, Preparedness & Response
		5,714	5,714	Protection & Organisational Assurance
		77,123	77,123	Command Delivery, Fire Control & Workforce Planning
Gross Expenditure	**188,725**	**-**	**188,725**	
Corporate Management	(197)	197	-	Democratic Representation & Brigade Managers
Corporate Charges	(11)	-	(11)	Corporate Charges
Service Support	(2,541)	2,422	(119)	Strategy & Organisational Intelligence
		(17)	(17)	Communications
		(1,535)	(1,535)	Finance & Resources
		(170)	(170)	Digital & Data
		(288)	(288)	People Services
		(7)	(7)	Training, Health & Wellbeing
Service Delivery	(3,352)	2,856	(496)	Prevention, Preparedness & Response
		(966)	(966)	Protection & Organisational Assurance
		(2,492)	(2,492)	Command Delivery, Fire Control & Workforce Planning
Gross Income	**(6,101)**	**-**	**(6,101)**	

9. EXPENDITURE AND INCOME ANALYSED BY NATURE

9.1 The Authority's expenditure and income is analysed as follows:

2018/2019 £000		2019/2020 £000
	Expenditure	
167,244	Employee expenses	120,885
14,869	Other services expenses	16,121
6,613	Depreciation, amortisation and impairment	4,586
42,335	Pensions interest cost and expected return on pension assets	44,178
1,969	Interest payments	1,922
410	Other operating expenditure	329
233,440	**Total Expenditure**	**188,021**
	Income	
(4,620)	Fees, charges and other service income	(4,224)
(436)	Interest and investment income	(426)
(41,883)	Council tax income	(43,318)
(9,867)	Non-domestic rates income from West Midlands Local Authorities	(9,932)
(47,423)	Government grants and contributions	(52,259)
(90)	Disposal of non-current assets	(54)
(104,319)	**Total Income**	**(110,213)**
129,121	**(Surplus)/Deficit on the provision of services**	**77,808**

9.2 Revenue from contracts with service recipients

The Authority recognises revenue from contracts with service recipients in accordance with the provisions of IFRS 15 Revenue from Contracts with Customers as reflected in the Code of Practice. Revenue is recognised in the financial year that services are provided in accordance with the performance obligations of the contract.

Amounts included in the CIES for contracts with service recipients:

	2018/2019 £000	2019/2020 £000
Revenue from contracts with service recipients:		
Service Delivery – provision of Fire Control	**964**	**996**
Total included in CIES	**964**	**996**

Amounts included in the Balance Sheet for contracts with service recipients:

	2018/2019 £000	2019/2020 £000
Receivables included in short term debtors	**-**	**-**
Payables included in short term creditors	**(7)**	**-**
Total Included in Net Assets	**(7)**	**-**

The value of revenue that is expected to be recognised in the future related to performance obligations that are unsatisfied at the end of the year is:

	2018/2019 £000	2019/2020 £000
Not Later than one year	**996**	**1,016**
Later than one year	**1,016**	**1,036**
Amounts of transaction price fully unsatisfied	**2,012**	**2,052**

Revenue relates to the recovery of 30% of the total running costs of the Fire Control function. The performance obligations of the contract are met when the services are rendered. An invoice is raised for a fixed amount each month for the service in the month that the service is provided and adjusted at year end for variations.

10. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Authority is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Authority has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2018/2019	Usable Reserves		
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
Adjustments to Revenue Resources	**£000**	**£000**	**£000**
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:			
Pension costs transferred to/(from) the Pensions Reserve	(125,152)	-	-
Council tax and NDR transfers to/(from) Collection Fund Adjustment Account	121	-	-
Holiday pay transferred to the Accumulated Absences Reserve	305	-	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(6,355)	-	-
Total Adjustments to Revenue Resources	**(131,081)**	**-**	**-**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	57	(57)	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	834	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	8,149	-	-
Total Adjustments between Revenue and Capital Resources	**9,040**	**(57)**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	-
Application of capital grants to finance capital expenditure	-	-	304
Total Adjustments to Capital Resources	**-**	**-**	**304**
Total Adjustments	**(122,041)**	**(57)**	**304**

2019/2020	Usable Reserves		
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
Adjustments to Revenue Resources	**£000**	**£000**	**£000**
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:			
Pension costs transferred to/(from) the Pensions Reserve	**(74,239)**	**-**	**-**
Council tax and NDR transfers to/(from) Collection Fund Adjustment Account	**(564)**	**-**	**-**
Holiday pay transferred to the Accumulated Absences Reserve	**(152)**	**-**	**-**
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	**(4,603)**	**-**	**-**
Total Adjustments to Revenue Resources	**(79,558)**	**-**	**-**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	**-**	**-**	**-**
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	**884**	**-**	**-**
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	**5,200**	**-**	**-**
Total Adjustments between Revenue and Capital Resources	**6,084**	**-**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	**-**	**-**	**-**
Application of capital grants to finance capital expenditure	**-**	**-**	**83**
Total Adjustments to Capital Resources	**-**	**-**	**83**
Total Adjustments	**(73,474)**	**-**	**83**

11. MOVEMENTS IN EARMARKED RESERVES

This note sets out the amounts set aside within the General Fund Balance for earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in both 2018/19 and 2019/20.

General Fund:	Balance at 31st March 2018 (R) £000	Transfers out 2018/19 (R) £000	Transfers in 2018/19 (R) £000	Balance at 31st March 2019 (R) £000	Transfers out 2019/20 £000	Transfers in 2019/20 £000	Balance at 31st March 2020 £000
Capital							
Capital Program Shortfall	10,951	206	1,384	12,129	1,034	2,784	13,879
Fire Station Investment	9,069	5,051	-	4,018	3,253	-	765
Occupational Health Relocation	-	-	200	200	124	-	76
Insurance							
Insurance Reserve	7,188	67	67	7,188	245	-	6,943
Strategy & Organisational Intel.							
Project Management/Support	266	145	54	175	165	97	107
Organisational Intel.	-	-	63	63	63	73	73
New Risks	35	25	50	60	19	-	41
Communications							
Community Engagement	26	24	35	37	63	173	147
Communications/Media Events	16	11	26	31	43	19	7
Finance & Resources							
Property Maintenance	1,210	176	22	1,056	188	12	880
Procurement of Operational Equip.	218	121	-	97	97	66	66
Loss of Use Recovery	50	-	27	77	68	57	66
Project Management/Support	23	43	20	-	25	39	14
Other	2,257	1,662	111	706	708	2	-
Digital & Data							
Enterprise Resource Planning (ERP)	29	3	2,000	2,026	184	61	1,903
ESMCP-Local Transition	1,916	351	85	1,650	660	331	1,321
Other IT Equip. & System Upgrades	1,230	1083	218	365	357	346	354
Incident Reporting System (IRS)	-	-	200	200	-	-	200
Staffing	75	41	118	152	145	145	152
Office 365 Development	30	-	150	180	40	-	140
Enabling Future Technology	316	159	145	302	178	-	124
Management of Information	98	68	-	30	30	-	-
Vision 4 Data Cleansing	45	31	-	14	14	-	-
Firelink Grant	278	278	341	341	341	-	-
People Services							
Safeguarding Arrangements	-	-	-	-	-	56	56
Training, Health & Wellbeing							
Staff Training & Development	449	558	266	157	345	313	125
Health & Wellbeing	1,213	1,208	206	211	124	14	101
Training Equipment/Facilities	136	56	42	122	107	-	15
Prevention, Preparedness & Response							
Project Management/Support	-	-	-	-	135	643	508
COVID 19 Funding	-	-	-	-	-	459	459
Community Partnerships	456	198	93	351	235	99	215
Community Safety	-	2	90	88	101	113	100
Education Materials/Facilities	65	33	24	56	33	2	25
Youth Services	-	86	86	-	94	104	10

General Fund: (Continued)	Balance at 31st March 2018 (R) £000	Transfers out 2018/19 (R) £000	Transfers in 2018/19 (R) £000	Balance at 31st March 2019 (R) £000	Transfers out 2019/20 £000	Transfers in 2019/20 £000	Balance at 31st March 2020 £000
Protection & Organisational Assurance							
SSRI/RIDGE	-	-	-	-	-	400	400
Project Management/Support	95	173	90	12	100	185	97
Legal Services	96	81	130	145	55	-	90
Fire Safety	25	25	43	43	79	59	23
Trauma Care Training	-	-	10	10	10	-	-
Command Delivery, Fire Control & WP							
Tech Rescue	823	193	144	774	624	260	410
Command Delivery	300	604	618	314	626	557	245
TOTAL	38,984	12,762	7,158	33,380	10,712	7,469	30,137

Further information on the Reserves Strategy can be found at
https://www.wmfs.net/about-us/openness/documents/

12. UNUSABLE RESERVES

31 March 2019 £000		31 March 2020 £000
(42,683)	Revaluation Reserve	(45,321)
(60,284)	Capital Adjustment Account	(62,693)
1,807,689	Pensions Reserve	1,706,813
(801)	Collection Fund Adjustment Account	(237)
989	Accumulated Absences Account	1,141
1,704,910	Total Unusable Reserves	1,599,703

12.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its property, vehicles, plant, and intangible assets. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

2018/2019 £000		2019/2020 £000
(58,720)	Balance 1 April	(42,683)
(5,529)	Upward revaluation of assets	(9,380)
20,311	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	5,897
(43,938)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(46,166)
1,255	Amount written off to the Capital Adjustment Account	845
(42,683)	Balance 31 March	(45,321)

12.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and subsequent costs.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The note below provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2018/2019 £000		2019/2020 £000
(56,096)	Balance 1 April	(60,284)
	Reversal of items relating to capital expenditure debited or credited to the CIES:	
4,565	Charges for depreciation and impairment of non-current assets	4,152
2,044	Revaluation losses on Property, Vehicles, Plant and current assets	403
4	Amortisation of intangible assets	31
97	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	17
(49,386)		(55,681)
(1,255)	Adjusting amounts written out of the Revaluation Reserve	(845)
(50,641)	Net written out amount of the cost of non-current assets consumed in the year	(56,526)
	Capital financing applied in the year:	
-	Use of the Capital Receipts Reserve to finance new capital expenditure	-
(356)	Capital grants and contributions credited to the CIES that have been applied to capital financing	-
(304)	Application of grants to capital financing from the Capital Grants Unapplied Account	(83)
(834)	Statutory provision for the financing of capital investment charged against the General Fund	(884)
(8,149)	Capital expenditure charged against the General Fund and HRA balances	(5,200)
(60,284)	Balance 31 March	(62,693)

12.3 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to the pension fund or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2018/2019 £000		2019/2020 £000
1,676,394	Balance 1 April	1,807,689
6,143	Re-measurements of the net defined benefit liability/(asset)	(175,115)
136,584	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	91,471
(11,432)	Employer's pensions contributions and direct payments to pensioners payable in the year	(17,232)
1,807,689	Balance 31 March	1,706,813

12.4 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and NDR in the CIES as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. The balance at the 31 March 2020 is (£0.237m) and was (£0.801m) as at 31 March 2019.

12.5 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2018/2019			2019/2020	
£000	£000		£000	£000
	1,294	Balance 1 April		989
(1,294)		Settlement or cancellation of accrual made at the end of the preceding year	(989)	
989		Amounts accrued at the end of the current year	1,141	
	(305)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		152
	989	Balance 31 March		1,141

13. OTHER OPERATING EXPENDITURE

2018/2019 £000		2019/2020 £000
7	(Gains)/losses on the disposal of non-current assets	(37)
314	Levies	312
321	Total	275

14. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2018/2019 £000		2019/2020 £000
1,969	Interest payable and similar charges	1,922
42,335	Net interest on the net defined benefit liability/(asset)	44,178
(436)	Interest receivable and similar income	(426)
43,868	Total	45,674

15. TAXATION AND NON SPECIFIC GRANT INCOMES

2018/2019 £000		2019/2020 £000
(41,883)	Council tax income	(43,318)
(9,867)	NDR income from West Midland Local Authorities	(9,932)
(20,582)	Revenue support grant	(18,857)
(25,004)	Business rates retention scheme grants	(25,658)
-	Covid-19 Emergency funding grant	(594)
(356)	Capital grants and contributions	-
(97,692)	Total	(98,359)

16. PROPERTY, VEHICLES, PLANT AND EQUIPMENT

16.1 Comparative Movements in 2018/2019

2018/19	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Assets Under Construction	Total Property, Vehicles, Plant and Equipment
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2018	**130,969**	**32,334**	**1,884**	**2,763**	**167,950**
Additions	1,035	212	-	7,428	8,675
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(17,590)	-	94		(17,496)
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,055)	-	11		(2,044)
De-recognition – Disposals	-	(1,785)	(220)	-	(2,005)
Assets reclassified (to) / from Held for Sale	-	-	-	-	-
Other movements in cost or valuation	8,316	(383)	383	(8,316)	-
At 31 March 2019	**120,675**	**30,378**	**2,152**	**1,875**	**155,080**
Accumulated Depreciation and Impairment					
At 1 April 2018	**-**	**23,722**	**220**	**-**	**23,942**
Depreciation charge	2,688	1,851	26	-	4,565
Depreciation written out to the Revaluation Reserve	(2,688)	-	(26)	-	(2,714)
De-recognition – Disposals	-	(1,688)	(220)	-	(1,908)
De-recognition – Other	-	(383)	383	-	-
At 31 March 2019	**-**	**23,502**	**383**	**-**	**23,885**
Net Book Value					
At 31 March 2018	**130,969**	**8,612**	**1,664**	**2,763**	**144,008**
At 31 March 2019	**120,675**	**6,876**	**1,769**	**1,875**	**131,195**

16.2 Movements on Balances 2019/2020

2019/20	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Assets Under Construction	Total Property, Vehicles, Plant and Equipment
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2019	120,675	30,378	2,152	1,875	155,080
Additions	2,916	482	-	1,885	5,283
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	1,031	-	31	-	1,062
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(403)	-	-	-	(403)
De-recognition – Disposals	-	(1,482)	(46)	-	(1,528)
Assets reclassified (to) / from Held for Sale	-	-	-	-	-
Other movements in cost or valuation	-	1,420	985	(2,405)	-
At 31 March 2020	124,219	30,798	3,122	1,355	159,494
Accumulated Depreciation and Impairment					
At 1 April 2019	-	23,502	383	-	23,885
Depreciation charge	2,394	1,731	27	-	4,152
Depreciation written out to the Revaluation Reserve	(2,394)	-	(27)	-	(2,421)
De-recognition – Disposals	-	(1,465)	(46)	-	(1,511)
De-recognition – Other	-	(984)	984	-	-
At 31 March 2020	-	22,784	1,321	-	24,105
Net Book Value					
At 31 March 2019	120,675	6,876	1,769	1,875	131,195
At 31 March 2020	124,219	8,014	1,801	1,355	135,389

16.3 Depreciation

The depreciation rates used in the table above are consistent with those described in the accounting policies statement.

16.4 Capital Commitments

As at the 31st March 2020, the Authority approved capital expenditure in future years of £16.873m of which £1.5m has been contractually committed leaving £15.373m as the uncommitted sum which relates to expenditure on property, plant and equipment.

The largest of these contractual commitments represents:

	£000
• Vehicle Replacement Programme	816
• Command & Control – Network Upgrade	291

16.5 Revaluations

The Authority had all its property assets valued as at 31st March 2020 based on current value. The work was completed by qualified external valuers, WH&E. Valuations were carried out in accordance with the methodologies and bases for estimation set out in the Royal Institution of Chartered Surveyors (RICS) Professional Standards manual (The Red Book) and is International Valuation Standards compliant. The use of the manual means there is certainty with the valuation process.

Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

17. INTANGIBLE ASSETS

The movement on Intangible Asset balances during 2018/19 and 2019/20 is as follows:

	2018/19 Other Assets £000	2019/20 Other Assets £000
Balance at start of year:		
Gross carrying amounts	**663**	**797**
Accumulated amortisation	**(650)**	**(654)**
Net carrying amount at end of year	**13**	**143**
Additions:		
Purchases	**134**	**-**
Amortisation for the period	**(4)**	**(31)**
Net carrying amount at end of year	**143**	**112**
Comprising of:		
Gross carrying amounts	**797**	**797**
Accumulated amortisation	**(654)**	**(685)**
Net carrying amount at end of year	**143**	**112**

18. FINANCIAL INSTRUMENTS

18.1 Balance Sheet

The following categories of financial instrument are carried in the Balance Sheet:

Financial Assets	Non-Current				Current				Total	
	Investments		Debtors		Investments		Debtors			
	31-Mar 2019 £000	31-Mar 2020 £000	31-Mar 2019 £000	31-Mar 2020 £000	31-Mar 2019 £000	31-Mar 2020 £000	31-Mar 2019 £000	31-Mar 2020 £000	31-Mar 2019 £000	31-Mar 2020 £000
Amortised Cost	-	-	-	-	40,302	45,097	10,199	7,642	50,501	52,739
Total financial assets	-	-	-	-	40,302	45,097	10,199	7,642	50,501	52,739
Non-financial assets	-	-	-	-	-	-	6,662	7,018	6,662	7,018
Total	-	-	-	-	40,302	45,097	16,861	14,660	57,163	59,757

Financial Liabilities	Non-Current				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31-Mar 2019 £000	31-Mar 2020 £000	31-Mar 2019 £000	31-Mar 2020 £000	31-Mar 2019 £000	31-Mar 2020 £000	31-Mar 2019 £000	31-Mar 2020 £000	31-Mar 2019 £000	31-Mar 2020 £000
Amortised Cost	(33,112)	(31,425)	-	-	(305)	(2,022)	(3,090)	(4,337)	(36,507)	(37,784)
Financial liabilities at historical cost	(2,585)	(2,250)	-	-	(150)	(150)	-	-	(2,735)	(2,400)
Total financial liabilities	(35,697)	(33,675)	-	-	(455)	(2,172)	(3,090)	(4,337)	(39,242)	(40,184)
Non-financial liabilities	-	-	-	-	-	-	(6,649)	(7,461)	(6,649)	(7,461)
Total	(35,697)	(33,675)	-	-	(455)	(2,172)	(9,739)	(11,798)	(45,891)	(47,645)

18.2 Income, Expense, Gains and Losses

	2018/19		2019/20	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
Amortised Cost:				
(Gains)/Losses on de-recognition	7	-	(37)	-
Interest revenue	(436)	-	(426)	-
Interest expense	1,969	-	1,922	-
Total	1,540	-	1,459	-

18.3 Loans Outstanding

The Authority has its own portfolio of loans payable directly to the PWLB. Loans are also outstanding to Dudley MBC, which represent the Authority's share of the outstanding loan debt of the WMCC abolished in 1986.

