

# **West Midlands Fire and Rescue Authority**

## **Audit Committee**

**You are summoned to attend the meeting of Audit Committee to be held on  
Monday, 11 April 2016 at 12:30**

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

**for the purpose of transacting the following business:**

## **Agenda – Public Session**

- |    |  |                  |
|----|--|------------------|
| 1  | To receive apologies for absence (if any)  |                  |
| 2  | Declarations of interests in contracts or other matters                            |                  |
| 3  | Minutes of the Audit Committee held on 18 January 2016                             | <b>3 - 8</b>     |
| 4  | Audit Committee Terms of Reference   | <b>9 - 14</b>    |
| 5  | Internal Audit Plan 2016-17  | <b>15 - 30</b>   |
| 6  | Audit Plan 2016  | <b>31 - 52</b>   |
| 7  | Frequency of Corporate Risk Reporting to Audit Committee                           | <b>53 - 58</b>   |
| 8  | Corporate Risk Update Quarter 3 Update 2015-16                                     | <b>59 - 74</b>   |
| 9  | External Audit Programme and Scale of Fees for 2016-17                             | <b>75 - 80</b>   |
| 10 | Communication with the Audit Committee for West Midlands Fire and Rescue Authority | <b>81 - 104</b>  |
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13	Minutes of the Pensions Board held on 8 February 2016	129 - 138
14	Audit Work Programme 2015-16	139 - 144
15	Update on Topical, Legal and Regulatory Issues (Verbal Report).	

**Distribution:**

Adam Aston - Member, Tersaim Singh - Chairman, Hendrina Quinnen - Member, Robert Sealey - Member, Paul Singh - Member, Catherine Miks - Member

**Agenda prepared by Julie Connor**

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**This agenda and supporting documents are also available electronically on the West Midlands Fire Service website at [www.wmfs.net](http://www.wmfs.net)**

## Minutes of the Audit Committee

**18 January 2016 at 12.30 pm**  
**at Fire Service Headquarters, Vauxhall Road, Birmingham B7 4HW**

**Present:** Councillor T. Singh (Chair);  
Councillors Aston, Miks, Sealey, P. Singh  
Mr Ager (Independent Member).

**Apology:** Councillor Quinnen

Observer: Councillor M Mottram

### 1/16 Minutes

**Resolved** that the minutes of the meeting held on 9 November 2015, be approved as a correct record.

Cllr Sealey asked for his apologies to be recorded for the meeting as they had not been passed on.

### 2/16 Corporate Risk Quarter 2 Update 2015/16

The Committee received the Corporate Risk Assurance Map Summary.

The Deputy Chief Fire Officer referred the Audit Committee to the position Statement shown at Appendix 2 to the report. The statement requires risk owners to provide the level of risk owner confidence in the effectiveness of the Service's risk management and control environment. The level of risk owner confidence remains high, with the following confidence opinions being awarded.

Of the 11 risks, 7 of the overall confidence ratings were green, 4 were amber and there were no red ratings.

In respect of Risk 4, a Partnerships Review was undertaken by the Scrutiny Committee and action plan for improvement was approved by the Executive Committee on 14 December 2015. The Direction of Travel for this risk has increased from 2 to 3 but the overall rating remains the same.

## **Audit Committee – 18 January 2016**

It was noted that the score would change as the improvement work is undertaken.

Appendix 1, Risks 1 and 5 were shown as red. This was as a result of the national Pensions Dispute. Positive engagement had taken place, however, because of internal changes with staffing this had caused the risk to remain as red.

The Pensions Dispute was still ongoing but following a legal challenge from the Fire Brigades Unions in respect of age discrimination, the Authority had been advised that an outcome from the High Court would not be available until 2017 and no further action would be taken until the ruling was issued. Officers would continue to monitor the position and would report back to a future meeting of the Audit Committee.

At the time that the report was prepared, the Authority had not received its Provisional Financial Settlement and the risk score of Risk 8 was based on a deficit of £14m. The risk would now be reviewed in line with the outcome of the settlement.

Consultation was taking place with the Unions on the Review of Fire Control. The owners of Risks 6 and 11 would be required to reflect on the consultation and look at risk scores and would be required to be more assertive about the possible risks in the assurance map.

The Independent Member stated that following the Policy Planning Forum held prior to the Audit Committee on 18 January, 2016 he felt there were strategic emerging risks that needed to be considered in respect of the Police and Crime Commissioner (PCC) and the Combined Authority (CA).

The Independent Member also expressed concern that Partnerships and Commissioning were being treated similarly. He said that there is a distinct difference, Commissioning is a more commercially focussed and should not be confused with Partnerships.

The Deputy Chief Fire Officer (DCFO) felt that was a valid point. He explained that the recent review of the Strategic Enabling Team provided an opportunity to update and refresh risk owners and the changes should address this point. The DCFO accepted that the Authority could be challenged in respect of its Partnerships and Commissioning activity and there were a number of emerging risks.

The DCFO stated that the CA was taking up some time of both officers and Members, but this work would not stop the Service in delivering its service to the community. The DCFO felt the Service would still be able to



## Audit Committee – 18 January 2016

deliver its service to the community irrespective of change of governance arrangements. However, he would take on board the Independent Member's views and would feedback the comments to officers.

**Resolved** that the Corporate Risk Assurance Map Summary be approved and that the Position Statement be noted.

3/16

### **Audit Committee Update for West Midlands Fire and Rescue Authority**

The Committee noted the contents of the Audit Committee Update. The Update provided the Audit Committee with a report on progress of the external auditors in delivering their responsibilities. The Update also included a summary of emerging national issues and developments that may be relevant to the Fire and Rescue Authority.

A detailed 2015/16 Accounts Audit Plan is in progress and a report would be presented to the next Audit Committee.

The Interim Accounts Audit is in progress and the External Auditor would continue to carry out testing, and work closely with the Internal Auditor in relation to risk, work on the financial statements and fraud.

The 2015/16 Final Account Audit would take place in the Summer months and would include:

- audit of the 2015/16 financial statements
- proposed opinion of the Fire Authority's Accounts
- proposed value for Money Conclusion

The Value for Money (VFM) conclusion was in progress and the sub-criteria to be used would be:

Informed decision making – where the Review of Control and Staffing issues would be considered.

Sustainable resource deployment – The External Auditor would discuss the use of budgetary Resources with the Strategic Enabler for Finance and Resources.

Working with partners and other third parties. This was very important in light of closer working with PCC and CA.

The External Auditor would ensure that the Authority moved forward in a positive manner.

## **Audit Committee – 18 January 2016**

The Annual Audit Letter would be produced in October 2016.

The Committee's attention was brought to a link to a document entitled: Knowing the Ropes – Audit Committee Effectiveness Review

An electronic link to the document was provided and it was explained that the document provided an insight into the ways in which audit committees could create an effective role within an organisation's governance structure and understand how they are perceived more widely.

Grant Thornton and the Centre for Public Scrutiny had produced a document entitled "Supporting Members in Governance". It was agreed that a copy of the document would be circulated to Members of the Audit Committee.

### **4/16 Internal Audit Progress Report**

The Committee noted a report which detailed the progress made against the delivery of the 2015/16 Internal Audit Plan. The information contained within the report included a summary of work completed and in progress as at 30 November 2015.

It was noted that the Key Financial Systems were well controlled and provided substantial assurance and a final report would be completed by March/April 2016.

### **5/16 Internal Audit Charter – Annual Review**

The Committee were advised that the Accounts and Audit (England) Regulations 2011 required authorities to conduct a review of the effectiveness of internal audit at least once a year.

The Committee agreed that the existing Internal Audit Charter be subject to its next annual review in January 2015.

### **6/16 CIPFA Audit Committee Update No 18**

The Committee received the CIPFA Audit Committee Update No. 18. The update was published three times a year, the latest edition focused on Self-Assessment and Improving Effectiveness of an Audit Committee, the Appointment and Procurement of External Auditors and a Regular Briefing on current issues.

The update provided a list of workshops and training events for Audit Committee Members.

## **Audit Committee – 18 January 2016**

The Internal Auditor drew the Committee's attention to the section entitled Appointment and Procurement of External Auditors. The provisions of the Local Audit and Accountability Act 2014 would soon come into force. Current contracts would continue to be managed by the Public Sector Audit Appointments Ltd. However, new auditors would need to be appointed by 2018/19 and an external auditor must be appointed by the end of December 2017.

It was recommended that evaluations of options should start soon to allow time to plan procurement. Consideration should be given to a joint procurement with other Services either Regionally or with the CA. It was noted that a sector led body could be appointed by the Secretary of State.

The Committee were advised to consider the options over the next 18 – 24 months to see what was available.

Members of the Audit Committee were asked to return their Self-Assessment Review to the Clerk prior to the next meeting in order that the Assessment can be undertaken. Members were advised to leave any areas they were not aware of blank.

### **7/16 Audit Committee Work Programme 2015/16**

The Committee noted its Work Programme 2015/16. The Chair indicated that he and another member of the Committee would not be available for the meeting scheduled on 21 March 2016 and requested that the meeting be moved to the 11 April 2016 following the Fire Authority meeting.