Under accounting requirements, the financial instruments shown in the balance sheet are shown at "amortised cost". This is the carrying amount and comprises the principal amount borrowed and adjusted for breakage costs or stepped interest loans (measured by an effective interest rate calculation) and includes accrued interest.

The amounts owing are as follows:

	2018/2019		2019/2020	
	Long-Term £000	Short-Term £000	Long-Term £000	Short-Term £000
PWLB	(33,112)	-	(31,425)	(1,687)
Dudley MBC	(2,585)	(305)	(2,250)	(335)
Total Principal Amount	(35,697)	(305)	(33,675)	(2,022)
Plus Accrued Interest	-	(150)	-	(150)
Total Amortised Cost	(35,697)	(455)	(33,675)	(2,172)

18.4 Fair Value Measurement

IFRS 13 requires that local authorities measure some of their financial instruments at fair value and to apply the relevant input levels of the fair value hierarchy that are detailed in 1.9.3 of the Authority's accounting policies.

18.4.1 Fair Value of Assets and Liabilities at Amortised Costs

Except for the financial liabilities and financial assets carried at fair value, all other financial liabilities and financial assets held by the authority are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of cash flows that will take place over the remaining life of the instruments, using the following assumptions:

- Actual ranges of interest rates at 31st March 2020 of 8.625% to 3.95% for loans from the PWLB;

- No early repayment or impairment is recognised;

- Where an instrument has a maturity of less than twelve months, the fair value is taken to be the principal outstanding or the billed amount.

- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

18.4.2 Financial Liabilities

The fair values are as follows:

	2018/2019		2019/2020	
	Carry Amount £000	Fair Value £000	Carry Amount £000	Fair Value £000
PWLB Short & Long Term Loans	(33,112)	(61,368)	(33,112)	(66,870)
Dudley MBC (WMCC)	(2,890)	(2,890)	(2,585)	(2,585)
Total	(36,002)	(64,258)	(35,697)	(69,455)

Overall, the fair value for 2018/2019 is greater than the carrying amount because the Authority's portfolio of loans includes several fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

The fair values for the financial liabilities have been determined by reference to the PWLB redemption rules and prevailing PWLB redemption rates as at each balance sheet date and include accrued interest. The fair value of WMCC debt is taken to be the same as the amount of principal outstanding.

18.4.3 Financial Assets

The carrying amount and the fair value of the Authority's financial assets are the same due to the short term nature of the transactions.

18.4.4 Fair Value Hierarchy for Financial Assets and Financial Liabilities

The fair value for financial liabilities and financial assets that are not measured at fair value included in Levels 2 in the table below have been arrived at using a discounted cash flow analysis with the most significant inputs being the discount rate.

	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	TOTAL 31 March 2019 £000
FINANCIAL LIABILITIES				
Loans	-	(64,258)	-	(64,258)
Plus Accrued Interest	-	(150)	-	(150)
Total Borrowing	-	(64,408)	-	(64,408)
Creditors	-	(3,090)	-	(3,090)
Total Financial Liabilities	-	(67,498)	-	(67,498)
FINANCIAL ASSETS				
Cash & Cash Equivalents	-	40,302	-	40,302
Total Investments	-	40,302	-	40,302
Debtors	-	10,199	-	10,199
Total Financial Assets	-	50,501	-	50,501

	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	TOTAL 31 March 2020 £000
FINANCIAL LIABILITIES				
Loans	-	(69,455)	-	(69,455)
Plus Accrued Interest	-	(150)	-	(150)
Total Borrowing	-	(69,605)	-	(69,605)
Creditors	-	(4,337)	-	(4,337)
Total Financial Liabilities	-	(73,942)	-	(73,942)
FINANCIAL ASSETS				
Cash & Cash Equivalents	-	45,097	-	45,097
Total Investments	-	45,097	-	45,097
Debtors	-	7,642	-	7,642
Total Financial Assets	-	52,739	-	52,739

18.5 Nature and extent of risks arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:

Credit risk – the possibility that other parties might fail to pay amounts due to the Authority.

Liquidity risk – the possibility that the Authority might not have the funds available to meet its commitments to make payments.

Market risk – the possibility that financial loss might arise for the Authority because of changes in such measurements as interest rates.

18.5.1 Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

The Authority does not generally allow credit for customers, such that £0.593m of the £14.660m Debtors balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2019 £000	31 March 2020 £000
Less than three months	658	554
Three to six months	155	20
Six months to one year	19	13
More than one year	14	6
Total	846	593

18.5.2 Liquidity risk

As the Authority has ready access to borrowings, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All trade and other payables are due to be paid in less than one year.

18.5.3 Market risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments.

During 2019/20, if interest rates on investments had been 0.25% lower with all other variables held constant, the impact on the CIES would be a fall in interest received of £0.122m (2018/2019 £0.136m). The impact of a 0.25% increase in interest rates would be the same but reversed, interest would increase by £0.122m (2018/2019 £0.136m).

The Authority's borrowing is at fixed rates, therefore there is little flexibility for any movement and impact on the CIES.

19. INVENTORIES

	General Stores		Mechanical Stocks		Heating Oil Petrol/ Diesel		Total	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Balance outstanding at start of year	466	425	165	163	94	100	725	688
Purchases	895	578	385	320	592	576	1,872	1,474
Recognised as an expense in the year	(935)	(562)	(387)	(321)	(586)	(590)	(1,908)	(1,473)
Written off balances	(1)	-	-	-	-	-	(1)	-
Balance outstanding at year-end	425	441	163	162	100	86	688	689

Inventories are valued at the year end and included in the balance sheet at latest price.

20. SHORT TERM DEBTORS

31 March 2019 £000		31 March 2020 £000
	Financial Instruments	
8,625	**Home Office - Pension Fund Top up Grant**	6,267
836	**Trade receivables**	587
693	**Accrued income**	738
45	**Other receivable amounts**	50
10,199	**Total Financial Instruments**	7,642
	Other Debtors	
5,579	**Collection Fund**	5,703
788	**Prepayments**	838
295	**Sandwell MBC – VAT**	477
6,662	**Total Other Debtors**	7,018
16,861	**Total Debtors**	14,660

The past due but not impaired amount for local taxation (council tax and non-domestic rates) can be analysed by age as follows:

	31 March 2019 £000	31 March 2020 £000
Less than one year	2,034	2,190
One to two years	833	851
Two to six years	1,549	1,443
More than six years	362	444
Total	4,778	4,928

21. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2019 £000		31 March 2020 £000
10	Cash held by the Authority	10
(612)	Bank current account	(496)
40,904	Bank call account	45,583
40,302	Total Cash and Cash Equivalents	45,097

22. CREDITORS

31 March 2019 £000		31 March 2020 £000
	Creditors – Revenue	
	Financial Instruments	
(2,261)	Other entities and individuals	(3,304)
(348)	Central government bodies	(205)
(107)	Other local authorities	(208)
(2,716)	Total Financial Instruments	(3,717)
	Other Creditors	
(4,779)	Collection fund	(5,467)
(1,819)	Her Majesty's Revenue and Customs	(1,942)
(51)	Deferred income	(52)
(6,649)	Total Other Creditors	(7,461)
(9,365)	Total Creditors - Revenue	(11,178)
	Creditors – Capital	
	Financial Instruments	
(374)	Other entities and individuals	(620)
(374)	Total Creditors – Capital	(620)
(9,739)	Total Creditors	(11,798)

23. PROVISIONS

An insurance provision of (£0.664m) has been provided for previous years' employee and public liability claims, it is held in line with recommendations of the actuarial valuation. Whilst the Actuary can give advice about the total value of claims they are not able to confirm when these will be submitted.

24. CASH FLOW STATEMENT – OPERATING ACTIVITIES

24.1 The cash flows for operating activities include the following items:

2018/2019 £000		2019/2020 £000
(251)	Interest received	(436)
1,995	Interest paid	1,922

24.2 The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2018/2019 £000		2019/2020 £000
(4,565)	Depreciation	(4,152)
(2,044)	Impairment and downward valuations	(403)
(4)	Amortisation	(31)
(8)	(Increase)/decrease in impairment for doubtful debts	-
1,856	(Increase)/decrease in Creditors	(4,124)
3,770	Increase/(decrease) in Debtors	(2,200)
(37)	Increase/(decrease) in Inventories	-
(127,779)	Movement in pension liability	(76,780)
296	Contributions to Provisions	(238)
(97)	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	(17)
(128,612)	Net cash (inflows)/outflows from adjustments to net surplus or deficit on the provision of services for non-cash movements	(87,945)

24.3 The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2018/2019 £000		2019/2020 £000
57	Proceeds from the sale of property, vehicles, plant and equipment, investment property and intangible assets	50
25	Capital Grants credited to Surplus or Deficit on the provision of services	-
82	Net cash (inflows)/outflows from adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	50

25. CASH FLOW STATEMENT - INVESTING ACTIVITIES

2018/2019 £000		2019/2020 £000
9,207	Purchase of property, vehicles, plant and equipment, investment property and intangible assets	5,037
(57)	Proceeds from the sale of property, vehicles, plant and equipment, investment property and intangible assets	(50)
(25)	Capital Grants Received	-
9,125	Net cash (inflows)/outflows from investing activities	4,987

26. CASH FLOW STATEMENT - FINANCING ACTIVITIES

2018/2019 £000		2019/2020 £000
1,316	Repayments of short and long term borrowing	305

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	31 March 2018 £000	Financing cash flows £000	Non-cash changes £000	31 March 2019 £000
Long term borrowings	(36,002)	-	305	(35,697)
Short term borrowings	(1,537)	1,361	(279)	(455)
Total liabilities from financing activities	(37,539)	1,361	26	(36,152)

	31 March 2019 £000	Financing cash flows £000	Non-cash changes £000	31 March 2020 £000
Long term borrowings	(35,697)	-	2,022	(33,675)
Short term borrowings	(455)	305	(2,022)	(2,172)
Total liabilities from financing activities	(36,152)	305	-	(35,847)

28. OFFICERS' REMUNERATION

The remuneration paid to the Authority's senior employees is as follows:

Total (Inc. pension) 2018/2019 £		Salary £	Expenses Allowances £	Total (excluding pension) £	Pension £	Total (including pension) 2019/2020 £
	Senior Officer whose salary is £150,000 or more per year:					
209,642	**CFO – Phil Loach**	175,151	1,339	176,490	65,331	241,821
	Senior Officers' whose salary is less than £150,000 but equal or more than £50,000 per year:					
168,095	**Deputy CFO - Director Service Support (Note 1)**	35,597	352	35,949	13,278	49,227
-	**Deputy CFO – Culture Programme (Note 2)**	61,163	516	61,679	16,758	78,437
160,545	**Assistant CFO – Process Programme**	134,422	1,598	136,020	49,098	185,118
90,097	**Assistant CFO – People Programme**	130,006	1,339	131,345	25,668	157,013
121,605	**Strategic Enabler of Finance and Resources**	104,581	-	104,581	19,452	124,033
83,698	**Strategic Enabler Culture (Temporary – Note 3)**	96,010	1,123	97,133	17,416	114,549
69,107	**Strategic Enabler Strategy and Organisational Intelligence**	59,435	-	59,435	11,055	70,490
902,789		796,365	6,267	802,632	218,056	1,020,688

Note 1 – Former Deputy CFO retired on 30 June 2019.

Note 2 – Deputy CFO appointment with effect from 4 November 2019.

Note 3 – Temporary promotion to Assistant CFO (22 July 2019 to 2 January 2020). Left the Authority on 2 February 2020.

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

Remuneration band	2018/19 Number of employees	2019/20 Number of employees
£ 50,000 to £ 54,999	37	27
£ 55,000 to £ 59,999	20	29
£ 60,000 to £ 64,999	19	14
£ 65,000 to £ 69,999	-	5
£ 70,000 to £ 74,999	4	3
£ 75,000 to £ 79,999	1	3
£ 80,000 to £ 84,999	-	1
Total	81	82

The table above excludes the senior officers who are reported separately.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

(a)	(b)		(c)		(d)		(e)	
Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band [(b) +(c)]		Total cost of exit packages in each band £	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
£0 - £20,000	-	-	-	14	-	14	-	15,574
£20,001 - £40,000	-	-	1	-	1	-	36,563	-
£40,001 - £60,000	-	-	1	-	1	-	57,186	-
£60,001 - £80,000	-	-	-	-	-	-	-	-
£80,001 - £100,000	-	-	-	-	-	-	-	-
£100,001 - £150,000	-	-	-	-	-	-	-	-
£150,001 - £200,000	-	-	-	-	-	-	-	-
Total	-	-	2	14	2	14	93,749	15,574

The Authority agreed to terminate the contracts of 14 employees in 2019/20, incurring costs of £16k (£94k in 2018/19).

29. MEMBERS' ALLOWANCES

The Authority paid the following amounts to Members of the Authority as allowances and expenses incurred during the year:

2018/2019 £000		2019/2020 £000
182	Allowances	168
9	Expenses	13
191	Total	181

30. EXTERNAL AUDIT COSTS

Fees payable to the external auditor:

2018/2019 £000			2019/2020 £000
30	Grant Thornton UK LLP	Fees payable for the external planned audit work	36
-	Grant Thornton UK LLP	Additional 2018/19 audit fee paid in 2019/20	4
30		Total	40

31. RELATED PARTIES

The Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

Letters have been sent to Brigade Managers, Statutory Officers and current and former Councillors asking them to identify whether they have any relationships with related parties. No members' of the Authority or Chief Officer or parties related to them have undertaken any disclosable related party transactions during the year.

The following material transactions with related parties took place during the year:

2018/2019 £000	Related Party	Nature of Transaction	2019/2020 £000
20,582	Central Government	Revenue Support Grant	18,857
25,004		Business Rates Retention Scheme Grants	25,658
-		Pensions Grant	5,713
-		Covid-19 Emergency Funding Grant	594
356		Capital Grant	-
41,883	West Midland Local Authorities	Council Tax Income	43,318
9,867		NDR Income	9,932

Grants received are set out in Note 32.

32. GRANT INCOME

32.1 The Authority credited the following grants, contributions and donations to the CIES in 2019/2020:

	2018/2019 £000	2019/2020 £000
Credited to Taxation and Non Specific Grant Income:		
Revenue Support Grant	**20,582**	**18,857**
Business Rates Retention Scheme Grants	**25,004**	**25,658**
Covid-19 Emergency Funding Grant	**-**	**594**
Capital Grants and Contributions	**356**	**-**
Total	**45,942**	**45,109**
Credited to Services:		
Pensions Grant	**-**	**5,713**
New Dimension Training Crewing and Accommodation	**820**	**877**
Apprenticeship Levy	**-**	**185**
Fire Reduction Partnership	**138**	**150**
ESMCP WMFS Project Management	**-**	**89**
National Resilience	**42**	**78**
New Risks Section 29	**82**	**49**
New Burdens	**8**	**8**
Birmingham City Council Heritage	**11**	**1**
Fire Control Project	**341**	**-**
Home Office Surge Decontamination	**30**	**-**
CFOA Seconded Officer National Procurement	**9**	**-**
Total	**1,481**	**7,150**

32.2 Grants – Receipts in Advance

The Authority has received the following grant that has yet to be recognised as income as it has conditions attached to it that could require the monies to be returned to the giver. The balance at the year-end is as follows:

Current Liabilities	31 March 2019 £000	31 March 2020 £000
Grants - Receipts in Advance (Revenue Grants):		
Section 31 Business Rates Relief 2020/21	**-**	**2,311**

The section 31 business rates relief 2020/21 grant was received from MHCLG on 27 March 2020 to help the Authority respond to the Covid-19 pandemic pressures by assisting with cashflow. This grant as at the 31st March 2020 has been reflected as a Receipt in Advance.

33. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the CFR, a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The movement in the CFR is analysed in the second part of this note.

	2018/2019 £000	2019/2020 £000
Opening CFR	37,977	37,143
Capital investment:		
Property, Vehicles, Plant and Equipment	8,809	5,283
Sources of finance:		
Capital Receipts	-	-
Government grants and other contributions	(660)	(83)
Sums set aside from revenue:		
Direct Revenue Contributions	(8,149)	(5,200)
MRP/the Statutory Repayment of Loans Fund Advances	(834)	(884)
Closing CFR	37,143	36,259

Movements in year	2018/2019 £000	2019/2020 £000
MRP/the Statutory Repayment of Loans Fund Advances	(834)	(884)
Increase/(decrease) in CFR	(834)	(884)

34. DEFINED BENEFIT PENSION SCHEMES

34.1 Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

At the 31st March 2020 the Authority participated in four post-employment schemes:

- The WMMAPF for civilian and fire control employees, administered locally by Wolverhampton City Council — this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

- The 1992, 2006 and 2015 FPS for fire officers — these are unfunded defined benefit arrangements, there are no investment assets built up to meet the pensions liabilities. Fund Accounts have been set up, into which the Authority and scheme members make contributions and pension payments are made from the fund.