The change of date was approved by the members of the Audit Committee.

### **8/16 Update on Topical, Legal and Regulatory Issues**

Audit Committee Members were reminded of the free development session being provided by Price Waterhouse Cooper on 4 February 2016. The Chair of the Audit Committee requested a place be booked on his behalf.

(The meeting ended at 1256 pm)

## Audit Committee – 18 January 2016

Contact Officer: Julie Connor Strategic Hub 0121 380 6906
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**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**AUDIT COMMITTEE**

**11 APRIL 2016**

1. **AUDIT COMMITTEE TERMS OF REFERENCE**

Report of the Audit Manager (Sandwell MBC)

THAT the existing terms of reference for the Committee be reviewed and approved.

2. **PURPOSE OF REPORT.**

This report is submitted for member comment and approval.

3. **BACKGROUND**

3.1 The terms of reference for the Audit Committee were updated to reflect CIPFA's position statement "Audit Committees in Local Authorities". This statement emphasises the importance of audit committees being in place in all principal local authorities and recognises that audit committees are a key component of good governance.

3.2 There have been no changes since they were last reviewed.

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 Fire Authority is not obliged by law to appoint an Audit Committee, but this course of action has been taken in line with guidance from CIPFA.

6. **FINANCIAL IMPLICATIONS**

Implementation of the recommendation will be undertaken within existing resources.

**BACKGROUND PAPERS**

CIPFA's position statement "Audit Committees in Local Authorities" None

Peter Farrow  
Audit Services and Risk Management Manager, Sandwell MBC

## **Audit Committee – Terms of Reference**

### **Statement of purpose**

Our Audit Committee is a key component of the Authority's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of our Audit Committee is to provide independent assurance to the Members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

### **Governance, Risk and Control**

To review the Authority's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

To review the annual governance statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.

To consider the Authority's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

To consider the Authority's framework of assurance and ensure that it adequately addresses the risks and priorities of the Authority.

To monitor the effective development and operation of risk management in the Authority.

Ref. AU/AC/AC Terms of Reference

To monitor progress in addressing risk-related issues reported to the Committee.

To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

To review the assessment of fraud risks and potential harm to the Authority from fraud and corruption.

To monitor the counter-fraud strategy, actions and resources.

### **Internal Audit**

To approve the internal audit charter.

To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

To approve risk based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

To approve significant interim changes to the risk-based internal audit plan and resource requirements.

To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

- Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work;
- Regular reports on the results of the quality assurance and improvement programme;
- Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.

Ref. AU/AC/AC Terms of Reference



To consider the head of internal audit's annual report:

- The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement - these will indicate the reliability of the conclusions of internal audit.
- The opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control together with the summary of the work supporting the opinion - these will assist the committee in reviewing the annual governance statement.

To consider summaries of specific internal audit reports as requested.

To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

To contribute to the quality assurance and improvement programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

To consider a report on the effectiveness of internal audit to support the annual governance statement, where required to do so by the Accounts and Audit Regulations.

To support the development of effective communication with the head of internal audit.

### **External Audit (Grant Thornton)**

To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

To consider specific reports as agreed with the external auditor.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

Ref. AU/AC/AC Terms of Reference

To commission work from internal and external audit.

To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

### **Financial Reporting**

To receive detailed training in respect of the process associated with the preparation, sign off, audit and:

- To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Authority.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

### **Accountability arrangements**

To report to those charged with governance on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.

To report to full Authority on a regular basis on the Committee's performance in relation to the terms of reference, and the effectiveness of the Committee in meeting its purpose.

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**AUDIT COMMITTEE**

**11 APRIL 2016**

**1. INTERNAL AUDIT PLAN – 2016/17**

Report of the Audit Services Manager

RECOMMENDED

THAT the Internal Audit Plan for 2016/17 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 2016/17, with an indicative plan covering the period 2017/18 to 2018/19.

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. In the course of 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 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 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.

7. **BACKGROUND PAPERS**

Internal Audit Plan 2016/17 and indicative plan for 2017/18 to 2018/19.

Peter Farrow  
Audit Services Manager, Sandwell MBC

## Internal Audit Plan 2016/17



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# 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 2016/17 audit plan

Identify the areas where assurance will be provided in 2016/17. 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

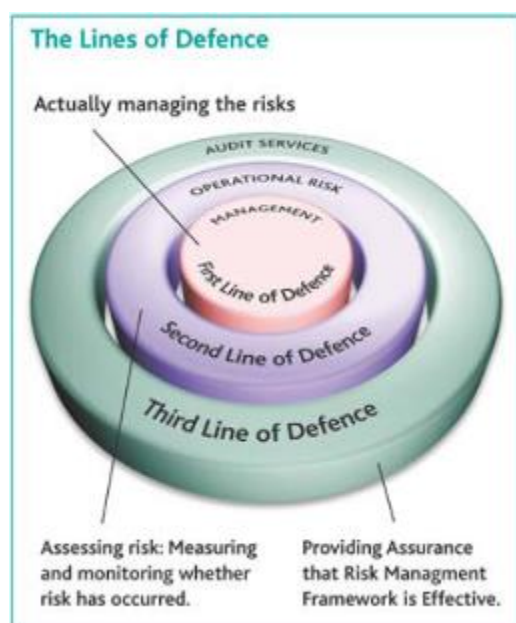
### Definition of internal auditing

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.

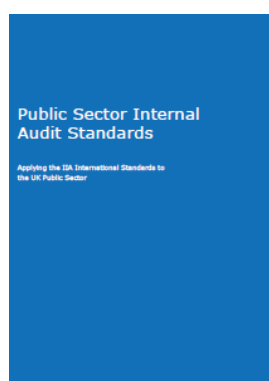
### Assurance

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.

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# 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. In order 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 in order to provide a positive, reasonable assurance to the Authority.

## 3 Assessing the effectiveness of the system of control

In order 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

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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 in order 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 also 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 2016/17 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
<ul style="list-style-type: none"> <li>• The Fire Authority would be unable to maintain the positive engagement of its employees, resulting in an inability to deliver its key objectives.</li> </ul>
<ul style="list-style-type: none"> <li>• The Fire Authority would be unable to maintain an effective ICT provision (excluding mobilising and communications), resulting in significant disruption to the organisation's ICT functionality.</li> </ul>
<ul style="list-style-type: none"> <li>• The Fire Authority would be unable to ensure that proper controls are established whilst working in partnership with other agencies/groups, resulting in a significant impact upon the organisation's financial standing, reputation and ability to deliver key objectives.</li> </ul>
<ul style="list-style-type: none"> <li>• The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively as a result of extensive disruption to normal working methods.</li> </ul>
<ul style="list-style-type: none"> <li>• The Fire Authority would be unable to ensure that operational incidents are dealt with safely and effectively using appropriate levels of resources and personnel.</li> </ul>
<ul style="list-style-type: none"> <li>• The Fire Authority would be unable to deliver the core responsibilities of preventing, protecting and responding effectively as a result of insufficient key assets such as buildings and vehicles.</li> </ul>
<ul style="list-style-type: none"> <li>• The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively due to a lack of funding or the misuse of funds, e.g. fraudulent activity.</li> </ul>
<ul style="list-style-type: none"> <li>• The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively as a result of insufficient or ineffective employees.</li> </ul>
<ul style="list-style-type: none"> <li>• The Fire Authority would be unable to manage its responsibilities under the Regulatory Reform (Fire Safety) Order and associated legislation resulting in a decline in non-domestic fire safety standards or legal action being taken against the Authority.</li> </ul>
<ul style="list-style-type: none"> <li>• The Fire Authority would be unable to maintain its command and control function, resulting in an inability to receive, process and respond to emergency calls effectively.</li> </ul>
<ul style="list-style-type: none"> <li>• The Fire Authority suffers a significant health, safety or environmental failure, resulting in legal challenge and/or litigation.</li> </ul>

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.

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### 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 so as 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.

In the course of the period covered by this plan, the priority and frequency of audit work will be subject to amendment in order 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 Committee, senior managers and the Treasurer

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.