34.2 Transactions Relating to Post-employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the MIRS. The following transactions have been made in the CIES and the General Fund Balance via the MIRS during the year:

2018/2019	LGPS £000	Firefighters' Pension Scheme 1992 £000	Firefighters' Pension Scheme 2006 £000	Firefighters' Pension Scheme 2015 £000	Firefighters' Compensation Scheme £000	Total £000
CIES						
Cost of services:						
Current service cost	**4,298**	**6,280**	**160**	**14,080**	**310**	**25,128**
Past service costs, including curtailments	**1,428**	**60,150**	**7,490**	**10**	**-**	**69,078**
Administration Expenses	**43**	**-**	**-**	**-**	**-**	**43**
Financing and Investment Income and Expenditure:						
Net interest expense	**1,075**	**36,880**	**1,830**	**1,510**	**1,040**	**42,335**
Total post-employment benefits charged to the Surplus or Deficit on the Provision of Services	**6,844**	**103,310**	**9,480**	**15,600**	**1,350**	**136,584**
Other post-employment benefits charged to the CIES:						
Remeasurement of the net defined benefit liability comprising:						
Changes in demographic assumptions	**(8,054)**	**-**	**-**	**-**	**-**	**(8,054)**
Changes in financial assumptions	**6,952**	**39,250**	**3,900**	**3,800**	**830**	**54,732**
Experience (gains) and losses	**-**	**(3,850)**	**(1,480)**	**1,250**	**(310)**	**(4,390)**
Return on fund assets in excess of interest	**(1,118)**	**-**	**-**	**-**	**-**	**(1,118)**
Other	**-**	**(43,774)**	**21**	**8,726**	**-**	**(35,027)**
Total post-employment benefits charged to the CIES	**4,624**	**94,936**	**11,921**	**29,376**	**1,870**	**142,727**
MIRS						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post- employment benefits in accordance with the Code	**(6,844)**	**(103,310)**	**(9,480)**	**(15,600)**	**(1,350)**	**(136,584)**
Actual amount charged against the General Fund Balance for Pensions in the year:						
Employers' contributions payable to the scheme	**2,740**	**2,336**	**51**	**4,616**	**-**	**9,743**
Retirement benefits payable to pensioners	**59**	**-**	**-**	**-**	**1,630**	**1,689**

2019/2020	LGPS	Firefighters' Pension Scheme 1992	Pension Scheme 2006	Pension Scheme 2015	Compensation Scheme	Total
	£000	£000	£000	£000	£000	£000
CIES						
Cost of services:						
Current service cost	4,769	4,430	100	30,900	590	40,789
Past service costs, including curtailments	-	6,360	-	80	-	6,440
Administration Expenses	64	-	-	-	-	64
Financing and Investment Income and Expenditure:						
Net interest expense	1,118	37,730	2,050	2,270	1,010	44,178
Total post-employment benefits charged to the Surplus or Deficit on the Provision of Services	5,951	48,520	2,150	33,250	1,600	91,471
Other post-employment benefits charged to the CIES:						
Remeasurement of the net defined benefit liability comprising:						
Changes in demographic assumptions	4,087	(46,720)	(2,800)	(3,380)	(1,510)	(50,323)
Changes in financial assumptions	(17,974)	(58,700)	(6,260)	(4,220)	(830)	(87,984)
Experience (gains) and losses	2,956	(12,160)	410	1,490	(20)	(7,324)
Return on fund assets in excess of interest	6,410	-	-	-	-	6,410
Other	(5,781)	(45,168)	88	14,967	-	(35,894)
Total post-employment benefits charged to the CIES	(4,351)	(114,228)	(6,412)	42,107	(760)	(83,644)
MIRS						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post- employment benefits in accordance with the Code	(5,951)	(48,520)	(2,150)	(33,250)	(1,600)	(91,471)
Actual amount charged against the General Fund Balance for Pensions in the year:						
Employers' contributions payable to the scheme	2,542	2,482	88	10,437	-	15,549
Retirement benefits payable to pensioners	53	-	-	-	1,630	1,683

34.3 Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

2018/2019	Funded liabilities: Local Government Pension Scheme	Unfunded liabilities: Local Government Pension Scheme	Unfunded liabilities: Firefighters' Pension Scheme 1992	Unfunded liabilities: Firefighters' Pension Scheme 2006	Unfunded liabilities: Firefighters' Pension Scheme 2015	Unfunded liabilities: Firefighters' Compensation Scheme	Total
	£000	£000	£000	£000	£000	£000	£000
Present value of the defined benefit obligation	(145,513)	(633)	(1,558,510)	(83,630)	(74,820)	(41,590)	(1,904,696)
Fair value of plan assets	99,548	-	-	-	-	-	99,548
Net liability arising from defined benefit obligation	(45,965)	(633)	(1,558,510)	(83,630)	(74,820)	(41,590)	(1,805,148)

2019/2020	Funded liabilities: Local Government Pension Scheme	Unfunded liabilities: Local Government Pension Scheme	Unfunded liabilities: Firefighters' Pension Scheme 1992	Unfunded liabilities: Firefighters' Pension Scheme 2006	Unfunded liabilities: Firefighters' Pension Scheme 2015	Unfunded liabilities: Firefighters' Compensation Scheme	Total
	£000	£000	£000	£000	£000	£000	£000
Present value of the defined benefit obligation	(140,350)	(632)	(1,441,800)	(77,130)	(106,490)	(39,200)	(1,805,602)
Fair value of plan assets	98,789	-	-	-	-	-	98,789
Net liability arising from defined benefit obligation	(41,561)	(632)	(1,441,800)	(77,130)	(106,490)	(39,200)	(1,706,813)

34.4 Reconciliation of the movements in the fair value of scheme (plan) assets:

2018/2019	Funded assets: Local Government Pension Scheme £000	Unfunded assets: Local Government Pension Scheme £000	Unfunded assets: Firefighters' Pension Scheme 1992 £000	Unfunded assets: Firefighters' Pension Scheme 2006 £000	Unfunded assets: Firefighters' Pension Scheme 2015 £000	Unfunded assets: Firefighters' Compensation Scheme £000	Total £000
Opening fair value of scheme assets	97,499	-	-	-	-	-	97,499
Interest income	2,467	-	-	-	-	-	2,467
Remeasurement gain/(loss):							
Return on assets less interest	1,118	-	-	-	-	-	1,118
Other	-	-	43,774	(21)	(8,726)	-	35,027
Contributions from Employer	113	59	2,336	51	4,616	1,630	8,805
Contributions from employees into the scheme	814	-	1,360	50	4,110	-	6,334
Benefits paid	(2,420)	(59)	(47,470)	(80)	-	(1,630)	(51,659)
Administration expenses	(43)	-	-	-	-	-	(43)
Closing fair value of scheme assets	99,548	-	-	-	-	-	99,548

2019/2020	Funded assets: Local Government Pension Scheme £000	Unfunded assets: Local Government Pension Scheme £000	Unfunded assets: Firefighters' Pension Scheme 1992 £000	Unfunded assets: Firefighters' Pension Scheme 2006 £000	Unfunded assets: Firefighters' Pension Scheme 2015 £000	Unfunded assets: Firefighters' Compensation Scheme £000	Total £000
Opening fair value of scheme assets	99,548	-	-	-	-	-	99,548
Interest income	2,360	-	-	-	-	-	2,360
Remeasurement gain/(loss):							
Return on assets less interest	(6,410)	-	-	-	-	-	(6,410)
Other	5,781	-	45,168	(88)	(14,967)	-	35,894
Contributions from Employer	1	53	2,482	88	10,437	1,630	14,691
Contributions from employees into the scheme	834	-	930	40	4,640	-	6,444
Benefits paid	(3,261)	(53)	(48,580)	(40)	(110)	(1,630)	(53,674)
Administration expenses	(64)	-	-	-	-	-	(64)
Closing fair value of scheme assets	98,789	-	-	-	-	-	98,789

34.5 Reconciliation of present value of the scheme liabilities (defined benefit obligation):

2018/2019	Funded liabilities: Local Government Pension Scheme £000	Unfunded liabilities: Local Government Pension Scheme £000	Unfunded liabilities: Firefighters' Pension Scheme 1992 £000	Unfunded liabilities: Firefighters' Pension Scheme 2006 £000	Unfunded liabilities: Firefighters' Pension Scheme 2015 £000	Unfunded liabilities: Firefighters' Compensation Scheme £000	Total £000
Opening balance at 1 April	(138,945)	(700)	(1,465,910)	(71,760)	(50,060)	(41,350)	(1,768,725)
Current service cost	(4,298)	-	(6,280)	(160)	(14,080)	(310)	(25,128)
Interest cost	(3,525)	(17)	(36,880)	(1,830)	(1,510)	(1,040)	(44,802)
Contributions from scheme participants	(814)	-	(1,360)	(50)	(4,110)	-	(6,334)
Remeasurement gains and (losses):							
Changes in demographic assumptions	8,016	38	-	-	-	-	8,054
Changes in financial assumptions	(6,939)	(13)	(39,250)	(3,900)	(3,800)	(830)	(54,732)
Experience gains/(losses)	-	-	3,850	1,480	(1,250)	310	4,390
Past service costs, including curtailments	(1,428)	-	(60,150)	(7,490)	(10)	-	(69,078)
Benefits paid	2,420	59	47,470	80	-	1,630	51,659
Closing balance at 31 March	(145,513)	(633)	(1,558,510)	(83,630)	(74,820)	(41,590)	(1,904,696)

2019/2020	Funded liabilities: Local Government Pension Scheme £000	Unfunded liabilities: Local Government Pension Scheme £000	Unfunded liabilities: Firefighters' Pension Scheme 1992 £000	Unfunded liabilities: Firefighters' Pension Scheme 2006 £000	Unfunded liabilities: Firefighters' Pension Scheme 2015 £000	Unfunded liabilities: Firefighters' Compensation Scheme £000	Total £000
Opening balance at 1 April	(145,513)	(633)	(1,558,510)	(83,630)	(74,820)	(41,590)	(1,904,696)
Current service cost	(4,769)	-	(4,430)	(100)	(30,900)	(590)	(40,789)
Interest cost	(3,463)	(15)	(37,730)	(2,050)	(2,270)	(1,010)	(46,538)
Contributions from scheme participants	(834)	-	(930)	(40)	(4,640)	-	(6,444)
Remeasurement gains and (losses):							
Changes in demographic assumptions	(4,056)	(31)	46,720	2,800	3,380	1,510	50,323
Changes in financial assumptions	17,948	26	58,700	6,260	4,220	830	87,984
Experience gains/(losses)	(2,924)	(32)	12,160	(410)	(1,490)	20	7,324
Past service costs, including curtailments	-	-	(6,360)	-	(80)	-	(6,440)
Benefits paid	3,261	53	48,580	40	110	1,630	53,674
Closing balance at 31 March	(140,350)	(632)	(1,441,800)	(77,130)	(106,490)	(39,200)	(1,805,602)

34.6 LGPS assets comprised:

Asset category	31 March 2019 £000	%	31 March 2020 £000	%
Equities	58,838	59	56,236	57
Gilts	9,563	10	11,482	12
Other bonds	3,836	4	4,128	4
Property	8,455	8	8,787	9
Cash	3,153	3	3,545	3
Other	15,703	16	14,611	15
Total Assets	**99,548**	**100**	**98,789**	**100**

34.7 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The FPS have been assessed using an approach and model supplied by GAD and certified by them on 29 April 2020. The WMMAPF has been based on triennial actuarial valuations, the last review being 31 March 2019 and assessed by Barnett Waddingham. In calculating the IAS19 figures for the WMMAPF the actuary assumed an investment return of -4%.

The significant assumptions used by the actuary have been:

	LGPS		FPS	
	2018/2019	2019/2020	2018/2019	2019/2020
Mortality assumptions:				
Longevity at 65 for current pensioners:				
• Men	20.9	21.9	22.0	21.3
• Women	23.2	24.1	22.0	21.3
Longevity at 65 for future pensioners:				
• Men	22.6	23.8	23.9	23.0
• Women	25.0	26.0	23.9	23.0
Rate of inflation CPI	2.4%	1.85%	2.35%	2.00%
Rate of increase in salaries	3.9%*	2.85%	4.35%	4.00%
Rate of increase in pensions	2.4%	1.85%	2.35%	2.00%
Rate for discounting scheme liabilities	2.4%	2.35%	2.45%	2.25%

* Allowed for short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI. This is consistent with the 2016 valuation of the Fund.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the schemes i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

A sensitivity analysis for the WMMAPF as at 31 March 2020 is shown below:

Sensitivity analysis	£000	£000	£000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	(138,013)	(140,982)	(144,018)
Projected service cost	(4,428)	(4,541)	(4,657)
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	(141,356)	(140,982)	(140,612)
Projected service cost	(4,543)	(4,541)	(4,539)
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	(143,657)	(140,982)	(138,366)
Projected service cost	(4,655)	(4,541)	(4,429)
Adjustment to life expectancy assumptions	+1 Year	None	-1 Year
Present value of total obligation	(146,588)	(140,982)	(135,604)
Projected service cost	(4,689)	(4,541)	(4,397)

The tables below show the sensitivity of the defined benefit obligation to changes in the significant actuarial assumptions and the impact on the total liability as at 31 March 2020 for the FPS:

Firefighters' Pension Scheme 1992 Change in assumption*	Approximate % increase to Employer liability	Approximate effect on total liability £m
0.5% increase in real discount rate	-8.5%	123
0.5% increase in long term salaries rate	1.0%	(11)
0.5% increase in the pensions increase rate	7.0%	(102)
1 year increase in member life expectancy	3.0%	(45)

The weighted average duration of the defined benefit obligation for scheme members is approximately 18 years.

Firefighters' Pension Scheme 2006 Change in assumption*	Approximate % increase to Employer liability	Approximate effect on total liability £m
0.5% increase in real discount rate	-17.0%	13
0.5% increase in salaries rate	7.5%	(6)
0.5% increase in the pensions increase rate	9.5%	(7)
1 year increase in member life expectancy	3.0%	(2)

The weighted average duration of the defined benefit obligation for scheme members is approximately 38 years.

Firefighters' Pension Scheme 2015 Change in assumption*	Approximate % increase to Employer liability	Approximate effect on total liability £m
0.5% increase in real discount rate	-16.5%	17
0.5% increase in salaries rate	7.5%	(8)
0.5% increase in the pensions increase rate	9.5%	(10)
1 year increase in member life expectancy	3.0%	(3)

The weighted average duration of the defined benefit obligation for scheme members is approximately 36 years.

* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

34.8 Impact on the Authority's Cash Flows

The objective of the LGPS is to keep employers' contributions at as constant a rate as possible. The WMMAPF has agreed a strategy with the scheme's actuary to achieve a funding level of 100% by no more than 17 years with effect from the 2019 valuation.

The LGPS will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the LGPS in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings scheme to pay pensions and other benefits to certain public servants.

The £7.9m payment to the WMMAPF in April 2020 for employer pension contributions for the LGPS, included payments for the 1st April 2020 to 31st March 2021 £2.66m, 1st April 2021 to 31st March 2022 £2.63m and 1st April 2022 to 31st March 2023 £2.61m.

On 28 February 2019, GAD published the final reports in relation to the 2016 valuation of the FPS. This included the scheme specific employer contribution rates for the period April 2019 to March 2023. Employer contribution rates increased significantly because of the valuation. To cover approximately 90% of the additional cost, a section 31 government grant of £5.7m was received in 2019/20. In a letter dated 6 February 2020, the Home Office confirmed that a section 31 government grant would be paid to the Authority at the same level in 2020/21 but gave no commitment for future years. Expected employers' contributions for the FPS in the year to 31 March 2021 are approximately £13m.

35. CONTINGENT LIABILITIES

35.1 Municipal Mutual Insurance Limited (MMI)

MMI, through which the Authority had part of its insurance, ceased writing new insurance business in 1992 and is currently using its available resources to meet outstanding claims. MMI may not know the full extent of its liability claims as it may take several years for them to arise, however the Company has continued to settle claims in an orderly manner. To prevent the costs associated with an insolvent run off, the Company entered into a scheme of arrangement with its creditors. Following a Supreme Court judgement on 28th March 2012 which found against the Company, it is now highly likely that the scheme of arrangement will be triggered. Once the scheme is implemented, the Authority and others will be called upon to reimburse the company with a proportion (up to 100%) of its claims settled since 1st October 1993. The Contingent Liability is for approximately 50% (£2.060m). Payments of £0.402m (2013/14) & £0.268m (2016/17) have been made and an earmarked reserve is provided for £0.038m. The balance is held in the insurance earmarked reserve (£1.352m).