[ILO: UNCLASSIFIED]

## 9 Internal Audit Plan for the period 1 April 2016 to 31 March 2017

Auditable Area	Purpose	Risk Category	Estimated Days
<b>Strategic Enabler of Strategic Hub</b>			
Risk Management (The Head of Internal Audit is required to give an annual opinion on the adequacy and effectiveness of the Service's risk management arrangements.)	A review to ensure the Authority is adequately identifying, assessing and managing the risks it faces in achieving its objectives.	High	10
Governance (The Head of Internal Audit is required to give an annual opinion on the adequacy and effectiveness of the Service's governance arrangements.)	An annual review of aspects of the Authority's governance arrangements, based upon the CIPFA/SOLACE model.	High	10
<b>Strategic Enabler People Support Services</b>			
Absence Management	A review of compliance with the requirements of the absence management policy.	Medium	12
<b>Strategic Enabler for Prevention</b>			
Partnerships	A review of the strategic management (governance, reporting, risk management) of key partnerships, with particular emphasis on monitoring and measurement of outcomes.	Medium	10
<b>Strategic Enabler ICT</b>			
IT (IT systems are a key element of the internal control environment, over which The Head of Internal Audit is required to give an annual opinion.)	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.	High	12

[ILO: UNCLASSIFIED]



Auditable Area	Purpose	Risk Category	Estimated Days
Data Protection	A review of the authority's monitoring of adherence to the requirements of the Data Protection Act.	Medium	15
<b>Strategic Enabler Finance and Resources</b>			
Key Financial System Reviews are undertaken in liaison with the Authority's external auditors where appropriate, in order to help support them in the work they do. All such reviews are deemed as high risk by their very nature.			
Payroll /Pensions	A review of the key financial controls relating to the administration of the Payroll System.	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.	High	3
Accounts Receivable	A review of the key financial controls relating to invoicing and collection of debts.	High	10
Accounts Payable	A review of the key financial controls relating to the ordering and payment of goods and services.	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.	High	10
Budgetary Control	A review of the key financial controls relating to Budgetary Control.	High	15
Counter Fraud (Demonstrating a pro-active approach to countering fraud and corruption is a key element of the requirements of the external auditors.)	A range of pro-active fraud activities will be undertaken including maintenance of a fraud risk register, targeted pro-active testing of areas within the Authority open to the potential of fraudulent activity, money laundering, explore hosting a raising fraud awareness seminar and benchmarking against recognised best practice.	-	10
National Fraud Initiative	We will lead on the Authority's NFI requirements. The abolition of the Audit Commission now sees the NFI exercise overseen by the Cabinet Office. We will work with the Cabinet Office in order to ensure that the Authority continues to meet all its responsibilities.	-	10

[ILO: UNCLASSIFIED]



Auditable Area	Purpose	Risk Category	Estimated Days
<b>Other</b>			
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).	-	13
Follow up (we are required to obtain assurances that previously agreed actions have been implemented.)	A follow up of the key audit recommendations made during the previous year.	-	10
<b>Total</b>			<b>185</b>

[ILO: UNCLASSIFIED]

## Indicative Future Internal Audit Plan

## Appendix B

Auditable Areas:	Risk	17/18	18/19
<b>Strategic Enabler of Strategic Hub</b>			
Risk Management	High	✓	✓
Performance Management	Medium		✓
Governance	High	✓	✓
<b>Strategic Enabler People Support Services</b>			
Workforce Planning	Medium		✓
<b>Strategic Enabler Organisational Preparedness</b>			
Business Continuity Plan	Medium		✓
<b>Strategic Enabler of Response</b>			
Environmental Protection Targets	Medium	✓	
Fire Stations – Management of Fuel	Medium	✓	
<b>Strategic Enabler ICT</b>			
IT	High	✓	✓
Freedom of Information	Medium		✓
Data Transparency	Medium	✓	
<b>Strategic Enabler Finance and Resources</b>			
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	✓	✓
Procurement	Medium		✓
Counter Fraud	-	✓	✓
National Fraud Initiative	-	✓	✓
<b>Other</b>			
Contingency	-	✓	✓
Management	-	✓	✓
Follow Up	-	✓	✓
<b>Total</b>		<b>185</b>	<b>185</b>

[ILO: UNCLASSIFIED]

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**AUDIT COMMITTEE**

**11 APRIL 2016**

1. **AUDIT PLAN 2015/16**

Report of the Chief Fire Officer.

RECOMMENDED

THAT the Committee approve Grant Thornton's Audit Plan to enable the delivery of the audit of financial statements and the value for money conclusion 2015/16.

2. **PURPOSE OF REPORT**

The purpose of the report is to seek Committee approval of Grant Thornton's Audit Plan. The plan (attached in Appendix 1) 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 2015/16 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 of Audit Practice requires Grant Thornton to issue a value for money conclusion. The conclusion will be based upon the same two reporting criteria used in the 2014/15 audit, namely, that the Authority has proper arrangements in place for:
- securing financial resilience
  - challenging how it secures economy, efficiency and effectiveness in its use of resources

3.3 The Authority is required to prepare the accounting statements by the 30 June 2016 for inspection by Grant Thornton. It is intended to submit the audited 2015/16 accounts to the Audit Committee for approval by 30 September 2016 when the Auditor aims to issue the opinion and value for money conclusion. 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 Audit 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 Audit Commission Act 1988 and the Code of Audit Practice for local government bodies.

#### 6. **FINANCIAL IMPLICATIONS**

The scale fee for undertaking West Midlands Fire and Rescue Authority's external audit work for 2015/16 is £38,636.

### **BACKGROUND PAPERS**

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

PHIL LOACH  
CHIEF FIRE OFFICER

Ref. AU/AC/2016/Apr/21703169

# The Audit Plan for West Midlands Fire and Rescue Authority

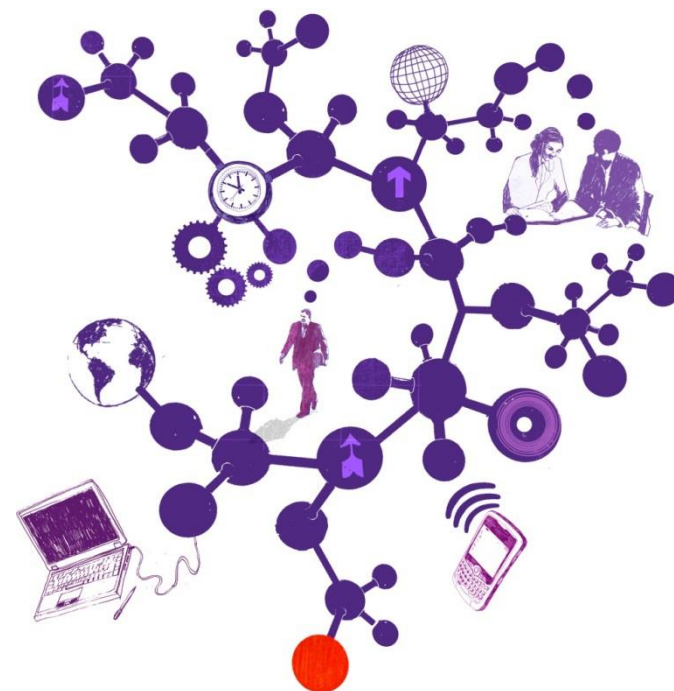
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**Year ending 31 March 2016**

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11 April 2016

Dear Members of the Audit Committee

**Audit Plan for West Midlands Fire and Rescue Authority for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of those charged with governance (in the case of West Midlands Fire and Rescue Authority, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Authority and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Controller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Authority's financial statements
- satisfy ourselves the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

James Cook  
Engagement Lead

**Chartered Accountants**

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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 the Authority 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.

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Authority is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Autumn Statement 2015 and future Four year settlement offer

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- There was a commitment to fund the Emergency Services Mobile Communications Programme but at this stage it is not clear if the £74 million for the Fire and Rescue Service will cover the full costs of this.
- West Midlands Fire and Rescue Authority still face significant challenges going forward. The DCLG confirmed the Authority's 2016/17 core funding which resulted in a reduction of £3.3 million. The four year settlement will result in a total reduction in core funding of c£10 million.

### 2. Delivering the service

- Ensuring staffing models are appropriate to meet service delivery as set out in the strategic plan is a key ambition for the Authority.
- Retained firefighters are not part of the Authority's staffing model.
- The Authority has identified that it requires 1,322 firefighters to maintain service delivery in line with the Plan 2015-2018.
- Discussions are in progress to introduce a scheme enabling firefighters to work additional voluntary shifts. This is currently being negotiated with the Union due to pay issues.

### 3. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- Not all schemes include fire services, and some of the proposed city regions cut across service areas.
- The West Midlands Combined Authority will be created in the 2016/17 year. It is currently unclear how and when this will impact on the Fire Authority.

### 4. Blue light collaboration

- Following the consultation on closer working between emergency services the Government moved ministerial responsibility for Fire & Rescue to the Home Office from January 2016, with a view to supporting closer working.
- At the same time it was announced that the Home Office was determined to introduce greater efficiency into the sector. The plans include the introduction of an independent inspectorate.
- This change has taken place against a greater backdrop of joint working, including ambulance and other services.
- Plans are currently being developed to enable more joined up working between police and fire authorities, by giving a single chief officer post the ability to lead both police and fire personnel.

### 5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require local authorities to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.

## Our response

- We will consider the Authority's financial performance for 2015/16 through discussions with management and comparison with the budgeted outturn to inform our going concern assessment.
- We will consider the Authority's plans going forward for addressing its financial position as part of our work to reach our VFM conclusion.
- Our value for money work will further consider how the Authority has balanced the requirements of delivering services against continued resource constraints.
- We will share our knowledge of how other parts of the sector are responding to these challenges.

- We recognise that there are barriers to change, however these must be overcome if the fire service is to succeed in delivery of its strategic objectives.
- We will continue to hold discussions with management and assess the impact of changes to the staffing model on both finances and service delivery as part of the work to enable us to reach our value for money conclusion.

- We will update our understanding of the evolving model for the Combined Authority as part of our value for money work.
- We will also consider your plans and role in the local devolution agenda and provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

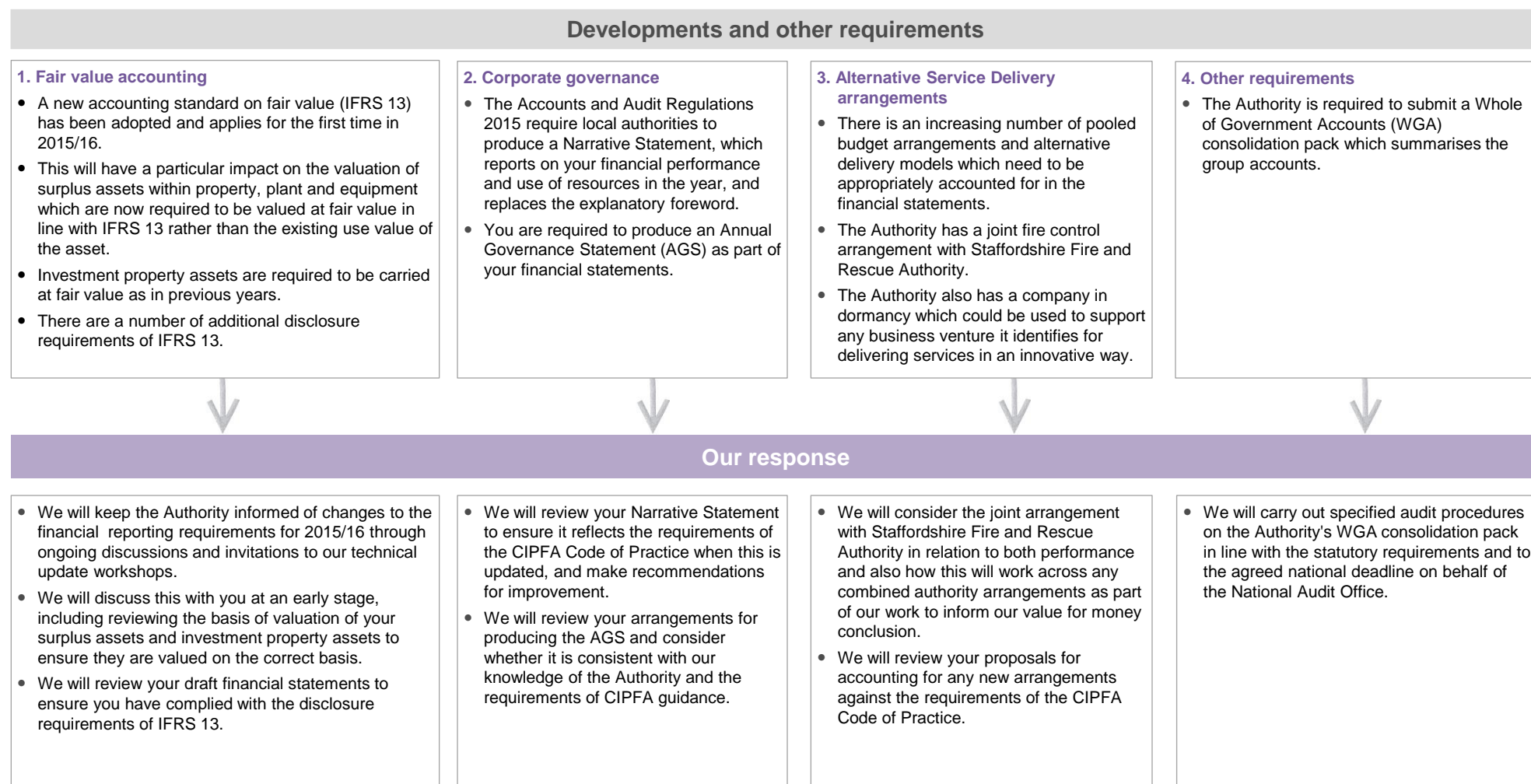
- We will review arrangements going forward under the Home Office in order to understand how this affects the fire service in respect of funding and additional or shared responsibilities.
- We will consider any collaborative arrangements as they develop as part of our work in reaching our value for money conclusion.
- We will discuss with management issues which could be barriers to successful collaboration eg cultural change and governance arrangements.

- We will work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- We aim to complete all substantive work in our audit of your financial statements by 31 July 2016 as a 'dry run'

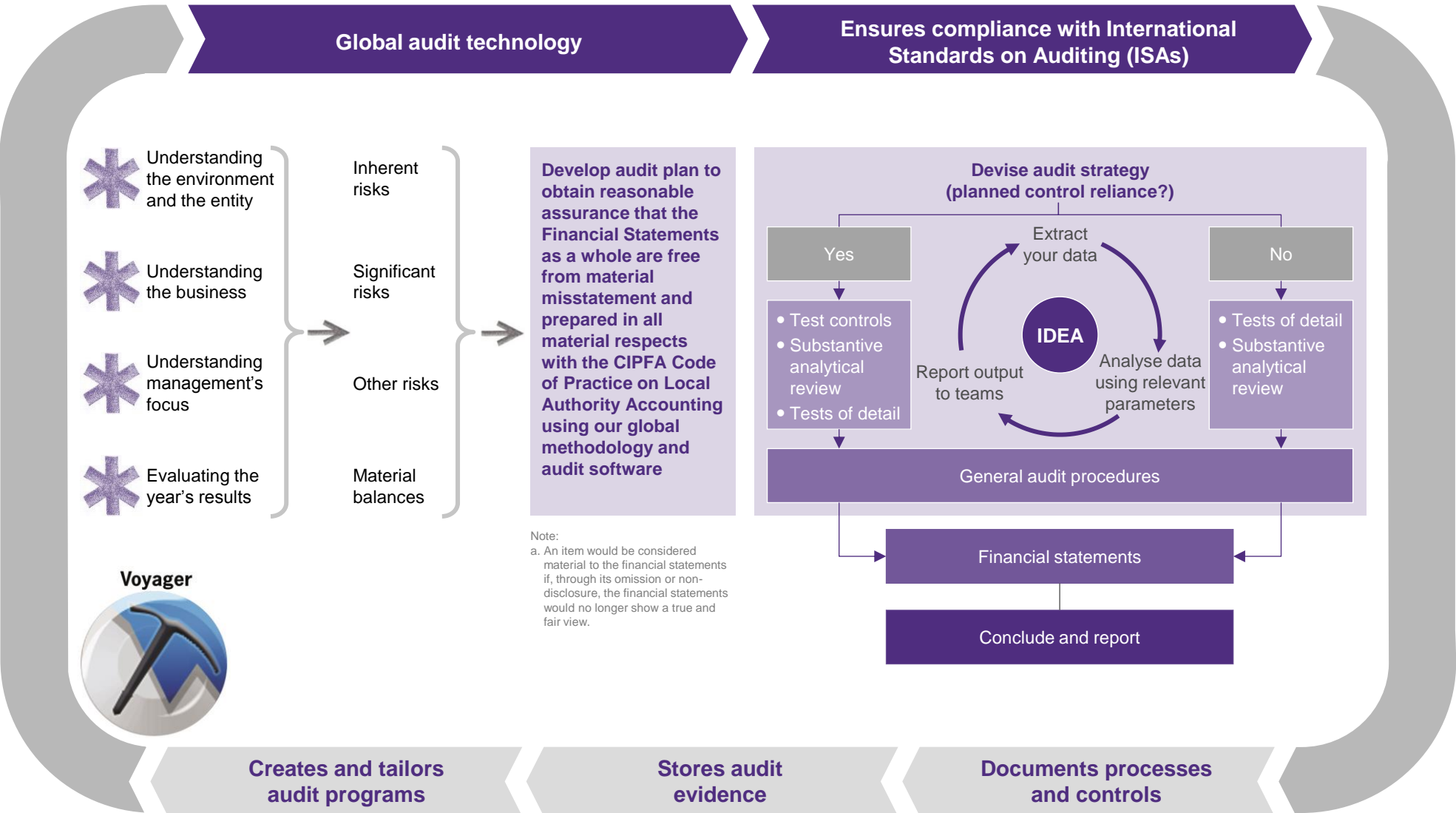


# Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.



# Our audit approach



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that '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'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Authority. For purposes of planning the audit we have determined overall materiality to be £2,368k (being 2% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £118,400.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Authority affect the balance and it is therefore considered to be material by nature.	Any errors identified by testing in excess of triviality would be deemed to have implications on the users understanding of the financial statements
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing in excess of £10,000 would be deemed to have implications on the users understanding of the financial statements
Related party transactions	Related party transactions have to be disclosed if they are material to the fire authority or to the related party	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Authority and the related party.

# Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p><b>Work completed to date:</b></p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fire Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• 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</li> </ul>
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of prior year accounting estimates, judgments and decisions made by management</li> <li>• Review of journal control environment</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of current year accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>
Pensions commutation liability	The Authority processed a material payment in the year in relation to pensions commutation liabilities that arose as a result of the GAD Vs. Milne case. Under ISA 315, this is a significant non-routine transaction.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of prior year provision in comparison with the actual payment made to pensioners</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Agreement of the payments made to pensioners or the estate of deceased former scheme members</li> <li>• Agreement of the receipt of the top-up grant receivable from DCLG to meet the liability</li> <li>• Review of any disclosure requirements should the issue not be fully resolved by period end 31<sup>st</sup> March 2016</li> </ul>

# Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses	<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p> <p>There is an element of estimation uncertainty for accruals which require estimate techniques and management judgment. There is an inherent risk that payables may not be posted in the correct financial year.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"><li>• We have documented the processes and controls in place around the accounting for operating expenses</li><li>• We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding</li><li>• We have undertaken early substantive testing on a sample of operating expenses up to January 2016.</li></ul> <p><b>Work planned:</b></p> <ul style="list-style-type: none"><li>• Testing of the completeness of the subsidiary system (purchase ledger) interfaces with the ledger</li><li>• Substantive testing of a sample of creditor balances including accruals</li><li>• Documentation of the processes in place for month and year end accruals</li><li>• Review of post year end payments made to identify unrecorded liabilities</li><li>• Testing of a sample of goods received that have not yet been invoiced, to identify any items which have not been accrued correctly.</li><li>• Completion testing of a sample of operating expenses to ensure they have been accurately accounted for and in the correct period</li></ul>

## Other risks identified (continued)

Other risks	Description	Audit approach
Employee remuneration	<p>Employee remuneration and benefit obligations and expenses understated</p> <p>The Authority has a large number of employees and related payroll transactions. This means the inherent risk, which includes year end accruals, is high.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have documented the processes and controls in place around the accounting for Employee Remuneration</li> <li>• We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding.</li> <li>• We have undertaken early substantive testing on a sample of employees covering the period April 2015 to January 2016</li> <li>• Trend analysis of payroll expenditure to January 2016.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Completion of monthly trend analysis to identify any usual or irregular movements for investigation</li> <li>• Review of the monthly payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements.</li> <li>• Completion of our substantive testing of employees for accuracy of payment and the agreement of employment remuneration disclosures to supporting documentation.</li> <li>• Review of year end employee remuneration accruals and agreement to supporting documentation where significant.</li> <li>• Review of employee remuneration disclosures including senior officers remuneration and pensions to ensure they are in compliance with the CIPFA Code of Practice.</li> </ul>

## Other risks identified (continued)

Other risks	Description	Audit approach
Firefighters Pensions Benefit Payments	<p>Benefits improperly computed/ claims liability understated</p> <p>Payments to retiring officers are low in volume but high in value and the service is reliant on effective controls both within and outside the organisation to ensure that payments made are valid and accurate.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have documented processes and controls in place around the accounting for Fire Fighters' Pensions.</li> <li>• We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Agreement of pension disclosures in the financial statements to supporting evidence.</li> <li>• Testing a sample of Fire Fighters' pension payments covering the period 1<sup>st</sup> April 2015 to 31 March 2016 to ensure that they have been accurately accounted for and in the correct period.</li> </ul>

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# Other risks identified (continued)

## 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 the previous section but will include:

- Grant revenue
- Other revenues
- Cash and cash equivalents
- Financial Instruments
- Property, plant and equipment
- Debt
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Provisions

## Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the authority.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts



# Value for Money

## Background

The Code requires us 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 NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

The NAO 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:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"><li>• Acting in the public interest, through demonstrating and applying the principles and values of good governance</li><li>• Understanding and using appropriate cost and performance information to support informed decision making and performance management</li><li>• Reliable and timely financial reporting that supports the delivery of strategic priorities</li><li>• Managing risks effectively and maintaining a sound system of internal control</li></ul>
Sustainable resource deployment	<ul style="list-style-type: none"><li>• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li><li>• Managing assets effectively to support the delivery of strategic priorities</li><li>• Planning, organising and developing the workforce effectively to deliver strategic priorities.</li></ul>
Working with partners and other third parties	<ul style="list-style-type: none"><li>• Working with third parties effectively to deliver strategic priorities</li><li>• Commissioning services effectively to support the delivery of strategic priorities</li><li>• Procuring supplies and services effectively to support the delivery of strategic priorities.</li></ul>

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# Value for Money (continued)

## Risk assessment

We have carried out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we have considered:

- our cumulative knowledge of the Authority, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

The following pages set out our planned work for 2015/16 to meet our duties in respect of the VfM conclusion. This includes any significant risks identified, along with details of the work we plan to carry out to address these risks.

## Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

# Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

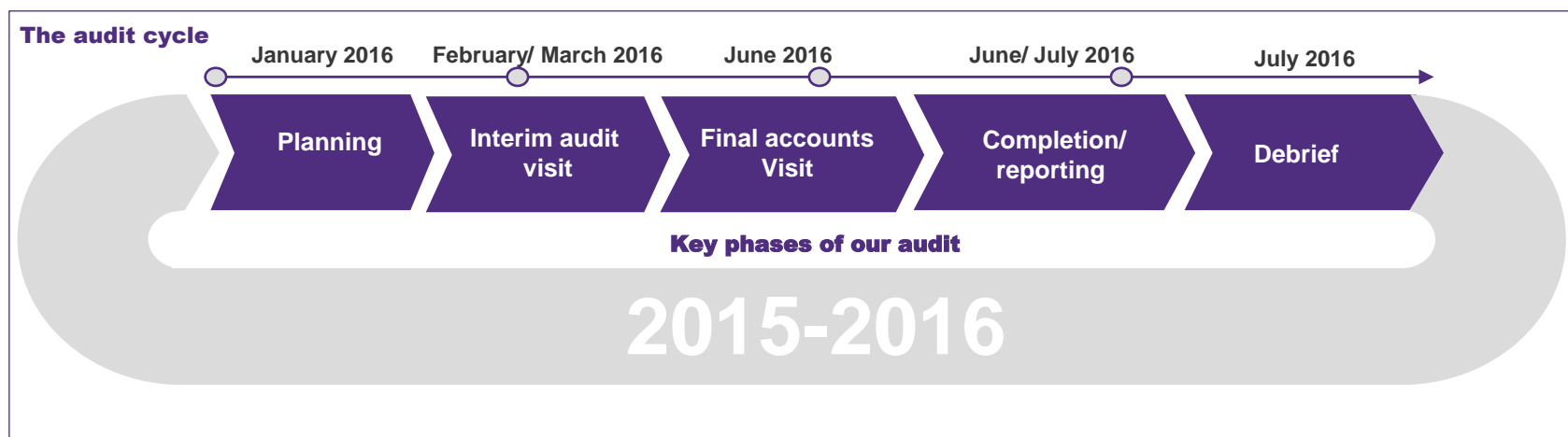
Significant risk	Link to sub-criteria	Work proposed to address the risk
<p><b>Informed decision making</b></p> <p>The Authority has historically managed its finances well, achieving financial targets and is on course to deliver its 2015/16 budget.</p> <p>Nevertheless the scale and pace of change for the Fire Service will effect future projections, particularly following announcements from the Comprehensive Spending Review, Autumn Statement 2015 and then more recently the provisional Local Government Finance Settlement 2016/17 published in December 2015.</p>	<p>This links to the Authority's informed decision making and ensuring that information is obtained and communicated throughout the organisation appropriately to support decisions.</p> <p>It also links to the Authority's arrangements for sustainable resource deployment;</p> <p>to ensure that finances are planned effectively to support the sustainable delivery of strategic priorities to maintain statutory functions</p> <p>That arrangements are in place to make informed decisions, ensuring as an organisation they are acting in the public interest.</p>	<p>We will review the Council's arrangements in place for identifying, agreeing and monitoring its sustainability and operational plans, and communicating key findings to the Governing Body and Audit Committee.</p> <p>We will review the Council's updated medium term financial plan and monthly financial monitoring reports and assess the assumptions used.</p>
<p><b>Working with partners and other third parties</b></p> <p>The Government is clear that the public sector needs to rethink the boundaries to create efficiencies and deliver services in a more meaningful way to the taxpayer. As such, they have passed legislation which devolves powers to localities. Furthermore, the Government also recently moved ministerial responsibility for Fire &amp; Rescue to the Home Office from January 2016, with a view to supporting closer working within the blue light sector.</p> <p>The Authority is positioning itself to maximise the opportunities from the West Midlands Combined Authority which will be created in 2016/17 and the closer working which is anticipated between West Midlands Police and Fire services.</p>	<p>This links to the Authority's arrangements for working with partners effectively to deliver strategic priorities.</p> <p>This includes the arrangements put in place to make informed decisions, ensuring as an organisation they are acting in the public interest.</p>	<p>We will understand the partnership working within the West Midlands and how this is evolving to support the delivery of public sector services across the area.</p> <p>We will assess the governance arrangements which are being established to support any significant partnerships and consider how these plans are reflected in the longer term strategic planning of the Authority.</p>

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Authority's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Authority and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements</p>
<b>Review of information technology controls</b>	<p>We have performed a high level review of the general IT (information technology) control environment, as part of the overall review of the internal controls system.</p> <p>IT controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements</p> <p>In addition to this, we are satisfied that deficiencies in the control environment identified in the prior period (2014/15) have been appropriately addressed by the Authority.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Authority's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Authority in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
<b>Journal entry controls</b>	<p>We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements.</p>	<p>We are satisfied that the journals control environment is robust and have determined our strategy for detailed testing of large or unusual entries at period end.</p>

# Key dates



Date	Activity
January 2016	Planning
February / March 2016	Interim site visit
21 <sup>st</sup> March	Presentation of audit plan to Audit Committee
June 2016	Year end fieldwork
July 2016	Audit findings clearance meeting with Strategic Enabler of Finance and Resources
September 2016	Report audit findings to those charged with governance (Audit Committee)
September 2016	Sign financial statements opinion
September 2016	Submission of the consolidated schedules for Whole of Government Accounts
November 2016	Annual Audit Letter

# Fees and independence

## Fees

	£
Fire Authority audit	38,636
<b>Total audit fees (excluding VAT)</b>	<b>38,636</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Authority and its activities, have not changed significantly.
- The Authority will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Fees for other services

Service	Fees £
<b>Non-audit services</b>	
Presentations regarding changes in pension contribution allowances	3,500

## Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

## Independence and ethics

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Authority.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Authority's key risks when reaching our conclusions under the Code.