PENSION FUND ACCOUNT

2018/2019 £000					2019/2020 £000			
1992	2006	Modified	2015		1992	2006	Modified	2015
				Contributions Receivable				
				From Fire Authority				
(2,066)	(29)	(22)	(4,596)	Contributions in relation to pensionable pay	(2,362)	(41)	(27)	(10,437)
(270)	-	-	(20)	Ill health retirements	(120)	(20)	-	-
(1,363)	(27)	(24)	(4,117)	From firefighters' contributions	(928)	(17)	(20)	(4,643)
				Transfers in				
-	-	-	(13)	Individual	(112)	-	-	(80)
				Benefits Payable				
39,341	20	7	-	Pensions	40,967	24	8	1
8,228	46	-	4	Commutations and lump sum retirement benefits	7,616	-	-	-
-	-	-	-	Lump sum death benefits	-	-	-	95
				Payments to and on account of leavers				
-	-	-	-	Individual transfers	-	5	-	14
43,870	10	(39)	(8,742)	Net amount payable for the year	45,061	(49)	(39)	(15,050)
(43,870)	(10)	39	8,742	Top up Grant payable by the Government	(45,061)	49	39	15,050
-	-	-	-		-	-	-	-

2018/2019 £000	NET ASSETS STATEMENT	2019/2020 £000
-	Commutations and lump sum retirement benefits	(100)
8,625	Top-up receivable from the Government	6,267
(8,625)	Amount owing to General Fund	(6,167)
-		-

NOTES TO THE PENSION FUND ACCOUNT

The fund was established at 1st April 2006 under the Firefighters' Pension Scheme (Amendment) England Order 2006 and covered both the 1992 and 2006 FPS. From 1st April 2015, a new firefighters' pension scheme and a modified section in the 2006 scheme was established. The fund now includes the 1992, 2006 and 2015 schemes. Before 1st April 2006 the Authority was responsible for paying the pensions of its own former employees on a pay as you go basis. The FPS remain unfunded and consequently the fund has no investment assets. Benefits are funded by contributions from the Authority and employees and any difference between benefits payable and contributions receivable is met by top-up grant from the MHCLG.

Government funding by top-up grant is paid in two installments, 80% of the estimated annual amount is received in August of the relevant year with the balance paid once actual figures have been determined.

Employees' and employer's contribution levels are based on percentages of pensionable pay set nationally by the MHCLG and are subject to revaluation every four years' by GAD. The contribution rates for 2019/20 are shown in the tables below:

	1992 Scheme %	2006 Scheme %	Modified %
Employer's	**37.3**	**27.4**	**37.3**
Employees' Pensionable pay band			
Up to £15,609	**11.0**	**8.5**	**11.0**
> £15,609 to £21,852	**12.2**	**9.4**	**12.2**
> £21,852 to £31,218	**14.2**	**10.4**	**14.2**
> £31,218 to £41,624	**14.7**	**10.9**	**14.7**
> £41,624 to £52,030	**15.2**	**11.2**	**15.2**
> £52,030 to £62,436	**15.5**	**11.3**	**15.5**
> £62,436 to £104,060	**16.0**	**11.7**	**16.0**
> £104,060 to £124,872	**16.5**	**12.1**	**16.5**
> £124,872	**17.0**	**12.5**	**17.0**

	2015 Scheme %
Employer's	**28.8**
Employees' Pensionable pay band	
Up to £27,818	**11.0**
£27,819 to £51,515	**12.9**
£51,516 to £142,500	**13.5**
£142,501 or more	**14.5**

The fund is administered by the Authority and managed by the Strategic Enabler of Finance and Resources. Benefits are paid to retired officers, their survivors and others who are eligible for benefits under both the 1992, 2006 and 2015 FPS.

The fund is statutorily prevented from including interest on cashflows and administration expenses in the pension fund. These expenses are borne by the Authority in its main accounts.

The Net Assets Statement does not include liabilities to pay pensions and other benefits after the 31st March 2020. For further information on the liability to pay pensions see Note 34.

The account is prepared in accordance with the same code of practice and accounting policies as outlined in the Statement of Accounting Policies, with one exception that accounting for transfer values are on a cash basis rather than accruals basis.

ANNUAL GOVERNANCE STATEMENT

1. Scope of Responsibility

1.1 West Midlands Fire and Rescue Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2 In discharging this duty, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

1.3 The Authority has complied with the code of corporate governance which is consistent with the principles of the revised CIPFA/SOLACE Framework 2016 published by CIPFA in association with the International Federation of Accountants (IFAC) – Delivering Good Governance in Local Government. The Authority has also complied with the requirements of CIPFA's statement on the role of the Chief Financial Officer in Local Government. This Annual Governance Statement explains how the Authority has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2015, regulation 6 which require the Authority to prepare an Annual Governance Statement.

2. The Purpose of the Governance Framework

2.1 The governance framework comprises the systems and processes, culture and values by which the Authority is directed and controlled and its activities through which it accounts to and engages with the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, value for money services.

2.2 The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place for the year ended 31st March 2020 and up to the date of the approval of the annual report and statement of accounts.

3. The Governance Framework

The key elements of the systems and processes that comprise the Authority's governance arrangements include the following:-

3.1 The Authority has produced a Corporate Strategy setting out its objectives and there is regular performance monitoring in which achievement of the Authority's objectives is measured and monitored.

3.2 The Authority has established clear channels of communication with the community and stakeholders regarding the production of the Annual Report and consultation on the key priorities of the Service. This also encourages open communication.

3.3 The Authority facilitates policy and decision-making via regular Policy Planning Forums and Authority and Executive Committee meetings. An Audit and Risk Committee provides independent assurance to the Authority on risk management and internal control and the effectiveness of the arrangements the Authority has for these matters. The constitution of the Committees including the terms of reference is reviewed annually and available on the Internet.

3.4 The Authority ensures compliance with established strategies, procedures, laws and regulations – including risk management. The Authority also maintains and reviews regularly its code of conduct and whistle blowing policy. There is a comprehensive induction programme in place and information regarding strategies and procedures are held on the intranet, which continues to be developed. The Authority has a strong Internal Audit function and established protocols for working with External Audit.

3.5 West Midlands Fire and Rescue Authority will continue to enhance and strengthen its internal control environment through the review of current policies and procedures.

3.6 The Authority has corporate risk management arrangements in place which are supported by an approved Risk Management Strategy enabling Managers and other senior officers to identify, assess and prioritise risks within their own work areas which impact on the ability of the Authority and its services to meet objectives. To consider the effectiveness of the Authority's risk management arrangements is a specific term of reference for the Audit and Risk Committee and risk management is a specific responsibility of both the Chair and Vice Chair.

3.7 The Authority's Corporate Risk Register identifies the principal risks to the achievement of the Authority's objectives and assesses the nature and extent of those risks (through assessment of likelihood and impact). The Register identifies risk owners whose responsibility includes the identification of controls and actions to manage them efficiently, effectively and economically.

3.8 The Authority ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised, by having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. The Authority plans its spending on an established planning cycle for policy development, budget setting and performance management through the business planning process. This ensures that resources are aligned to priorities and secures best value from the resources that are available.

3.9 The Chief Financial Officer is a key member of the leadership team, helping to develop and implement the Authority's strategy. The Authority's financial system is an ORACLE based general ledger and management information system, which integrates the general ledger function with those of budgetary control and payments. Financial Regulations and Contract Procedure Rules are approved and regularly reviewed by the Authority. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way, and corrective action initiated.

3.10 The Authority's performance management and reporting of performance management continues to be improved with a more focused Corporate Strategy, the setting of priorities and is supported by regular performance monitoring. Corporate performance is reported on a quarterly basis and this process provides officers and Members with the opportunity to share knowledge and understanding about key performance issues affecting services.

3.11 The Authority within its committee framework has an Appointment, Standards and Appeals Committee to promote high ethical standards amongst Members. This Committee leads on developing policies and procedures to accompany the Code of Conduct for Members and is responsible for local assessment and review of complaints about members' conduct. The Authority also has a Scrutiny Committee which undertakes performance management functions and informs policy development.

3.12 The Fire and Rescue National Framework for England sets out a requirement for Fire and Rescue Authorities to publish 'Statements of Assurance'. Specifically, Fire and Rescue Authorities must provide assurance on financial, governance and operational matters and show how they have had due regard to the expectations set out in their integrated risk management plan and the requirements included in this Framework. The Authority has approved the Statement of Assurance which is available on the Service's website.

4. Review of Effectiveness

4.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the statutory officers and principal managers of the Authority who have responsibility for the development and maintenance of the governance environment, the internal audit annual report and comments made by the external auditors in their annual audit letter and other reports.

4.2 Section unit business plans contain a variety of performance indicators and targets that are regularly reviewed.

4.3 The Authority's political governance arrangements, which are appropriately reviewed by officers, set out the responsibilities of both Members and senior managers. In particular the Authority has identified the following statutory post holders:-

- Chief Fire Officer
- Treasurer
- Monitoring Officer

In addition to the statutory posts, the post of Clerk to the Authority has been maintained.

4.4 The arrangements for the provision of internal audit are contained within the Authority's Financial Regulations. The Treasurer is responsible for ensuring that there is an adequate and effective system of internal audit of the Authority's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2015. The internal audit provision operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government. The Authority's Audit Plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Authority's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to Authority establishments and fraud investigations. Internal Audit leads on promoting a counter-fraud culture within the Authority.

4.5 The resulting Audit Plan is discussed and agreed with officers of the Strategic Enabling Team and the Audit and Risk Committee and shared with the Authority's external auditor. Meetings between the internal and external auditor ensure that duplication of effort is avoided. All Authority Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any areas needing improvement.

4.6 The Authority's review of the effectiveness of the system of internal control is informed by:-

- The work undertaken by Internal Audit during the year;
- The work undertaken by the external auditor reported in their annual audit;
- Other work undertaken by independent inspection bodies.

4.7 From the work undertaken by Internal Audit in 2019/2020 the Internal Audit has given a 'reasonable assurance' that the Authority has adequate and effective governance, risk management and internal control processes. This represents an unqualified opinion and the highest level of assurance available to Audit Services. In giving this opinion it is recognised that assurance can never be absolute. The most that internal audit can provide is reasonable assurance that there are no major weaknesses in the Authority's governance, risk management and control processes.

4.8 The Authority is able to confirm that its financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

4.9 Audit Services have reported and advised on the implications of the result of the review of effectiveness of the governance framework by the sources noted above and that the arrangements continue to be regarded as fit for purpose in accordance with the Authority's governance framework. The areas to be specifically addressed are outlined in 5.5.

5. Significant governance arrangements within the Authority

5.1 West Midlands Fire & Rescue Authority has a legal duty to provide an efficient, safe and effective fire and rescue service. The key priorities are:-

- Prevention – Safer and healthier communities
- Protection – stronger business communities
- Response – dealing effectively with emergencies

5.2 These form the basis of the Authority's Corporate Strategy known as The Plan 2019-2022 which sets out the outcomes and priorities based on the Community Safety Strategy. The five-minute attendance standard lies at the heart of the Service Delivery Model. The model shows how staff provide the core prevention, protection and response services to make the West Midlands safer, stronger and healthier.

5.3 Grant Thornton, the Authority's External Auditors, published the Audit Findings Report for its 2018/2019 audit work which reported an unqualified opinion on the financial statements. It also issued an unqualified value for money conclusion stating that the Authority had proper arrangements in all significant respects to ensure it delivered value for money in the use of resources.

5.4 Based on audit work undertaken during the year an Annual Internal Audit Report was presented to the Audit and Risk Committee on 27 July 2020, Audit work which was completed in 2019/2020 included:-

- Risk Management
- Fixed Asset Accounting
- Accounts Receivable
- Accounts Payable
- Budgetary Control
- Payroll
- Governance
- Data Protection / IT
- Freedom of Information
- Partnerships

5.5 As a result of these audits the following was identified as the main issue:-

Payroll

A review of the payroll process was undertaken to ensure that the Fire Service had appropriate controls in place to mitigate the risk of fraud and error in the calculation, recording and payment of the payroll. We identified two issues of significance, the first of which is a re-iteration of the recommendation made in last year's report relating to:

- the People Support Services section did not have formal procedure notes which detailed the process for obtaining and evidencing approval for new starters.

- end dates for employees with temporary contracts were not recorded, which could lead to the overpayment of salaries to these individuals

5.6 The issues outlined above, together with any other issues highlighted in the Annual Internal Audit Report have been raised with relevant managers and actions have been taken to achieve improvements.

5.7 As part of the Finance Settlement for 2016/17, an offer was made for a multiyear funding settlement. Any Authority wishing to take up the four year funding settlement to 2019/20 was required to set out their proposals in an Efficiency Plan to qualify for the four year settlement from April 2016. The Authority considered and approved the Efficiency Plan which was submitted to the Home Office.

5.8 In February 2020, the Secretary of State for Ministry of Housing, Communities and Local Government (MHCLG) confirmed the Authority's funding settlement for 2020/21, which was a one-year settlement only. In the Secretary of State for MHCLG settlement announcement, there was no indication of further funding levels beyond 2020/21. In planning for 2021/22 onwards, a reduction of 2% was assumed to the overall core funding. It should be noted that this is a very provisional figure and there is the potential for the scale of reductions to be of a greater magnitude than this base assumption. Every 1% reduction in core funding represents a loss of circa £0.5m funding for the Authority.

5.9 With the anticipation of cuts to government funding continuing into future years, the Authority faces considerable financial pressures which could result in difficulties to deliver an efficient and effective service, which in turn would increase the risk to the communities of the West Midlands. A key aim for the Authority is to therefore identify and deliver further Service efficiencies to ensure the ongoing stability of the Authority's financial position.

5.10 Covid-19 Governance Impact

During March 2020, the Coronavirus pandemic resulted in a nationwide lockdown and an emergency response, which had an impact on the Authority's "business as usual". This has and will continue to have an impact on the Authority's governance arrangements.

During the lockdown period temporary governance arrangements have been approved by the Chief Fire Officer to enable decision making to continue where needed, including:

- approval of the appointment of a deputy monitoring officer,
- approval of the WMFS key performance targets.

A number of meetings were cancelled during the early weeks of the lockdown period and arrangements were made for Authority Members to be kept informed through the use of weekly Authority briefings via video conferencing. For future meetings, the Authority will hold these virtually in accordance with the Regulations published by the Government allowing participation by remote attendance, during the period that physical meetings are not permitted.

Whilst business continuity arrangements have been in place the Authority's Audit and Risk Committee met virtually on 1 June 2020 and a further meeting is scheduled for 27 July 2020. An extraordinary meeting of the Pensions Board also took place virtually on 8 June 2020. A full meeting of the Authority, which would be the Annual General Meeting is planned for September 2020,

6. Certification

6.1 To the best of our knowledge, the governance arrangements, as outlined above have been effectively operating during the year with the exception of those areas identified as requiring improvement. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our annual review.

Greg Brackenridge Chair West Midlands Fire & Rescue Authority	Phil Loach Chief Fire Officer

Accruals
Income and expenditure are recognised as they are earned or incurred, not as money is received or paid (see Debtors and Creditors).

Accumulated Absences Account
The estimated cost of any untaken employee benefits.

Balance Sheet
A statement of assets, liabilities and other balances at the end of an accounting period.

Capital Adjustment Account
The fundamental principal of capital accounting is that accounting for non-current assets is separated from accounting for their financing. This is one of two reserves that help to manage this separation. It provides a balancing mechanism between the different rates at which assets are depreciated and are financed through the capital controls system.

Capital Expenditure
Expenditure on the acquisition of a fixed asset, or expenditure which adds to, and not merely maintains the value of an existing fixed asset.

Capital Receipt
Money received from the disposal of land and other assets. Capital receipts can only be used to fund capital expenditure.

Chartered Institute of Public Finance and Accountancy (CIPFA)
The only leading professional accountancy body in the UK specialising in the public sector. It has responsibility for setting accounting standards for local government.

Code – code of practice on local authority accounting
The rules and regulations governing the information and layout of the financial reporting statement of the Authority.

Creditor
An amount owed by an authority for work done, goods received or services rendered but for which payment has not been made at the end of the year.

Current Assets
Items from which the Authority derives a benefit but which will be consumed or realised during the next accounting period, e.g. stocks, debtors, cash.

Current Liabilities
Amounts falling due for payment in the next accounting period.

Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Debtor
A sum due to the Authority but not received at the financial year end.

Deferred Liability
Amounts owed to outside bodies to be paid in predetermined instalments over more than one accounting period; e.g. leasing charges.

Defined Benefit Pension Scheme
A scheme in which the rules specify the benefits to be paid and the scheme is financed accordingly.

Depreciation
The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

Emoluments
These are payments received from employment, usually in the form of wages, salaries or fees.

Employee Benefits
This is the net cost of any untaken benefit e.g. annual leave at the end of the financial year. This figure is shown in the Provision for Accumulated Absences and Accumulated Absences Accounts. The difference between the amounts held on the two balance sheet dates represents the movement in the Comprehensive Income and Expenditure Account.

Fixed Asset
An item from which the Authority will derive a benefit over several accounting periods.

General Fund
The total services of the Authority, the net cost of which is met by Council Tax, NDR and Government Grants.

Government Grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfer of assets to an authority, in return for past or future compliance with certain conditions relating to the activities of the Authority.

Heritage Assets
Assets which are primarily held and maintained for knowledge and cultural purposes.

Impairment
A diminution in value of a fixed asset resulting from, inter alia, obsolescence or physical damage.

Interest Cost (Pensions)
For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

International Financial Reporting Standards (IFRS)
The set of accounting standards that has been introduced across the private and public sector from 1st April 2010.

Inventories
The value of those items of raw materials and stores the Authority has procured to use on a continuing basis, but which are not used at the balance sheet date.

Liabilities
Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are payable within one year of the balance sheet date.

Long term Borrowing
The total amounts borrowed from external lenders for capital purposes but not repaid at the balance sheet date.

Long term Debtors
Amounts due to the Authority to be paid in predetermined instalments over more than one accounting period; e.g. car loans to staff.

Materiality
An item is material if its omission, non-disclosure or mis-statement in financial statements could be expected to lead to a distortion of the view given by the financial statements.

Minimum Revenue Provision
An amount that is considered prudent which must be set aside from revenue as provision for the repayment of loan debt.

NDR
Rates which are levied on business properties.

Net Book Value
The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net Realisable Value
The open market value of the asset in its existing use (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Non Operational Assets
Non-current assets held by the Authority but not used or consumed in the delivery of services.