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 communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**AUDIT COMMITTEE**

**11 APRIL 2016**

**1. FREQUENCY OF CORPORATE RISK REPORTING TO  
AUDIT COMMITTEE**

Report of the Chief Fire Officer.

**RECOMMENDED**

- 1.1 THAT Audit Committee approve the change in frequency for providing the Committee with an overall corporate risk position statement update from four times a year to twice a year.
- 1.2 THAT Audit Committee approve the introduction of regular reports to Committee to provide timely and specific corporate risk information as a means of keeping members fully engaged in and aware of the emerging corporate risk matters.

**2. PURPOSE OF REPORT**

This report is submitted to request member approval to more effectively engage and involve Audit Committee in corporate risk management matters. In meeting this requirement it is proposed to reduce the frequency of corporate risk position statement reporting from four times per year to every six months. This will create the capacity to engage Audit Committee on emerging corporate risk matters and topics on a regular basis. This balanced approach will not only ensure that Members remain up to date and assured of the Service's arrangements for managing risks but are also more engaged and influential in supporting the management of emerging corporate risks. Appendix 1 provides an example of the type of report on risk matters which will be raised by Officers for discussion at Audit Committee on 11<sup>th</sup> April 2016.

### 3. **BACKGROUND**

- 3.1 As Members will be aware, the Service currently reports to Committee upon its corporate risk arrangements in the form of a quarterly position statement supported by the overall corporate risk assurance map summary. This approach enables Members to understand retrospectively how the Service continues to manage its eleven corporate risks and provides assurance as to the pro-active approach the Service takes to the ongoing management of its corporate risk environment.
- 3.2 It is recognised that the submission of the corporate risk position statement and risk summary to Audit Committee is a core component of the Authority's risk management framework and is integral to providing assurance to Audit Committee of the Service's overall management of its corporate risks. However, due to the volume and complexity of information contained in the position statement/assurance map summary, it is also recognised that this approach may not be the best approach for engaging and involving Members in timely corporate risk discussions. Therefore it is proposed to change the frequency of corporate risk reporting in this format from four times to two times per year.
- 3.3 In making this proposal the Deputy Chief Fire Officer has consulted the Audit Services and Risk Management Manager, who is comfortable with the proposal to reduce the reporting frequency. In arriving at this decision, the Audit Services and Risk Management Manager confirmed that the Service must ensure that appropriate arrangements are in place to ensure that Members are made aware of any significant changes to its corporate risks in a timely and effective way. In order to meet this requirement, Officers of the Service will report any specific changes in corporate risk profile, rating and score at the next available Audit Committee meeting creating an environment where Members will have the capacity to engage in a specific discussion about emerging risks, rather than a more generic debate.
- 3.4 Officers are continually seeking ways to improve the way the Service operates across the range of its activity.

To this end, the Deputy Chief Fire Officer has been considering how Officers can utilise Audit Committee to provide Members with relevant and timely risk information. Therefore it is proposed that, subject to Committee approval of recommendation 1.2 above, Audit Committee will be provided with regular updates upon specific risk issues as and when they emerge in the organisation. This approach will promote and enable Members to become more aware of specific risk critical issues in a timely way. It will also provide the opportunity for Members to discuss, critically challenge, shape and influence how the Service manages and controls its specific risks. Through this engaging and involving, Members will build their capability and understanding around risk management and will be provided with assurance as to the Service's arrangements for managing specific risks.

- 3.5 Subject to Member approval, the Service's corporate risk management strategy document will be refreshed to reflect this new approach. It will be submitted to Audit 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**

There are no legal implications associated with the implementation of the recommendations set out in this report

6. **FINANCIAL IMPLICATIONS**

There are no direct financial implications associated with the implementation of the recommendations set out in this report

7. **ENVIRONMENTAL IMPLICATIONS**

None

## **BACKGROUND PAPERS**

None

The Author of this report is Deputy Chief Fire Officer Philip Hales,  
telephone number 0121 380 6907.

PHIL LOACH  
CHIEF FIRE OFFICER

### **CORPORATE RISK: AUDIT COMMITTEE BRIEFING**

#### **Industrial Action Ballot: Additional Shifts**

Members will be aware that in order to continue to maintain its service delivery model to provide our core service of prevention, protection and response and deliver our objectives and outcomes as set out in our The Plan, the Service has recently introduced a voluntary additional shift model.

The implementation of an additional shift model has been necessitated by the requirement to save £10 million by 2019/20 as a consequence of a reduction in central government funding. The Additional Shifts model is a key component of our efficiency saving strategy and is forecast to save circa £4 million.

#### **Trade Dispute**

Despite the commitment of the Service to open and ongoing communication and negotiation with the Fire Brigades' Union (FBU) on this matter, a trade dispute has been registered by the FBU.

Following a ballot FBU Members voted in favour of taking industrial action in the form of action short of strike (commonly known as ASOS). Essentially this means that any other duties which sit outside core contractual activity, such as undertaking voluntary additional shifts for example, will not be undertaken by FBU members participating in this form of industrial action.

#### **Impact upon Service to the Community - The Risk**

There is the potential that there will be a shortfall in numbers of delivery personnel required to maintain our delivery model, meaning we cannot resource our fire engines and Brigade response vehicles at five and three. This may impact upon our attendance standard and the level of response to the community of the West Midlands.

#### **How we are Responding to the Risk**

- The Service continues to maintain its commitment to communication and negotiation with representative bodies.
- The Service has in place effective day to day workforce planning arrangements to identify and manage potential shortfalls in staffing.
- A communication strategy to ensure ongoing engagement of all Service personnel, setting out the reasons for implementing the Additional Staffing model and the benefits to both those undertaking voluntary shifts and to the community, is in place.

- Only 35% of FBU members voted for this course of action. This is a minority and means that 65% of eligible staff have either not felt they can support Industrial Action or have not had the opportunity to register their view.
- Alternative approaches to service delivery are being considered, for example staffing fire engines at four.
- Consideration is given to resourcing additional resilience utilising competent officers (Watch Commander and above) to undertake Firefighter and Crew Commander roles should the need arise.
- The Service has in place tried and tested Business Continuity Plans to be enacted should the Service Delivery Model become compromised and staffing fall below required levels.

### **Impacts upon Corporate Risks**

Industrial action and the risk controls in place to prevent (likelihood) and mitigate against the impacts should it occur are recorded, monitored and managed against a number of our Corporate Risks, namely:-

1. The Fire Authority would be unable to maintain the positive engagement of its employees, resulting in an inability to deliver its key priorities and objectives.
5. The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively as a result of extensive disruption to normal working methods.
6. The Fire Authority would be unable to ensure that operational incidents are dealt with safely and effectively using appropriate levels of resources and personnel.

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**AUDIT COMMITTEE**

**11 APRIL 2016**

1. **CORPORATE RISK QUARTER 3 UPDATE 2015/16**

Report of the Chief Fire Officer.

RECOMMENDED

THAT Audit Committee approve the Corporate Risk Assurance Map Summary (Appendix 1) and notes the Position Statement (Appendix 2) for each risk .

2. **PURPOSE OF REPORT**

This quarterly update is provided to ensure Members remain informed about all aspects relating to the management of the Authority's corporate risks.

3. **BACKGROUND**

- 3.1 In accordance with the Service's risk management strategy, the Corporate Risk Assurance Map Summary is submitted for approval by the Audit Committee, following its submission and discussion at the Corporate Performance Review Meeting.
- 3.2 Corporate risks are those risks which if they occurred would seriously affect the Authority's ability to carry out its core functions or deliver its strategic objectives as set out in The Plan. Currently, the Service maintains 11 corporate risks.
- 3.3 Each corporate risk has assigned to it 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.

- 3.4 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 on the basis of 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).

LIKELIHOOD	4				
	3				
	2				
	1				
		1	2	3	4
		IMPACT			

	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

- 3.5 In order to ensure that Members are kept informed of corporate risk matters a Position Statement (Appendix 2) and the overall Corporate Risk Assurance Map Summary are attached (Appendix 1)
- 3.6 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 score.
  - 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 being implemented to further reduce the likelihood or impact.



- Control Owners who are responsible for the implementation, maintenance and review of individual control measures.
- 3.7 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.
- 3.8 Where ongoing additional controls are being implemented, Risk Owners have confirmed the progress in implementing such controls.
- 3.9 The Position Statement, attached as Appendix 2, provides the detail of the risk management activity undertaken or ongoing in respect of Authority's eleven Corporate Risks for quarter 3 of 2015/16. The overall risk rating and scores remain unaltered this quarter when compared to the previous quarter. The Level of Risk Owner confidence in the effectiveness of the Service's risk management and control environment remains high with the following confidence opinions being awarded:-
- Corporate Risks 1, 7, 8, 9, 10, 11 and 13 have been awarded a green confidence (substantial) opinion, which is the highest level that can be awarded.
  - Corporate Risks 2, 4, 5, 6 and have been awarded an amber (satisfactory) confidence opinion. In all cases, work is in progress to enable for a green rating to be attained.
  - No red (limited) confidence opinions were awarded.
- 3.10 The position statement reflects that following the completion of the 12 month evaluation of the Strategic Enabling Team (SET), a number of (SET) posts have been re-named and re-aligned between the Director of Service Support and Service Delivery. Corporate Risk Owners have been changed to reflect this and new designations are detailed in the Position Statement at Appendix 2.
- 3.11 Reference is made in the position statement to the Fire Ref. AU/AC/2016/Apr/22303164

Brigades' Union (FBU) industrial action ballot as a consequence of the ongoing trade dispute with regard to the additional shift model that the Service has implemented. FBU members have voted to take action short of strike (ASOS). In maintaining its service delivery model (including the provision of core Fire Control functionality) the Service has in place its business continuity arrangements, which provides the framework to ensure that the integrity of the service delivery model is maintained as far as is practicably possible. This framework is reflected as a risk control measure across a number of Corporate Risks.

3.12 The Service remains committed to ongoing communication with all representative bodies. The frameworks in place to evidence this are also reflected as Corporate Risk control measures.

3.13 In accordance with the review requirements the Service is currently reviewing its Corporate Risk Strategy and processes as set out in Standing Order 22/7. As per the Constitution this document will be submitted to Audit 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.

#### 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 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, Phil Hales, telephone number 0121 380 6907.

PHIL LOACH  
CHIEF FIRE OFFICER

## Corporate Risk Assurance Map - Summary - January 2016

Outcome of risk realisation		Owner	Direction of travel	Overall confidence	Likelihood	Impact	Risk Score
1	The Fire Authority would be unable to maintain the positive engagement of its employees, resulting in an inability to deliver its key priorities and objectives.	SE People	↔		4	3	12
2	The Fire Authority would be unable to maintain an effective ICT provision (excluding mobilising and communications), resulting in significant disruption to the organisation's ICT functionality.	SE ICT	↔		4	2	8
4	The Fire Authority would be unable to ensure that proper controls are established whilst working in partnership with other agencies/groups, resulting in a significant impact upon the organisation's financial standing, reputation and ability to deliver key objectives	SE Prevention	↔		3	2	6
5	The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively as a result of extensive disruption to normal working methods.	SE Ops Preparedness	↔		4	3	12
6	The Fire Authority would be unable to ensure that operational incidents are dealt with safely and effectively using appropriate levels of resources and personnel.	SE Response	↔		2	4	8
7	The Fire Authority would be unable to deliver the core responsibilities of preventing, protecting and responding effectively as a result of insufficient key assets such as buildings and vehicles.	SE Finance & Resources	↔		2	3	6
8	The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively due to a lack of funding or the misuse of funds, e.g. fraudulent activity.	SE Finance & Resources	↔		3	3	9
9	The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively as a result of insufficient or ineffective employees.	SE People	↔		2	3	6
10	The Fire Authority would be unable to manage its responsibilities under the Regulatory Reform (Fire Safety) Order and associated legislation resulting in a decline in non-domestic fire safety standards or legal action being taken against the Authority.	SE Protection	↔		2	2	4
11	The Fire Authority would be unable to maintain its command and control function, resulting in an inability to receive, process and respond to emergency calls effectively.	SE Protection	↔		2	4	8
13	The Fire Authority suffers a significant health, safety or environmental failure, resulting in legal challenge and/or litigation.	SE People	↔		2	3	6

## **Corporate Risk Quarter 3 Position Statement January 2016**

### **SET Review: Change to Corporate Risk, Risk Owners.**

Each of the Authority's Corporate Risks is assigned a Risk Owner who is a member of the Strategic Enabling Team (SET). The Risk Owner is responsible for monitoring and reviewing the management of risk. Following the recent review of the SET a number of Corporate Risk Owner references have been updated to reflect new Strategic Enabler (SE) role titles but actual Risk Ownership remains unchanged. However following consultation with SE, a number of risks have been realigned to reflect the revised structural arrangements. Specifically:-

- CR 5: The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively as a result of extensive disruption to normal working methods. As a consequence of SE Emergency Risk post being disestablished, Risk Owner responsibility has been re-aligned to SE Operational Preparedness.
- CR 6: The Fire Authority would be unable to ensure that operational incidents are dealt with safely and effectively using appropriate levels of resources and personnel. Risk Owner responsibility has been aligned to SE Response
- CR 11: The Fire Authority would be unable to maintain its command and control function, resulting in an inability to receive, process and respond to emergency calls effectively. Risk Owner responsibility has been aligned to SE Protection.
- CR 13 The Fire Authority suffers a significant health, safety or environmental failure, resulting in legal challenge and/or litigation. Risk Owner responsibility has been realigned to SE People.

In accordance with risk management governance arrangements, a report detailing the changes will be submitted to Audit Committee on 11 April 2016.

The new SET arrangements were implemented on 1 January 2015. In support of embedding this change, a number of Control Owner (that is those personnel/functions with responsibility for individual controls on the assurance map) references will require updating. This will result in ownership for a vast number of controls across the risk assurance map being changed. This will be progressed with Risk Owners in quarter 4 of 2015 .

### **SE Organisational Assurance:**

As an outcome of the SET review, a new post of SE Organisational Assurance has been established. The role and functional responsibilities of this role are currently being determined. However, given the importance of the Corporate Risk framework in providing the environment to identify, evaluate, manage and monitor risk that could impact upon the delivery of our strategic priorities and outcomes, it is likely that SE Organisational Assurance will provide an internal oversight and assurance of our corporate risk framework. This approach will support the '3 lines of defence'

assurance approach with this post supporting the provision of an independent 'level 2' assurance, thereby strengthening and improving the Authority's management of Corporate Risk.

## Corporate Risk Strategy

In accordance with the review requirements the Service is currently reviewing its Corporate Risk Strategy and processes as set out in Standing Order 22/7. As per the Constitution this document will be submitted to Audit Committee for approval during this municipal term.

## Individual Risk Position Statement

Corporate Risk 1: The Fire Authority would be unable to maintain the positive engagement of its employees, resulting in an inability to deliver its key priorities and objectives.

Emerging Issues	The risk score of 12 (likelihood 4 x Impact 3) remains. The likelihood of industrial action associated with the 'Pensions' trade dispute with the Government has reduced. However the Service is aware that the Fire Brigades' Union may lodge a trade dispute with the Service following the introduction of voluntary shifts and the development of proposals for change within Fire Control.
Changes to control measures	<p>An additional control has been added to the assurance map to reflect the Service's Wellbeing framework. This framework provides a range of valuable information sources and support across the full health and wellbeing spectrum and is designed to promote a positive health and wellbeing culture at work.</p> <p>A review of Standing Order 6 is underway. This review will provide the opportunity to implement a less prescriptive and restrictive framework approach to the provision of learning and development guidance. This will enable for and alignment with the Service's personal accountability culture and encourage evidenced based decision making.</p>
Assurance updates	In spite of emerging issues, the Risk Owner is confident that the frameworks and procedures in place to enable for the continued positive engagement of employees are sufficient. Therefore overall confidence as to the strength of the control environment remains substantial.

Corporate Risk 2: The Fire Authority would be unable to maintain and effective ICT provision (excluding mobilising and communications) resulting in significant disruption to the organisations ICT functionality.

Emerging Issues	<p>The overall risk score is 8. The risk continues to be medium. The risk level remains as it was for the last quarter and work continues to explore solutions to improve accessibility to ICT functionality from a wider range of devices and locations including ones not provided by the organisation.</p> <p>Transfer of organisational responsibility from Department of Communities and Local Government to the Home office may change information security requirements but these are as yet unconfirmed.</p>
Changes to control measures	<p>Additional security measures within the ICT infrastructure are being piloted to ensure that the confidentiality, availability and integrity of the brigade's information assets is maintained irrespective of access device and location.</p> <p>Work is ongoing to establish accreditation for Code of Connection (CoCo) to the Emergency Services Network (ESN) and the Public Services Network (PSN).</p> <p>Consultation is currently underway to create appropriate accreditation processes for in-house developed systems such as the Incident Recording System.</p>
Assurance updates	The overall risk confidence opinion is amber.