Operational Assets
Non-current assets held and occupied, used or consumed by the Authority in the delivery of services for which it has either a statutory or discretionary responsibility.

Past Service Cost (Pensions)
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in the prior periods arising in the current period because of the introduction of, or improvement to, retirement benefits.

Payment in Advance
Amounts actually paid in a given accounting period prior to the period for which they were payable

Precept
The amount levied upon local authorities in the West Midlands by the Fire Authority.

Provisions
Amounts set aside to meet future liabilities arising from past events but the exact amount and date on which it will arise is uncertain.

Receipts in Advance
Amounts actually received in a given accounting period prior to the period for which they were receivable.

Related Party
The Authority is required to disclose material transactions with related parties, bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority, related parties are deemed to include:
Central Government.
West Midlands Local Authorities.
Members of the Authority or parties related to them.
Chief Officer or parties related to them.

Reserves
Amounts set aside to meet future contingencies but whose use does not affect the Authority's net expenditure in a given year. Appropriations to and from reserves may not be made directly from the revenue account. This is a crucial distinction between provisions and reserves.

Revaluation Reserve
The fundamental principal of capital accounting is that accounting for non-current assets is separated from accounting for their financing. This is one of two reserves that help to manage this separation. It records unrealised revaluation gains arising (since 1st April 2007) from holding non-current assets.

Revenue Expenditure
Revenue Expenditure is money spent on the day-to-day running costs of providing services. It is usually of a constantly recurring nature and produces no permanent assets.

Revenue Support Grant (RSG)
A grant from central Government towards the cost of providing services.

Temporary Loans
This represents money borrowed for a period of less than one year

Useful Life
The period over which the Authority will derive benefits from the use of a fixed asset.

SUMMARY OF ACCOUNTS 2019-2020

WEST MIDLANDS FIRE SERVICE

Making the West Midlands Safer, Stronger and Healthier

www.wmfs.net
@WestMidsFire

INTRODUCTION

This document is a summary of the Authority's Statement of Accounts for 2019/20.

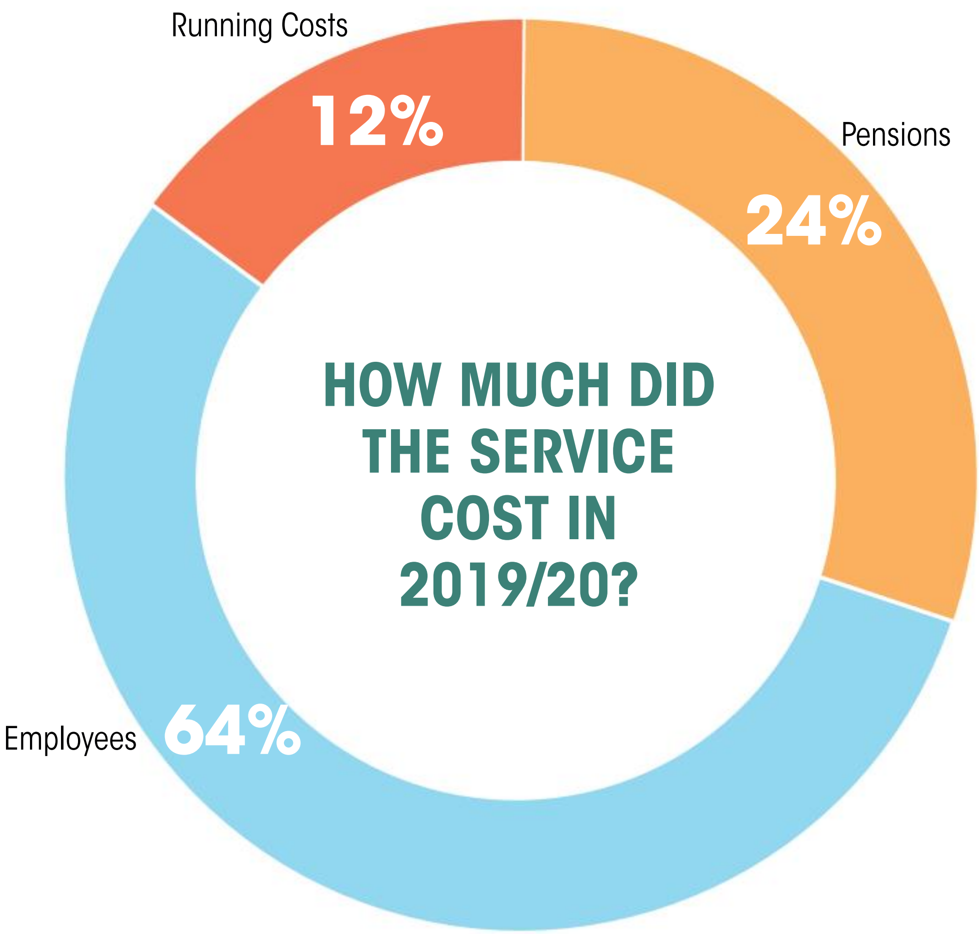
The Authority is responsible for the stewardship of public money and the production of summary accounts allows it to enhance its accountability to the residents of the West Midlands.

The Authority's 2019/20 Statement of Accounts is prepared in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, under International Financial Reporting Standards.

These summary accounts have no legal standing and are not subject to external audit.

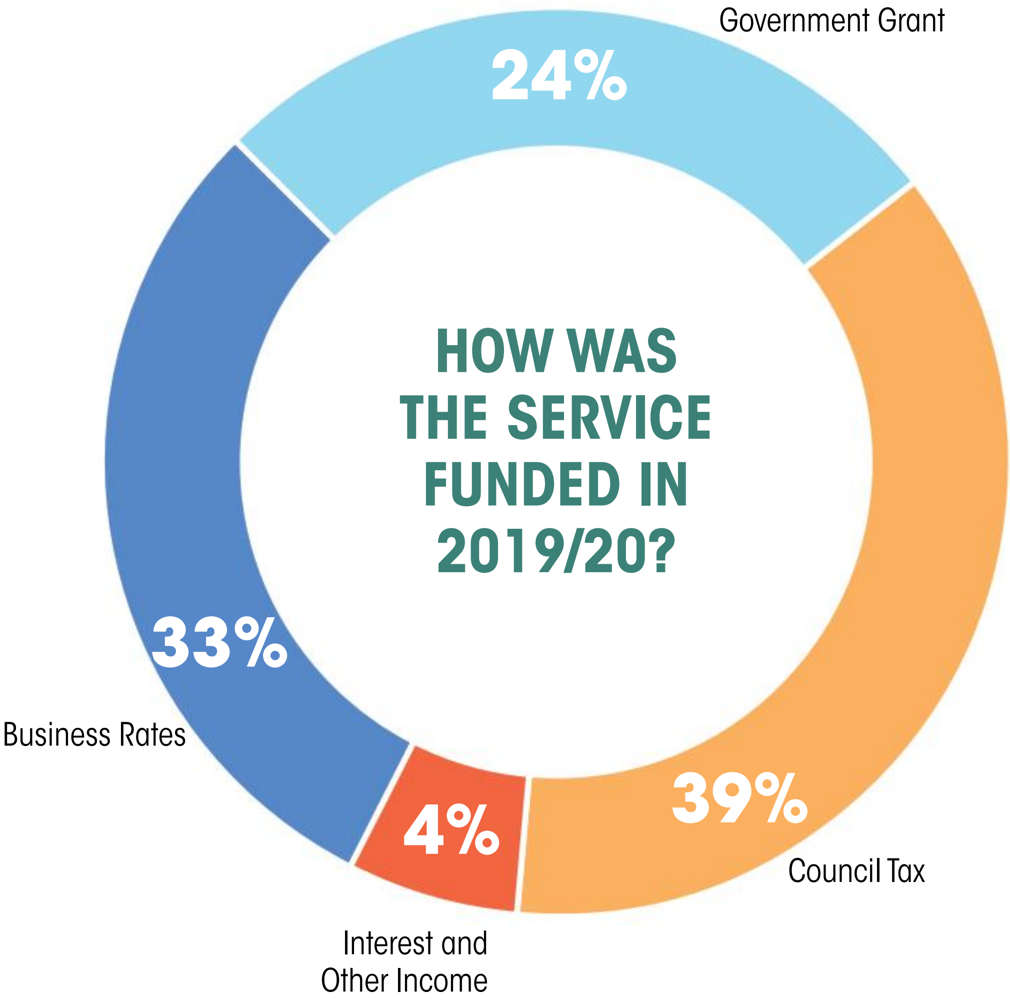
The majority of the net cost of Fire Service expenditure relates to the cost of services (£130m).

The total Provision of Services in 2019/20 shows a deficit of £77.808m. Within this deficit is the expenditure of the authority which for 2019/20 was £188.021m. The type of costs can be broken down as shown opposite:



The total income of the Authority in 2019/20 was £110.213m. The majority of funding came from the government in the form of grant and a share of business rates.

The main sources of funding are shown opposite.



BALANCES AND RESERVES

The Fire Authority must consider the level of general balances it wishes to maintain before it can decide the level of Council Tax to charge in any year.

In order to set a balanced budget in 2019/20 the Authority assumed using £1.1m general balances. The actual level of general balances decreased in the year by £1.091m, leaving £5.823m general balances at the end of the financial year. The Authority holds general balances as funding to meet any unforeseen events which it may need to respond to. Interest is earned on any unused balances.

In addition, as part of the closedown of accounts process, consideration needs to be given to the level of earmarked reserves required. These are amounts set aside to meet specific anticipated future demands. The level of earmarked reserves decreased by £3.243m, this brought the total level of these reserves to £30.137m. Interest is earned on any balances until expenditure is committed against the demands identified.

CAPITAL EXPENDITURE AND FUNDING

In 2019/20, the Authority spent £5.283 million on capital projects.

The expenditure was incurred on the following:

	£m
Land and buildings	2.916
Vehicles	1.691
ICT & Equipment	0.676

The total expenditure was financed directly by the application of direct revenue contributions (£5.2m) and capital grants (£0.083m)

No borrowing was undertaken to assist with purchase of assets during 2019/20. Borrowing in earlier years meant that at the end of 2019/20 the Authority had total loans of £35.7m (the interest and principal on any loans needs to be met from future revenue budgets). The value of long-term assets held by the Authority as at 31 March 2020 which the loans had helped fund was £135.6m, of which approximately 93% related to land and buildings and 7% related to vehicles and equipment.

Further information can be found by contacting the Finance Manager at
West Midlands Fire Service Headquarters,
99 Vauxhall Road,
Birmingham, B7 4HW.

Telephone: 0121 380 6920 or e-mail kal.shoker@wmfs.net

The Authority's full 2019/20 audited Statement of Accounts can be found on our website www.wmfs.net/

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

27 JULY 2020

1. TREASURY MANAGEMENT – ANNUAL REPORT 2019/2020

Report of the Treasurer.

RECOMMENDED

THAT the report and Appendix are noted and the prudential and treasury indicators approved.

2. PURPOSE OF REPORT

2.1 The Authority agreed its 2019/2020 Treasury Management Strategy Statement and Annual Investment Strategy and its Prudential indicators in February 2019. Part of the requirements of the Treasury Strategy and Prudential Code are that periodic reports are presented to Members.

2.2 The annual treasury report covers the treasury activity during 2019/2020 and the actual Prudential Indicators for 2019/2020.

3. BACKGROUND

3.1 The Authority is required to produce an annual treasury management report of activities and the actual prudential and treasury indicators for 2019/2020.

3.2 Appendix A, the Annual Treasury Management Report 2019/2020 meets the requirement of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code of Capital Finance in Local Authorities (the Prudential Code). The Authority is required to comply with both Codes through regulation issued under the Local Government Act 2003.

4. EQUALITY IMPACT ASSESSMENT

In preparing this report, an initial Equality Impact Assessment is required and has not been carried out because the matters contained in this report do not relate to a policy change.

5. LEGAL IMPLICATIONS

The course of action recommended in this report does not raise issues which should be drawn to the attention of the Authority's Monitoring Officer.

6. FINANCIAL IMPLICATIONS

These are contained in the body of the report and the attached Appendix.

7. ENVIRONMENTAL IMPLICATIONS

There are no environmental implications arising from this report.

BACKGROUND PAPERS

Authority's Budget and Precept Report – February 2019
Treasury Management Mid-Year Report – Audit and Risk Committee November 2019
Link Treasury Services – Treasury Management Bulletins and Newsletters

The contact officer for this report is Deputy Chief Fire Officer Wayne Brown, telephone number 0121 380 6907.

MIKE GRIFFITHS
TREASURER

APPENDIX A

WEST MIDLANDS FIRE SERVICE

Annual Treasury Management Review
2019/20

1. Introduction

This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2019/20 the minimum reporting requirements were that the Authority should receive the following reports:

- an annual treasury strategy in advance of the year (Authority 18/02/2019)
- a mid-year treasury update report (Audit Committee 11/11/2019)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

This report provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

During 2019/20 the Authority complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2018/19	2019/20
Actual capital expenditure	£8.890m	£5.283m
Total Capital Financing Requirement	£37.143m	£36.259m
Financing costs to net revenue stream	2.4%	2.5%

The Treasurer confirms that no borrowing was undertaken for any capital purpose during 2019/20 and that the statutory borrowing limit (the authorised limit), was not breached.

As at 31st March 2020, the Authority's external debt was £35.697m (£36.002m as at 31st March 2019) and its investment totalled £45.583m (£40.904m as at 31st March 2019).

2. The Economy and Interest Rates

UK Brexit. The main issue in 2019 was for the House of Commons to agree on a way forward for the UK over the issue of Brexit. This resulted in the resignation of Teresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.

Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three-monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty resulted in the MPC doing nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during this lockdown period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. At the time of writing, this is a rapidly evolving situation so there may be further measures to come from the Bank and the Government. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lockdown is ended. Provided the coronavirus outbreak is brought under control relatively swiftly, and the lockdown is eased, then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

Employment had been growing healthily through the last year but is now heading for a hit in 2020. The good news over the last year is that wage inflation has been significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, while people cannot leave their homes to do non-food shopping, retail sales will also take a big hit.

3. The Authority's Capital Expenditure and Financing

The Authority undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Authority's borrowing need; or

- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

	2018/19 Actual £m	2019/20 Actual £m
Total capital expenditure	**8.809**	**5.283**
Resourced by:		
• Capital receipts	0.000	0.000
• Capital grants	0.660	0.083
• Revenue Contribution to Capital	8.149	5.200
Capital Expenditure Financed from Borrowing	**0**	**0**

4. Overall Treasury Position as at 31 March 2020

The Authority's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Authority's debt position. The CFR results from the capital activity of the Authority and what resources have been used to pay for the capital spend. It represents the 2019/20 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Authority's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Authority's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources.

Reducing the CFR – the Authority's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Authority is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts);
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Authority's Treasury Management Strategy Report for 2019/20 was approved 18 February 2019.

The Authority's CFR for the year is shown below and represents a key prudential indicator.

CFR	31 March 2019 Actual £m	31 March 2020 Actual £m
Opening balance	37.977	37.143
Add unfinanced capital expenditure	0	0
Less MRP	(0.834)	(0.884)
Less VRP	0	0
Closing balance	37.143	36.259

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allows the Authority some flexibility to borrow in advance of its immediate capital needs in 2019/20.

	31 March 2019 Actual £m	31 March 2020 Actual £m
External Debt	36.002	35.697
Investments	40.904	45.583
Net Borrowing Position	(4.902)	(9.886)
CFR	37.143	36.259

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Authority does not have the power to borrow above this level. The table below demonstrates that during 2019/20 the Authority has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Authority during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2018/19	**2019/20**
Authorised limit	£45m	£44m
Operational boundary	£41m	£40m
Maximum gross borrowing position	£38m	£37m
Financing costs as a proportion of net revenue stream	2.4%	2.5%

5. Overall Treasury Position as at 31 March 2020

The Authority's investment position is organised with the treasury management service at Sandwell MBC, in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

Procedures and controls to achieve these objectives are well established both through Member reporting, and through officer activity detailed in the Authority's Treasury Management Practices.

At the beginning and the end of 2019/20 the Authority's position was as follows:

	31 March 2019 Principal £m	**Rate/ Return**	**31 March 2020 Principal £m**	**Rate/ Return**
Fixed Rate Loans:				
PWLB	*£33.1*	*5.3%*	*£33.1*	*5.3%*
Ex WMCC	*£2.9*	*5.6%*	*£2.6*	*5.6%*
Total Debt	*£36.0*	*5.4%*	*£35.7*	*5.4%*
CFR	*£37.1*		*£36.3*	
Over / (under) borrowing	*(£1.1)*		*(£0.6)*	
Investments:				
Sandwell MBC	*£40.9*	*0.7%*	*£45.6*	*0.9%*
Net Debt	(£4.9)		(£9.9)	

The maturity structure of the debt portfolio was as follows:

	31 March 2019 Actual £m	**31 March 2020 Actual £m**
Under 12 months	305	1.992
12 months and within 24 months	2.022	2.476
24 months and within 5 years	3.836	1.685
5 years and within 10 years	3.139	2.834
10 years and above	26.700	26.700

6. The Strategy for 2019/20

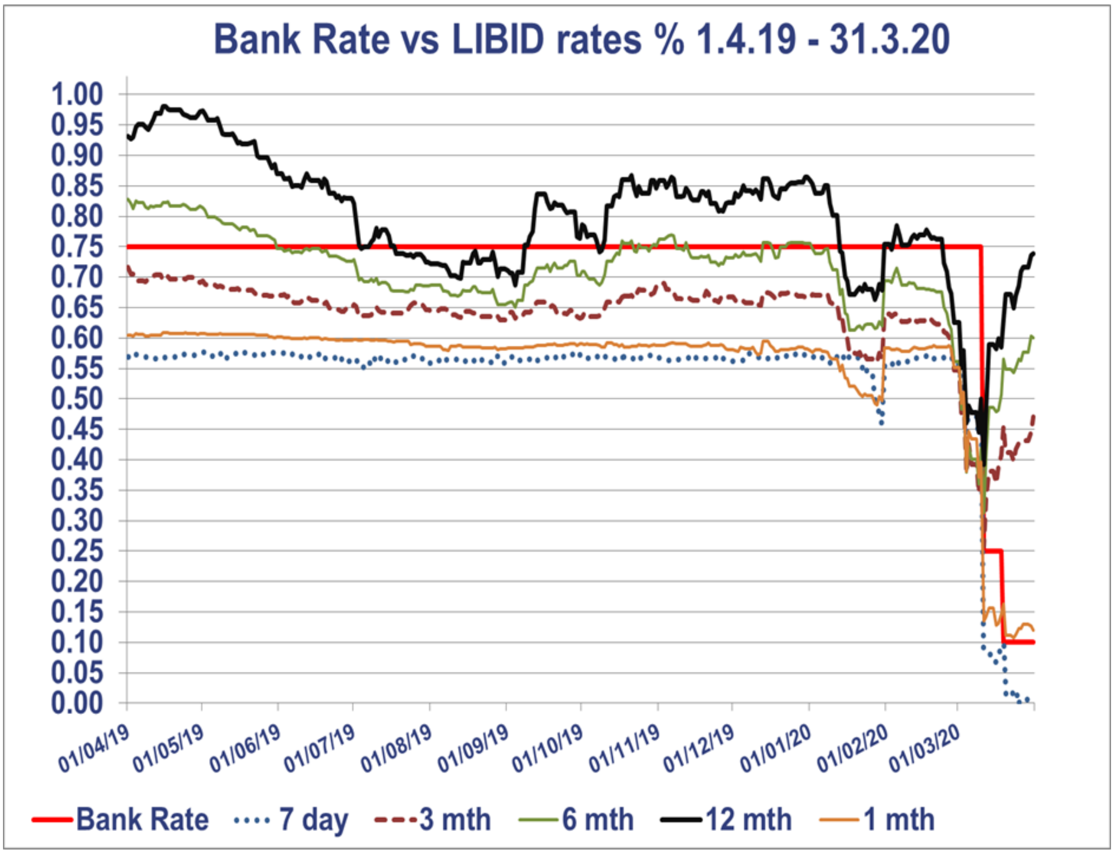
Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled but would only rise to 1.0% during 2020.

Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets. As longer term rates were significantly higher than shorter term rates during the year, value was therefore sought by placing longer term investments where cash balances were sufficient to allow this.

While the Authority has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

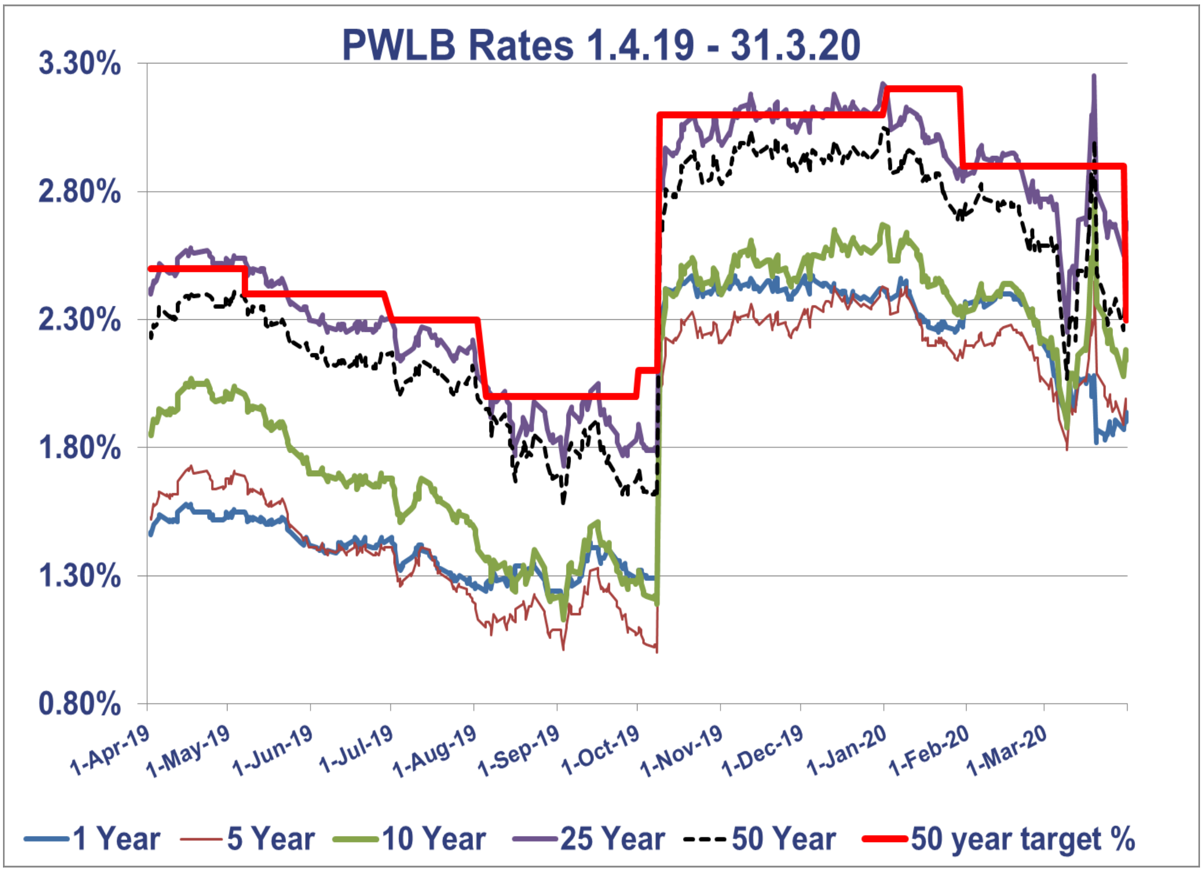
Investment strategy and control of interest rate risk



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.75	0.58	0.61	0.72	0.83	0.98
High Date	01/04/2019	09/05/2019	15/04/2019	01/04/2019	01/04/2019	15/04/2019
Low	0.10	0.00	0.11	0.26	0.31	0.39
Low Date	19/03/2020	25/03/2020	23/03/2020	11/03/2020	11/03/2020	11/03/2020
Average	0.72	0.53	0.56	0.63	0.70	0.80
Spread	0.65	0.58	0.50	0.46	0.52	0.59

7. Borrowing Rates in 2019/20

The graphs for PWLB rates show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



8. **Borrowing Outturn for 2019/20**

Borrowing – No borrowing was undertaken during 2019/20.

Rescheduling – No rescheduling was undertaken during 2019/20.

9. Investment Outturn for 2019/20

Investment Policy – the Authority's investment policy is governed by MHCLG guidance, which was been implemented in the annual investment strategy approved by the Authority on 18 February 2019. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.

Investments held by the Authority - the Authority maintained an average balance of £48.9m of internally managed funds. The internally managed funds earned an average rate of return of 0.87%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.54%. This compares with a budget assumption of £47m investment balances earning an average rate of 0.85%.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

27 JULY 2020

1. **REQUEST FROM DEPENDANT FOR THE REINSTATEMENT OF A WIDOW'S PENSION**

   Report of the Chief Fire Officer.

2. **PURPOSE OF REPORT**

   This report is submitted to request that the Committee in their role as Scheme Manager make a decision as required by the rules of the Firefighters' Pension Scheme (1992).

3. **BACKGROUND**

3.1 Under Part C, Regulation 10 of the Firefighters' Pension Scheme 1992, an Authority has discretion to reinstate all or part of a widow's pension that has previously been stopped as a result of remarriage if the new spouse dies.

3.2 A widow's pension was put into payment on 24 March 1985 following the death on duty of a scheme member.

3.3 The pension was stopped on 23 December 1990 when the recipient remarried.

3.4 The widow's second husband passed away on 28 January 2020.

3.5 The widow has offered no mitigating circumstances for her request.

4. DECISION REQUIRED

   The Committee are asked to decide whether the Widow's Pension should be reinstated.

5. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out.

6. **LEGAL IMPLICATIONS**

The decision of the Scheme Manager in this case may be challenged by the member requesting the decision. The challenge would be made through the Firefighters' Pension Scheme Internal Dispute Resolution Procedure. If this process does not resolve the matter, the issue can be taken to The Pension Regulator and finally to the Supreme Court.

7. **FINANCIAL IMPLICATIONS**

Reinstating the Widow's pension will cost the Pension Fund £4,436.90 per annum.

BACKGROUND PAPERS

The Firefighters Pension Scheme (England) Order 1992

The contact name for this report is DCFO Wayne Brown, telephone number 0121 380 6907.

PHIL LOACH
CHIEF FIRE OFFICER

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

27 JULY 2020

1. **PENSIONABLE PAY DECISION**

Report of the Chief Fire Officer.

2. **PURPOSE OF REPORT**

This report is submitted to request that the Committee in their role as Scheme Manager make a decision regarding whether an allowance should be treated as pensionable pay.

3. **BACKGROUND**

3.1 Under the rules of the various Firefighter Pension Schemes it is the responsibility of the Fire Authority to determine what constitutes Pensionable Pay for each scheme. In its role as the Scheme Manager the Audit and Risk Committee wield this responsibility.

3.2 West Midlands Fire Service has recently agreed to implement a new allowance payable to employees working within the Fire Safety team. The affected employees include members of the Local Government (LGPS) and Firefighters Pension Schemes (1992, 2006, and 2015).

3.3 The attached paper, approved by the Joint Consultative Committee, details the changes being made to working arrangements within the function.

3.4 The paper notes that during the trial period the payment will be pensionable in full for members of the LGPS and non-pensionable for members of the 2015 scheme. This is in line with the rules of those schemes and cannot be altered by the employer.

3.5 For members of the 1992 and 2006 Pension Schemes it is the responsibility of the Scheme Manager to decide if a payment meets the criteria to be classed as pensionable.

3.6 Whilst a pensionable payment is being made on a Temporary basis in the 1992 and 2006 schemes the Scheme Manager can agree that the payment is treated under the Additional Pension Benefit rules.

4. DEFINITION OF PENSIONABLE PAY

4.1 Pensionable pay for all schemes is defined as being the pay determined in relation to the performance of the duties of the role.

4.2 When considering the issue of Pensionable Pay the Scheme Manager should be especially mindful of the Blackbourne Principles as outlined within the Firefighters Pension Scheme Advisory Board factsheet. (Appendix 1).

5. DECISIONS REQUIRED

5.1 The Committee is asked to decide whether the payment meets the definition of Pensionable Pay above.

5.2 The Committee are further asked to decide whether If the payment is classed as Pensionable Pay it should it be treated under the Additional Pension Benefit rules for members of the 1992 and 2006 Firefighters' Pension Schemes, whilst being paid on a temporary basis.

6. EQUALITY IMPACT ASSESSMENT

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out.

7. LEGAL IMPLICATIONS

The decision of the Scheme Manager in this case may be challenged by an employee in receipt of the allowance. The challenge would be made through the Firefighters' Pension Scheme Internal Dispute Resolution Procedure. If this process does not resolve the matter the issue can be taken to The Pension Regulator and finally to the Supreme Court.

8. **FINANCIAL IMPLICATIONS**

Deciding that this allowance is part of Pensionable pay will increase the cost by a maximum of £6,564 per annum, during the trial period and £5,761 if the arrangement is subsequently made permanent.

BACKGROUND PAPERS

The Firemen’s Pension Scheme Order 1992
The Firefighters’ Pension Scheme (England) Order 2006
The Firefighters’ Pension Scheme (England) Regulations 2014

The contact name for this report is DCFO Wayne Brown telephone number 0121 380 6907.

PHIL LOACH
CHIEF FIRE OFFICER

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT & RISK COMMITTEE

27 JULY 2020

1. CORPORATE RISK UPDATE

Report of the Chief Fire Officer.

RECOMMENDED

THAT Audit and Risk Committee approve the Corporate Risk Assurance Map Summary (Quarter 3, 2019/20, Appendix 1) and note the Position Statement (Quarter 3, 2019/20, Appendix 2) for each risk.

2. PURPOSE OF REPORT

This six-monthly update is provided to ensure Members remain informed about all aspects relating to the management of the Authority's corporate risks. It covers Quarter 2, 2019/20 and Quarter 3, 2019/20.

3. BACKGROUND

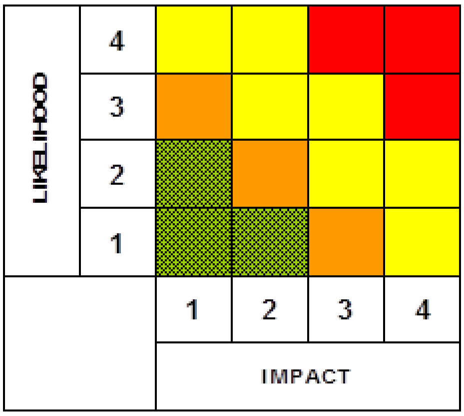
3.1 This report includes the Corporate Risk Assurance Map Summary and the Position Statement for Quarter 3 2019/20. This is the combined six-monthly report as agreed by Members at the Audit Committee Meeting held on the 25 July 2016.

3.2 In accordance with the Service's risk management strategy, the Corporate Risk Assurance Map Summary is submitted for approval by the Audit and Risk Committee, following its submission and discussion at the Corporate Quarterly Performance Review Meeting.

3.3 Corporate risks are 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. Currently, the Service maintains 8 corporate risks, some of which have more than one element.

3.4 Each corporate risk is assigned to a Risk Owner, who is a member of the Strategic Enabling Team. The Risk Owner has the overall responsibility for monitoring and reviewing the progress being made in managing the risk.

3.5 To enable for effective risk management, the Risk Owner will periodically undertake an assessment of each corporate risk. The frequency of this review will be based upon the estimated risk rating undertaken based on likelihood x impact. The likelihood is a measure of probability of a given risk occurring using a scale of 1 (low) to 4 (high). The impact is a measure of the severity or loss should the risk occur again, using a scale of 1 (low) to 4 (high).



	HIGH RISK - periodic review every 6 weeks
	MEDIUM RISK - periodic review every 3 months
	LOW RISK - periodic review every 6 months
	VERY LOW RISK - periodic review every 12 months

3.6 In order to ensure that Members are kept informed of corporate risk matters a Corporate Risk Assurance Map Summary for Quarter 3, 2019/20 (Appendix 1) and the Position Statement for Quarter 3, 2019/20 (Appendix 2) are attached.

3.7 In undertaking a review of corporate risks, the Risk Owner has reviewed the Corporate Risk Assurance Map. The Assurance Map provides details of:-

- The strategic objectives and performance indicators relevant to the risk.
- The current risk scores.
- A description of events that could lead the corporate risk to be 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.

3.8 As part of the review, the Risk Owner has considered the risk score and rating and updated the Assurance Map. The Risk Owner has provided assurance that the control measures identified are still effective in the management of risk and identified whether any new risk events or controls have been implemented or are required.

3.9 Where ongoing additional controls are being implemented, Risk Owners have confirmed the progress in implementing such controls.

Increase/decrease in Overall Corporate Risk Score

3.10 During Quarter 3, 2019/20 there was an increase in the risk score for Corporate Risk 6.1, Business Continuity & Preparedness. The Fire Authority is unable to provide business continuity arrangements, to maintain delivery of core functions, as a result of extensive disruption to normal working arrangements, including national and international deployments, significant and major events, resulting in increased community risk; reduced confidence; increased reputational damage; and external scrutiny. This risk score increased from 9 (Likelihood 3 x Impact 3) to 12 (Likelihood 3 to Impact 4). This was reported to the Audit and Risk Committee at the meeting held on the 13 January 2020. The Risk Owner who has the overall responsibility for monitoring and reviewing the progress being made in managing the risk, considers that the control measures remain inadequate and has subsequently increased the risk level to ‘High’. This risk will be managed by through the ongoing use of volunteers drawn from existing staff numbers.

3.11 In Quarter 3 2019/20 the Audit and Risk Committee agreed to the removal of Corporate Risk 1.1 External (Political and Legislative) Environment – Public Service Reform enables new duties and/or major changes to the governance, structure, role or activities of the fire and rescue service requiring major re-organisation, resulting in an inability to deliver against organisational strategy and planned community outcomes. This risk is no longer relevant at a strategic level. There is currently no risk of public service reform impacting on the delivery of strategy, statutory and core service delivery.

3.12 The Corporate Risk Assurance Map Summary attached as Appendix 1 provides the confidence levels of the risk management activity in respect of the Authority’s 8 Corporate Risks at Quarter 3, 2019/20.

- Corporate Risks 1.2, 2.3, 4.1, 5.1, 5.2, 8.1 and 8.2 have been awarded a green confidence (substantial) opinion, which is the highest level that can be awarded.
- Corporate Risks 2.1, 2.2, 3.1, 3.2, 7.1, and 7.2 have been awarded an amber (satisfactory) confidence opinion. In all cases, work is in progress to enable for a green rating to be attained.
- Corporate Risk 6.1 has been awarded a red (limited) confidence opinion, due to the inadequacy of key internal controls being in place.

3.13 The Position Statement attached as Appendix 2 provides the detail of the risk management activity undertaken or ongoing in respect of the Authority’s 8 Corporate Risks for the six months (Quarter 2 2019/20 and Quarter 3 2019/20).

Position Statement Summary

3.14 **Corporate Risk 1 – External (Political and Legislative Environment).** The risk owner is confident that control measures are sufficiently strong that where possible the Service can position itself effectively in public sector reform. The development of the Strategy for 2020/23, priorities for 2020/21 and the IRMP consultation process (due to commence mid 2020) will support the delivery of collaborative and/or transformational approaches to achieving the agreed priorities and outcomes.

3.15 **Corporate Risk 2 – People.** The risk owner is confident that positive progress continues to be made in relation to the delivery of the collective agreement. The Cultural Review which was published in September is being progressed through a Joint Cultural Implementation Plan Steering Group.

Current recruitment and selection processes continue to provide required staffing levels are maintained to ensure the delivery of the Service Delivery Model. In addition, the revised attraction and selection process is enabling a high level of successful candidates from underrepresented groups.

3.16 **Corporate Risk 3 – Prevention.** During Quarter 3 the Partnerships Team hosted 14 Continuous Professional Development sessions aimed at frontline staff and managers from partner agencies. The purpose of these events was to improve knowledge about risk and vulnerability to fire and increase referrals for Safe and Well.

3.17 **Corporate Risk 4 – Protection.** Capacity has been increased in the Fire Safety Teams and competencies are being aligned to the revised standards and Competency Framework for Fire Safety Regulators. Response to statutory building consultations are now being managed within the required timeframes.

3.18 **Corporate Risk 5 – Response.** With the release of Phase 1 of the Grenfell Tower report the organisation has and continues to undertake a closer examination of High Rise/Tall Buildings processes. The impending launch of the 'Tall Buildings' operational procedure will be used as the foundation stone for a period of focus within this area to build upon our current position.

3.19 **Corporate Risk 7 – Information, Communications and Technology.** The replacement of desktops with Virtual Desktop Infrastructure at stations has simplified the organisational infrastructure and enhanced ability to maintain currency of security updates to protect organisational information systems.

3.20 **Corporate Risk 8 – Finance and Assets.** The work and associated reports of the external auditor provide assurance against several controls in place to manage against the realisation of risk on the assurance map.

4. EQUALITY IMPACT ASSESSMENT

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. The matters contained in this report do not relate to a policy change.

5. LEGAL IMPLICATIONS

There are no direct legal implications associated with the implementation of the recommendations set out in this report.

6. FINANCIAL IMPLICATIONS

There are no financial implications associated with the implementation of the recommendations set out in this report.

7. ENVIRONMENTAL IMPLICATIONS

None

BACKGROUND PAPERS

Frequency of Risk Reporting to Audit Committee,
Audit Committee Report, 11 April 2016

Corporate Risk Update to Audit Committee,
Audit Committee Report, 25 July 2016

Delivery of The Plan 2018-21
Executive Committee Report, 6 June 2018

Strategy Options
Fire Authority, 17 September 2018

Strategy Options
Fire Authority, 19 November 2018

Investment Report
Fire Authority, 18 February 2019

Strategy Options 2019 – 2020
Fire Authority, 18 February 2019

Corporate Risk Update
Audit & Risk Committee, 11 November 2019

Corporate Risk Update
Audit & Risk Committee, 13 January 2020

The contact for this report is Assistant Chief Fire Officer, Gary Taylor, telephone number 0121 380 6006.

PHIL LOACH
CHIEF FIRE OFFICER

Corporate Risk Assurance Map - Summary - Qtr 3 2019/2020

No.	Outcome of Risk Realisation	Risk Owner	Direction of Travel	Overall Confidence	Likelihood	Impact	Risk Score
CR1	**External (Political and Legislative) Environment**	**SE Strategic Hub - Karen Gowreesunker**					
1.2	The Fire Authority is unable to positively position itself within public servicer reform to sustain and create new services resulting in reduced confidence, credibility and/or reputational damage.		↔		**3**	**3**	**9**
CR2	**People**	**SE People - Sarah Warnes (2.3 - Steve Taylor)**					
2.1	The Fire Authority is unable to maintain positive staff consultation and engagement, resulting in an inability to deliver strategic objectives, outcomes and continuous improvement.		↔		**3**	**3**	**9**
2.2	The Fire Authority is unable to deliver its Service Delivery Model effectively, as a result of insufficient or ineffective employees, throughout the organisation, resulting in reduced confidence and credibility; and increased reputational damage.		↔		**3**	**3**	**9**
2.3	The Fire Authority is unable to meet statutory duties to provide a safe and healthy workplace and protect the environment, resulting in a significant failure and reduced confidence and credibility; and increased criminal proceedings, litigation and reputational damage.		↔		**2**	**3**	**6**
CR3	**Delivery of Services - Prevention**	**SE Prevention - Jason Campbell**					
3.1	The Fire Authority is unable to engage with the most vulnerable members of the community and reduce community risk resulting in increased fire and non-fire related incidents, fatalities and injuries.		↔		**3**	**3**	**9**
3.2	The Fire Authority is unable to establish effective partnership arrangements and deliver community outcomes, resulting in a significant impact upon the organisation's financial standing, reputation and ability to deliver key objectives.		↔		**2**	**2**	4

No.	Outcome of Risk Realisation	Risk Owner	Direction of Travel	Overall Confidence	Likelihood	Impact	Risk Score
CR4	**Delivery of Services - Protection**	**SE Protection - Steve Taylor**					
4.1	The Fire Authority is unable to effectively discharge its duties under the Regulatory Reform (Fire Safety) Order and associated legislation, resulting in a decline in non-domestic fire safety standards; reduced confidence and credibility; and increased litigation and reputational damage.		↑		**2**	**3**	**6**
CR5	**Delivery of Services – Response**	**SE Response - 5.1 Steve Vincent/ 5.2 Simon Barry**					
5.1	The Fire Authority is unable to ensure that operational incidents are dealt with safely, assertively and effectively using appropriate levels of resources and personnel, resulting in increased firefighter and community risk; reduced confidence and credibility; and increased reputational damage.		↔		**2**	**4**	**8**
5.2	The Fire Authority is unable to maintain its command and control function, resulting in an inability to receive, process and respond to emergency calls effectively, so increasing community risk; reducing confidence and credibility; and increasing reputational damage.		↔		**2**	**3**	**6**
CR6	**Business Continuity & Preparedness**	**SE Organisational Preparedness - Steve Vincent**					
6.1	The Fire Authority is unable to provide business continuity arrangements, to maintain delivery of core functions, as a result of extensive disruption to normal working arrangements, including national and international deployments, significant and major events, resulting in increased community risk; reduced confidence; increased reputational damage; and external scrutiny.		↑		**3**	**4**	**12**
CR7	**Information, Communications and Technology**	**SE ICT - Jason Danbury**					
7.1	The Fire Authority is unable to provide and maintain an effective ICT provision to support the delivery of core functions, resulting in significant disruption to the organisation's functionality, reduced confidence, credibility, reputational damage and external scrutiny.		↔		**2**	**3**	**6**

7.2	The Fire Authority is unable to provide effective management and security of organisational information and documentation including the receipt, storage, sharing and transfer of information and data, resulting in reputational damage, litigation, substantial fines and external scrutiny.		⟺		2	3	6
No.	**Outcome of Risk Realisation**	**Risk Owner**	**Direction of Travel**	**Overall Confidence**	**Likelihood**	**Impact**	**Risk Score**
CR8	**Finance & Assets**	**SE Finance and Resources - Mike Griffiths**					
8.1	The Fire Authority is unable to deliver its statutory responsibilities, predominantly through the Service Delivery Model, due to insufficient funds, resulting in external scrutiny and intervention; reduced confidence and credibility; and increased reputational damage.		⟺		3	3	9
8.2	The Fire Authority is unable to deliver effective financial management arrangements, due to misuse of funds, resulting in external scrutiny, intervention and litigation.		⟺		2	3	6

Corporate Risk Quarter 3 Position Statement January 2020

Individual Risk Position Statement

Corporate Risk 1 – External (Political and Legislative) Environment

Corporate Risk 1.2:
The Fire Authority is unable to positively position itself within public service reform to sustain and create new services resulting in reduced confidence, credibility and/or reputational damage.

Emerging Issues	The overall risk score remains the same as the previous quarter. The Fire Authority have constituted a Collaboration and Transformation Committee within the governance structure. This committee has approved a definition for Collaboration and Transformation for the Service's activities and a strategic framework of considerations when embarking on collaborative work. The development of the Strategy for 2020/2023, priorities for 2020/2021 and the IRMP consultation process (due to commence mid 2020) will support the delivery of collaborative and/or transformational approaches to achieving the agreed priorities and outcomes. The committee will further consider digital transformation and how we are able to work with and skill staff for future change and transformation, building on the positive outcomes from the HMICFRS inspection process which recognised the innovative approaches the Service has taken to develop staff and deliver wider services.
Changes to control measures	No additional controls
Assurance updates	The risk owner is confident that these measures are sufficiently strong to ensure that where possible the Service can position itself effectively in public service reform.

Corporate Risk 2 - People

Corporate Risk 2.1:
The Fire Authority is unable to maintain positive staff consultation and engagement, resulting in an inability to deliver strategic objectives, outcomes and continuous improvement.

Emerging Issues	The overall risk score remains the same as last quarter at 9 (likelihood 3 x impact 3). Overall local control measures are implemented effectively. A consideration for continued monitoring in the second half of the year is the information received from the National Security Risk Assessment (NSRA). This relates to the potential for national industrial action which has assessed the likelihood as high, impact medium.
Changes to control measures	Good progress in relation to the delivery of the collective agreement continues. The cultural review commissioned by the Chief Fire Officer through RealWorld HR has been completed and published to the service in September, ongoing engagement with key stakeholders and staff continue to take place in this quarter. Further engagement with RealWorld HR took place to enable all staff to consider the context of the report and improvements to support our journey from good to outstanding. The Joint Cultural Implementation Plan (JCIP) Steering Group had their initial meeting in December 2019. In relation to the Employee Relations Framework (ERF) work has been undertaken to provide an E-cademy package for all employees to ensure a greater understanding of the ERF and the specific elements held within the policy. This is due to be implemented in quarter 4. Consultation and engagement through the ERF continues to be positive throughout the quarter with all options being consulted on through the Joint Consultative Committee and alignment to the Health Safety and Wellbeing Committee. There have been ongoing national discussions in relation to pay and conditions of service. Following the results of the ballot in April 2019, where Firefighters rejected the current pay offer and re-endorsed the unions strategy in pay negotiations, discussions have continued nationally. The latest position to be noted from the Fire and Rescue Service national employer's states – the National Joint Council has agreed to pause the national broadening of the role negotiation. Further discussions are taking place in relation to a pay award. Industrial action by firefighters has been identified as a new risk as part of the 2019 NSRA. The risk has been assessed as high likelihood – 5 and medium-low impact – 2. The risk owner for industrial action by firefighters is the Home Office (HO). The latest version of the NSRA was released in August 2019 By the Cabinet Office and therefore led to a review by the

	service to ensure contingency arrangements are adequate within the West Midlands. This is covered within corporate risk 6.1. WMFS continues to engage with staff and the representative bodies on this matter and will continue to monitor the national discussions and potential impacts.
Assurance updates	Based on the increase in the risk assessment the national and local position the risk owner will continue and assess any significant changes and impacts on the corporate risk.

Corporate Risk 2.2:
The Fire Authority is unable to deliver its Service Delivery Model effectively, as a result of insufficient or ineffective employees, throughout the organisation, resulting in reduced confidence and credibility; and increased reputational damage.

Emerging Issues	The overall risk score is 3 (likelihood) x 3 (impact) total 9. The risk score remains at 9 due to the current position as discussed in 2.1 and further control measures are in place regarding the delivery of the service delivery model.
Changes to control measures	The three-year staffing strategy continues to provide a strong level of forecasting for the organisation. Current recruitment and selection processes continue to provide required staffing levels are maintained to ensure the delivery of the Service Delivery Model (SDM). In addition, the revised attraction and selection process is enabling a high level of successful candidates from underrepresented groups. It has been identified that there continues to be a reduction in individuals applying for Crew Commander positions with a few positions not able to be filled. An evaluation of the issue has been carried out with several recommendations that will now be taken forward for consideration. The process of substantiating all roles within the service is now complete and the Strategic Enabling Team review has been concluded. This has brought greater certainty to individuals in relation to their roles. It is also anticipated that this will have a positive impact on those applying for Crew Commander roles, this is being monitored by the Service. The organisation through quarterly reporting has a good level of assurance in relation to the completion of standardised assessments. Progress is being made in relation to all

	standardised assessments this will be monitored for progress as part of the quarterly performance review. The assessment of ability to deliver the competency framework in relation to Organisational Learning and People Development is being undertaken to ensure the appropriate levels of resources are available in support of the SDM. The organisation received the outcomes of the Her Majesty's Inspectorate Constabulary (HMIC) with overall performance assessed as good with outstanding being awarded for responding to fires and other incidents. The areas for improvement are being considered and further organisational improvements will be taken forward following the cultural review outcomes. Performance in relation to attendance management has risen and continues to be an area of focus. A task and finish group has been set up with development and support packages for managers and staff being delivered in the third quarter of the year and will continue into quarter 4. There is an organisational focus around the levels of assurance against the Grenfell Phase 1 Report which is providing a level of confidence in attending fires in tall buildings which in turn the reputation and SDM and our ability to deliver safe and effective firefighting.
Assurance updates	The risk owner is assured that the current control measures ensure the delivery of the services and therefore the risk score of 9 will remain the same in this quarter. This will be closely monitored throughout the next quarter.

Corporate Risk 2.3:
The Fire Authority is unable to meet statutory duties to provide a safe and healthy workplace and protect the environment, resulting in a significant failure and reduced confidence and credibility; and increased criminal proceedings, litigation and reputational damage.

Emerging Issues	The overall risk score remains the same at 6 (likelihood 2 x impact 3). This is a medium rated risk. Performance against corporate indicators reflects that injuries reported were below the target for quarter 3 (actual 26 compared to a target of 31.5). For RIDDOR, performance was below the target for quarter 3 (the actual was 1 compared to a target of 3.5).

	Levels of near hits and violence to crews (mainly verbal abuse) have reduced, compared to the same period in 2018/19. The Health, Safety and Wellbeing team has increased its challenge of near hit reports, where other reporting mechanisms should have been used and this will contribute to a reduction in near hits. The Health and Safety Policy has been reviewed and re-issued, with a refreshed joint statement from the Chief Fire Officer and Chair of the Fire Authority. The Environmental Policy is being reviewed. The Chair of the Brigade Health, Safety and Wellbeing Committee is now the DCFO. This aligns with his role in chairing the Joint Consultative Committee.
Changes to control measures	No changes have been made this quarter, but all risk owners are advised to check this corporate risk, as some controls have been reassigned to more appropriate owners.
Assurance updates	Control measures have been reviewed during January 2020.

<u>Corporate Risk 3 – Delivery of Services - Prevention</u>

Corporate Risk 3.1:
The Fire Authority is unable to engage with the most vulnerable members of the community and reduce community risk resulting in increased fire and non-fire related incidents, fatalities and injuries.

Emerging Issues	Safe and Well (SAW) visits continue to be delivered in line with the position agreed with the Fire Brigade Union (FBU) whereby information will be gathered for all questions. In cases where Firefighters are uncomfortable asking specific questions, the householder will be asked to complete an online form to provide the relevant information. An IT solution is currently being developed as part of the introduction of Tymly currently being piloted in the Black Country South, with the view to eventually rolling out across the service. The minimum viable product IT solution has been delivered and is being used to good effect in Black Country South. Further development is required to achieve full specification on the product; however, results are currently good.
Changes to control measures	No changes are required as the current situation provides an adequate platform for West Midlands Fire Service (WMFS) to manage risk (via Prevention) in line with the IRMP.

Assurance updates	Assurance is provided through the Corporate Performance Indicators (PI).

Corporate Risk 3.2:
The Fire Authority is unable to establish effective partnership arrangements and deliver community outcomes, resulting in a significant impact upon the organisation's financial standing, reputation and ability to deliver key objectives.

Emerging Issues	The annual target is 40% of Safe and Well (SAW) visits come from partner referrals. The quarter 3 performance is 37.6% an increase of 7.6% since the data cleanse. For the first time this quarter we have been able to get reliable figures from the Tymly system for partner referrals for Black Country South. This shows that the 873 of the 1168 visits (75%) on the Tymly system came from partner referrals. If these figures are included in the overall Brigade figures the service average increases to 42.5% During September 2019 the Partnerships Team hosted 14 CPD events aimed at frontline staff and managers from partner agencies. 500+ people attended. The purpose of the events is to improve their knowledge about risk and vulnerability to fire and increase referrals for SAW. Since then additional Continuing Professional Development (CPD) training sessions have been delivered to 9 individual organisations. Cleansing of the system of old referral forms and referral forms with no partner identification commenced in December resulting in 58 new referral forms with correct partner identification being issued to date.
Changes to control measures	No changes are required as the current situation provides an adequate platform for WMFS to manage risk (via Prevention) in line with the IRMP.
Assurance updates	Assurance is provided through the Corporate Performance Indicators (PI). This situation will be monitored, and it is envisaged that improvements can be made with the introduction of an ICT platform that makes partner referrals a more efficient process.

Corporate Risk 4 – Delivery of Services – Protection

Corporate Risk 4.1:
The Fire Authority is unable to effectively discharge its duties under the Regulatory Reform (Fire Safety) Order and associated legislation, resulting in a decline in non-domestic fire safety standards; reduced confidence and credibility; and increased litigation and reputational damage.

Emerging Issues	The outcomes of the Pase 1 Grenfell Report continue to be considered. In respect of the specific issues that will impact on the ability to meet the Authority's responsibilities under the RRO a dedicated action plan is considering issues and opportunities. Phase 2 Grenfell Inquiry is being undertaken and monitored for impacts on the RRO and WMFS Plan.
Changes to control measures	Capacity has been increased in the Fire Safety Teams and competencies are being aligned to the revised standards and Competency Framework for Fire Safety Regulators. Response to statutory building consultations are now being managed within required timeframes.
Assurance updates	Engagement continues to take place with local authority and other property owners around changes to responsibilities under the RRO and developments linked to flammable building materials. Returns/Assurance is being provided to central Government via the NFCC and risk is being managed effectively. As an outcome of the changes in control measures above the likelihood of this risk has reduced from 3 to 2 which has reduced the overall risk score from 9 to 6 and improving the RAG rating from Amber (Satisfactory Assurance) to Green (Substantial Assurance).

Corporate Risk 5 – Delivery of Services - Response

Corporate Risk 5.1:
The Fire Authority is unable to ensure that operational incidents are dealt with safely, assertively and effectively using appropriate levels of resources and personnel, resulting in increased firefighter and community risk; reduced confidence and credibility; and increased reputational damage.

Emerging Issues	There are no new emerging issues to report for this quarter and subsequently the risk score remains unchanged. However, with the release of Phase 1 of the Grenfell Tower report in October the organisation has and continues to

	undertake a close examination of High Rise/Tall Buildings procedures. Delivered within the 3PT programmes, but with an overarching action plan to capture all related activity, the analysis is comprehensive and will consider the recommendations from the Phase 1 report. The impending launch of the 'Tall Buildings' operational procedure will be used as the foundation stone for a period of focus within this area to build upon our current position. We continue to engage locally, regionally and nationally (through the NFCC) to understand how we can support and consider best practice.
Changes to control measures	Development of an organisational action plan which considers all the component parts of an assertive, effective and safe response to incident involving tall buildings.
Assurance updates	The risk owner is assured that the current control measures are appropriate and therefore the risk score will remain the same in this quarter. This will be closely monitored throughout the next quarter.

Corporate Risk 5.2:
The Fire Authority is unable to maintain its command and control function, resulting in an inability to receive, process and respond to emergency calls effectively, so increasing community risk; reducing confidence and credibility; and increasing reputational damage.

Emerging Issues	There is a continuation of the previously updated 'emerging issue' in relation to Fire Control staffing. Previously the focus had been around the disproportionate affect that long term absence has on a relatively small team that relies on 'Optimum Crewing Levels'. Whilst this issue has somewhat changed (positively as many of the people experiencing long term absence have returned to work), there is still a pressure on Fire Control staffing caused through other factors such a leavers (career change) and secondment opportunities.
Changes to control measures	There will now be a more in-depth monthly review of Fire Control staffing completed by the management team and this will be reported through the quarterly PIM. In addition, there has been an increased level of recruitment (temporarily taking us above agreed establishment level) in

	order to mitigate against the impact of being under-staffed within the department. Management continue to work with the representative bodies through the Fire Control Joint Working Party (JWP) to understand and consider where improvements may be possible.
Assurance updates	The risk owner is assured that the current control measures are appropriate and therefore the risk score will remain the same in this quarter.

Corporate Risk 6 – Business Continuity & Preparedness

Corporate Risk 6.1:

The Fire Authority is unable to provide business continuity arrangements, to maintain delivery of core functions, as a result of extensive disruption to normal working arrangements, including national and international deployments, significant and major events, resulting in increased community risk; reduced confidence; increased reputational damage; and external scrutiny.

Emerging Issues	WMFS Industrial Action Plan reduces the effects on WMFS activity caused by industrial action. This currently involves the use of non-striking operational and support staff (including fire control). Due to recent developments in the National Security Risk Assessment and local risk assessments, it has been identified that the current Industrial Action arrangements cannot provide the level of confidence to meet the current risk and Home Office (HO) resource expectation. The HO expectation during periods of industrial action state "Fire and Rescue Services will maintain at least 30% minimal level of normal fire cover (based on PRLs staffed at 5), high rise facility capability (added post Grenfell) and availability of critical National Resilience Assets (linked to threat level)". **EU Exit** Operation Yellowhammer (cross-government contingency planning for the possibility of a no-deal Brexit) has been stood down. The Government are focussing on passing the Withdrawal Agreement Bill through Parliament so that the UK leaves the EU on 31st January 2020 with an agreed deal. As of 31st January, the Department for Exiting the European Union (DExEU) as a government department will be disbanded. Therefore, multi-agency European Union Exit planning has

	also been stood down. WMFS will continue to monitor developments and attend relevant meetings with stakeholders when required.
Changes to control measures	As a result of the West Midlands Fire Authority decision not to supplement Industrial Action business continuity arrangements in line with the Chief Fire Officers recommendation the impact of industrial action has been increased from 3 to 4. Current control measures are not sufficient to mitigate the consequences of loss off staff as a result of industrial action.
Assurance updates	As result of Control of Major Accident Hazard (COMAH) exercises during 2019, the Emergency Planning team have developed a training package for command groups to raise awareness of the COMAH regulations and COMAH sites within the West Midlands. This has been supported by COMAH site operators. WMFS have hosted both Business Continuity and Resilience Direct national events to promote and share best practice. WMFS is chairing the Risk Assessment Working Group for the West Midlands Local Resilience Forum. Work has been done with regional partners to develop a collaborative approach to the risk assessment process. WMFS arranged and participated in multi-agency training on the updated risk assessment methodology. During quarter 3, a severe weather exercise took place with key departments including Fire Control, Response, People Support Services, Appliances and Equipment, Transport Engineering Workshops and Corporate Communications to review and develop the Severe Weather Business Continuity Plan. Business Continuity training and exercising has continued on stations to support with the review and validation of station business continuity plans.

Corporate Risk 7 – Information, Communications and Technology

Corporate Risk 7.1:
The Fire Authority is unable to provide and maintain an effective ICT provision to support the delivery of core functions, resulting in significant disruption to the organisation's functionality, reduced confidence, credibility, reputational damage and external scrutiny.

Emerging Issues	The overall risk score is 6. The risk continues to be medium. The organisation continues to take a cloud-

	based approach to data storage thus reducing the reliance on in-house processes, procedures and infrastructure to access and maintain data. Cloud based solutions for business continuity and disaster recovery are being considered to improve resilience. An external information security audit has been undertaken and identified four areas for improvement in the organisation. The areas identified were password management, legacy systems and hardware and a small number of firewall configurations. These areas have been risk assessed and the immediate risks remediated with the only areas outstanding being legacy systems. There has been an uplift in malicious cyber-attacks being experienced. We are working with external companies and peers in following national guidance with regard the recent increase in cyber security threat. We have also bolstered the level of in-house expertise in relation to systems and information security. An internal review of the out of hours cover rosters will provide clarity about levels of service to be provided to the organisation.
Changes to control measures	The implementation of Office 365 has reduced the impact significantly of the loss of an on-premises data centre. Work is ongoing to establish accreditation for Code of Connection (CoCo) to the Emergency Services Network (ESN) and the Public Services Network (PSN) ensuring that the Home Office and the National Fire Chiefs Council (NFCC) requirements around cyber security threats are met. Replacement of desktops with Virtual Desktop Infrastructure (VDI) at stations has simplified the organisational infrastructure and enhanced ability to maintain currency of security updates to protect organisational information systems. Additional requirement to meet the first technical standard that will be incorporated into the Government Functional Standard for Security. Compliance with the Government Cyber Essentials standard has been achieved as directed in

	the technical standard and further work has been identified and resourced. Increased levels of communication have been made available to raise employee awareness around cyber security in the form of news bulletins, middle manager briefings, Yammer and Teams messages.
Assurance updates	The overall risk confidence opinion is amber

Corporate Risk 7.2:
The Fire Authority is unable to provide effective management and security of organisational information and documentation including the receipt, storage, sharing and transfer of information and data, resulting in reputational damage, litigation, substantial fines and external scrutiny.

Emerging Issues	The overall risk score remains at 6. The risk continues to be medium. The risk level may reduce further over the next few quarters as automated processes to protect data are introduced within the organisation. The post implementation of the European Union General Data Protection Regulations (EU GDPR) on the 25.05.18. means that there is an increased requirement for organisations to demonstrate ongoing compliance with the legislation. Changes to the organisational data classification and marking scheme have been approved at strategic level and will be rolled out throughout Quarter 4 2019/20. This will simplify the current processes and provide more alignment with other organisations.
Changes to control measures	Increased levels of communications in relation to information security have been published to all employees as well as an increased drive to complete bespoke training packages related to EU GDPR and Management of Information. Increased levels of uptake of employees undertaking required training has reduced the number of reported data protection breaches for this quarter. Automated tools for marking documents and managing requests will replace the existing processes and provide better

	assurance by auditing compliance with the Management of Information framework. Officers are continuing to work collaboratively through the NFCC work streams to ensure national guidance is embedded consistently.
Assurance updates	The overall risk confidence opinion is amber

Corporate Risk 8.1:
The Fire Authority is unable to deliver its statutory responsibilities, predominantly through the Service Delivery Model, due to insufficient funds, resulting in external scrutiny and intervention; reduced confidence and credibility; and increased reputational damage.

Emerging Issues	The risk score remains at 3 (Likelihood) x 3 (Impact) = 9. The overall risk level is Medium
Changes to control measures	In February 2016, The Government communicated the Authority's Core Funding settlement. In setting out a provisional 4-year settlement (2016/17 to 2019/20), confirmation was received that the core funding reduction would be circa £10 Million by 2019/20. This level of reduction presented a significant challenge to the Service in terms of maintaining the Service Delivery Model whilst setting a balanced budget. In planning for significant funding reductions, the Service set out an Efficiency Plan, which was considered and approved by the Fire Authority on 19th September 2016 and submitted to the Home Office by 14th October 2016. On 6 June 2018 the Executive Committee approved the removal of New Entrant contracts to avoid industrial action by Grey Book staff. It was recognised this decision would have a significant impact on the Services ability to generate Alternative Funding and achieve the full level of staff savings reflected within the Financial Efficiency Plan (FEP). At the Authority meeting on 17th September 2018, Members supported a reduced level of Voluntary Additional Shifts to make savings of £750k in 2018/19 to offset the shortfall in the FEP. Further work was undertaken on five options presented to Members at the same Authority meeting, which were reported back to the 19th November Authority meeting. A further report was presented to the Fire Authority meeting on 19th February 2019, recommending the basis of the Service changes to be made from 2019/20 to ensure the 2019/20 budget and beyond could be set in a balanced manner (i.e. to meet the FEP shortfall combined with the Protection Function approve investment of £600k [Fire Authority meeting 19th

	November 2018] plus further proposed support service investments of £202k considered at the February 2019 Fire Authority meeting). The recommendations were approved by the Fire Authority. The budget was set in February 2019 with a number of significant issues still to be determined re: future funding impacts (specifically in relation to the Firefighters Pension Scheme, Firefighters pay awards, the outcome of the Government's Fair Funding Review and lack of clarity around future Government funding settlements linked to the uncertainty of the timing and Impact of public sector Comprehensive Spending Reviews) but at this stage, details around those issues have not been determined. Monitoring reports on the budget have been presented at Authority meeting throughout the year showing an overall favourable variance against the revenue budget Furthermore, on 4th October 2019 the Chancellor of the Exchequer announced that the funding settlement for the Fire & Rescue Service in 2020/21 is expected to be protected in real terms. This position was reflected in the provisional finance settlement announced on 20th December 2019. Thus, the Risk Owner considers the likelihood score of 3 should remain unchanged at this stage.
Assurance updates	The work and associated reports of the external auditor provide assurance against several controls in place to manage against the realisation of risk on the assurance map. Level 1 assurance has been provided across most of the control environment with most controls measures being awarded at substantial (green) rating in terms of their effectiveness in managing risk triggers and are supported by several level 3 assurances and therefore no immediate interventions were identified as being required. The Risk Owner therefore has provided for a substantial (Green) confidence opinion as to the collective strength of the control environment in managing this risk.

Corporate Risk 8.2:
The Fire Authority is unable to deliver effective financial management arrangements, due to misuse of funds, resulting in external scrutiny, intervention and litigation.

Emerging Issues	The risk score is 2 (Likelihood) x 3 (Impact) = 6. The overall risk level is Medium.

Changes to control measures	There is no change to the control measures associated with the effective management of this risk
Assurance updates	The work and associated reports of the Internal Auditor and External Auditor provides assurance against several controls in place to manage against the realisation of risk on the assurance map. Level 1 assurance has been provided across most of the control environment with most controls measures being awarded at substantial (green) rating in terms of their effectiveness in managing risk triggers and are supported by several level 3 assurances and therefore no immediate interventions were identified as being required. The Risk Owner therefore has provided for a substantial (Green) confidence opinion as to the collective strength of the control environment in managing this risk.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND RISK COMMITTEE

WORK PROGRAMME 2019/20

Date of Meeting	Item	Responsible Officer	Completed
2019			
29 July 2019	Terms of Reference of Audit and Risk Committee Audit Findings 2018/19 Statement of Accounts 2018/19 (Approval) Treasury Management Annual Report 2018/19 Minutes of the Audit and Risk Committee held on 3 June 2019 Minutes of the Pensions Board held on 4 March 2019 Minutes of the Pensions Board held on 4 June 2019 Pension Board Annual Report Training Requirements of Audit and Risk Members	Democratic Officer Grant Thornton Treasurer Treasurer Democratic Officer Pension Board Representative Pension Board Representative Pension Board Representative	

	Audit and Risk Committee Draft Work Plan 2019/20	Democratic Officer Democratic Officer	
2 Sept 2019	Corporate Risk Six Monthly Report Annual Audit Letter 2018/19 Audit and Risk Committee Update Request of Member to Discontinue Payment of Periodical Contributions – New Firefighters' Pension Scheme (2006) Pensionable Pay Decision Residential Homes Minutes of the Audit and Risk Committee held on 29 July 2019 CIPFA Audit Committee Update Issue 29 Audit and Risk Committee Workplan 2019/20	ACO Strategic Enabler (Process) Grant Thornton Grant Thornton Treasurer Treasurer Treasurer Democratic Officer Auditor Democratic Officer	
30 Sept 2019 [Authority]	Audit Findings 2018/19 Statement of Accounts 2018/19 (to note)	Grant Thornton Treasurer	

11 Nov 2019	Presentation on Vacant Resident Properties Minutes of the Audit and Risk Committee held on 2 September 2019 Treasury Management – Mid year review 2019/20 Audit and Risk Committee Update Internal Audit Progress Report and Audit Overview Corporate Risk Update Audit Committee Work Plan Fraud Awareness Training	David Gardiner Democratic Officer Treasurer Grant Thornton Audit Manager Democratic Officer Clerk Phil Tromans John Matthews	

	2020		
13 January 2020	Minutes of the Audit and Risk Committee held on 11 November 2019 Internal Audit Progress Report	Democratic Officer Audit Manager	

(Official – WMFS – Public)

	Audit and Risk Committee Update Audit and Risk Committee Work Plan Minutes of the Pension Board held on 10 September 2019	Grant Thornton Democratic Officer Democratic Officer	
23 March 2020	Audit and Risk Committee Terms of Reference Internal Audit Plan 2020/21 Audit Plan 2019/10 Corporate Risk Report Six Monthly Update Internal Audit Charter – Annual Review Informing the Audit Risk Assessment – West Midlands Fire and Rescue Authority 2019/20 Audit and Risk Committee Update Audit Fees and the Sustainability of the Local Audit Market Request from Dependant for the Reinstatement of a Widow's Pension Review of Ill Health Pension Decision	Audit Manager Audit Manager Grant Thornton ACO Strategic Enabler (Process) Audit Manager Grant Thornton Grant Thornton Grant Thornton Treasurer Treasurer	

	Pensionable Pay Decision CIPFA Audit Update Minutes of the Audit and Risk Committee held on 13 January 2020 Minutes of the Pensions Board held on 16 December 2019 Audit and Risk Committee Work Plan *Committee Members' Private meeting with Internal Auditors (to follow Committee)*	Treasurer Audit Manager Democratic Officer Democratic Officer Democratic Officer *Audit Manager*	
1 June 2020	Annual Internal Audit Report 2019/20 Governance Statement 2019/20 Monitoring Policies and RIPA (Annual Whistleblowing Report) Annual Report of the Audit and Risk Committee 2019/20 for approval Audit and Risk Committee – Verbal Update	Audit Manager Treasurer Monitoring Officer/ ACO Strategic Enabler (Process) Chair Grant Thornton	

	Minutes of the Audit and Risk Committee held on 23 March 2020 Minutes of the Pensions Board held on 5 March 2020 Annual Report of the Pension Board 2019/2020 Audit and Risk Committee Work Plan 2019/2020 *Committee Members' Private meeting with External Auditors* *Workshop for Members on Statement of Accounts 2019/20*	Democratic Officer Democratic Officer Chair, Pensions Board Democratic Officer *Grant Thornton* *Treasurer*	
22 June 2020 [Authority]	Governance Statement 2019/2020 Minutes of the Audit and Risk Committee held on 1 June 2019 Annual Report of the Audit and Risk Committee 2019/20	Treasurer Democratic Officer Chair	

27 July 2020 (Audit and Risk Committee	Audit Findings 2019/20 Statement of Accounts 2019/20 (Approval)	Grant Thornton Treasurer

2020/21)	Treasury Management Annual Report 2019/20 Audit and Risk Committee Draft Work Plan 2020/21 Minutes of the Pension Board held 8 June 2020 Annual Report of the Pension Board	Treasurer Democratic Officer