Corporate Risk 4: The Fire Authority would be unable to ensure that proper controls are established whilst working in partnership with other agencies/groups, resulting in a significant impact upon the organisation's financial standing, reputation and ability to deliver key objectives.

Emerging Issues	<p>The risk score associated with this risk was raised to <math>3 \times 2 = 6</math> following the August 2015 interim findings of the Scrutiny Committee review of our partnership arrangements. The Scrutiny Working Group delivered its final report to Scrutiny Committee in December 2015, following which the Executive Committee formally approved the findings and proposals for change on 14 December 2015. The findings of the final report were as outlined in the interim report so the current risk rating remains unchanged.</p>
Changes to control measures	<p>The Scrutiny Review recognises that the control environment to enable for the effective management, monitoring and governance of partnerships requires improvement. An action plan for improvement to address the range of proposals set out in the Review of</p>

	Partnerships report is currently being developed by the SE Prevention. As part of this approach the SE is currently consulting staff and key stakeholders (ops commanders for example) in respect of potential structure, processes and resources that will enable for the more effective control and governance of partnerships. Therefore there are no changes to control measures at this time. The SE Prevention is committed to implementing the proposals for change and will provide regular updates to Scrutiny Committee who will monitor performance in delivering the action plan.
Assurance updates	The Scrutiny Committee report provides for a level 3 independent assurance of the control environment and this is reflected on the assurance map.

Corporate Risk 5: The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively as a result of extensive disruption to normal working methods.

Emerging Issues	The risk score of 12 (likelihood 4 x Impact 3) remains. The likelihood of industrial action associated with the 'Pensions' trade dispute with the Government has reduced. However the Service is aware that the Fire Brigades' Union may lodge a trade dispute with the Service following the introduction of voluntary shifts and the development of proposals for change within Fire Control.
Changes to control measures	There has been no update to control measures in this quarter. However, due to the outcomes of the SET review a number of controls need to be re-aligned to reflect there new control owner responsibilities.
Assurance updates	The overall confidence opinion associated with this risk is amber on the basis of whilst the Service is doing all that is reasonably practicable to avoid industrial action, there is still likely to be a short term impact to the delivery of strategic priorities should strike action occur. Although the Service has in place appropriate business continuity plans and other established frameworks to enable for the delivery of an emergency response in mitigation of industrial action, there is uncertainty as to how the Service will continue to meet its specific response responsibilities should a significant or a number of incidents occur during a period of industrial action

Corporate Risk 6: The Fire Authority would be unable to ensure that operational incidents are dealt with safely and effectively, using appropriate levels of resource and personnel.

Emerging Issues	The overall risk Score remains at 2 (likelihood) x 4 (impact) = 8 and the risk remains at Medium.
Changes to control measures	In meeting the current funding challenge the Service is has implemented three contributing mechanisms to sustain the Service's Delivery Model against a reducing establishment. These are <ul style="list-style-type: none"> <li>• Voluntary Bank Shifts</li> <li>• Integrated Resilience</li> <li>• Voluntary Additional Shifts.</li> </ul>

Ref. AU/AC/2016/Apr/22303164



	<p>These are reflected as controls on the assurance map.</p> <p>In order to enable for a consistent and appropriate approach to the management of risk appertaining to the implementation of the requirements of Emergency Services Mobile Communications Programme (ESMCP) a single nationally agreed approach to the management of risk has been agreed and a single risk register has been developed. This approach will enable FRS' to locally identify, manage and monitor risks associated with the implementation of ESMCP upon their own FRS whilst also providing a framework to identify, communicate and develop national good practice for managing the shared risks associated with this programme. This approach provides assurance to SET, Members, Stakeholders and DCLG alike that FRS' has in pace the appropriate infrastructures, frameworks, networks and processes for the timely and risk managed delivery of this programme.</p>
Assurance updates	<p>Level 1 assurance has been provided across the risk environment. However, the Risk Owner has awarded an overall Satisfactory (amber) confidence opinion as to the collective strength of the controls in preventing or reducing risk realisation. This judgement has been informed by the independent limited (red) assurance awarded in respect of SRS. A project to improve SRS (SSRI) arrangements is outstanding. Subject to the new arrangements becoming embedded and the Risk Owner being assured as to their effectiveness, the Risk Owner will consider the effectiveness opinion of SRS as a preventative control measure. This will provide the opportunity for the Risk Owner to reconsider his confidence opinion of the overall control environment.</p>

Corporate Risk 7: The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively as a result of insufficient or ineffective key assets, such as buildings and vehicles.

Emerging Issues	<p>The risk score of 2 (likelihood) x 3 (impact) remains at 6 (medium).</p>
Changes to control measures	<p>In maintaining and seeking to improve the security of Authority building stock, representatives from Facilities Management are currently researching technology to extend our use of 'card reader' access schemes. Currently, access to the majority of fire stations is through a traditional key system, with the same key giving access to the vast majority of fire stations. Whilst controls are in place to manage who has keys, a technological solution will significantly enhance the Service's ability to manage and control access to fire stations.</p> <p>As part of the Service's commitment to ensuring the continued efficiency and effectiveness of its service delivery model, a project to look at future optimum fleet solutions is currently being undertaken. The Service has a proven track record of innovation in terms of</p>

Ref. AU/AC/2016/Apr/22303164

	changing its fleet to enable the continued delivery of its strategic priorities and outcomes (Use of Brigade Response Vehicles and Brigade Support Vehicles for example). Building on this, the project will consider (amongst other things) what type and how many vehicles the Service will need in future to continue to manage its core, legislative activity as well as 'future proofing' the Service to enable effective delivery across work streams emerging as a result of closer collaboration with partners (health and well being agenda for example).
Assurance updates	Level 1 assurance has been provided across the range of control measures. The level 1 control environment provides for substantial assurance (green rating) across the majority of controls. No controls were identified as providing limited assurance (red rating) and therefore no immediate interventions were identified as being required. This has enabled for the Risk Owner to provide a Substantial (green) confidence opinion and this is reflected on the Corporate Risk Assurance Map summary.

Corporate Risk 8: The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively due to a lack of funding or the misuse of funds e.g. fraudulent activity.

Emerging Issues	<p>The risk score remains at 3 (Likelihood) x 3 (Impact) = 9. The overall risk level is Medium.</p> <p>In December 2015, The Government communicated our provisional central grant settlement. In setting out a 4 year settlement confirmation was received that the central grant reduction will be circa £10 Million by 2019/20. Whilst this reduction is less than was forecast, it still presents a significant challenge to the Service in terms of enabling for a balanced budget. In planning for significant grant reduction the Service has in place a number approaches to bridge the funding gap. Confirmation is expected to be received in February 2015 of the settlement. Given the potential certainty provided by a 4 year settlement and the planned approaches to meeting the funding gap subject to confirmation of budget the Risk Owner will consider the reduction of the likelihood score from 3 to 2 during the next quarterly review.</p>
Changes to control measures	<p>The Authority continues to manage its budget and accounts in such a way that has enabled for an unqualified financial opinion and value for money conclusion to be provided for our external auditors. This has been confirmed to Authority and provides an substantial independent assurance as to the quality of our financial management arrangements.</p> <p>Following a review of the Strategic Enabling Team (SET) a post of Strategic Enabler Business Development has been established. This post will support the Service in meeting its flexible funding ambition of circa £2M in 3 years.</p>

Ref. AU/AC/2016/Apr/22303164

Assurance updates	<p>The work and associated reports of the external auditor provides assurance against a number of controls in place to manage against the realisation of risk on the assurance map.</p> <p>Level 1 assurance has been provided across the majority 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 a number of level 3 assurances. No controls were identified as providing limited assurance (red rating) and therefore no immediate interventions were identified as being required.</p> <p>The Risk Owner therefore has provided for a substantial (Green) confidence opinion as to the collective strength of the control environment in managing this particular risk .</p>
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Corporate Risk 9: The Fire Authority would be unable to deliver the core objectives of preventing, protecting and responding effectively as a result of insufficient or ineffective employees.

Emerging Issues	<p>The overall risk score is 2 (likelihood) x 3 (impact) = 6 although the risk level remains at Medium. This means that it is likely to occur within a period of 2-5 years (10-24% chance).</p>
Changes to control measures	<p>As part of the workforce planning and succession planning strategy, guidance to support managers has been provided.</p> <p>An amendment has been made to the assurance map to reflect that the Service is currently fundamentally re-working its approach to the provision of Learning and Development information. This will enable for the prescriptive and detailed Standing Order approach to be replaced by a more appropriate framework.</p>
Assurance updates	<p>The level of control provided by the Service's Health and Fitness Standing Order has been downgraded to amber. This is because the Service is currently moving towards the Sector recognised CFOA health standard and in implementing this approach will need to ensure the appropriate framework is in place to achieve the performance requirements set out in the CFOA guidance. Similarly the Control Owner confidence provided by the Learning and Development information will be changed to amber until the new framework approach becomes embedded.</p> <p>The Risk Owner has ensured that control owners have provided assurance for the controls for this particular risk. This proactive approach has strengthened the control environment and level 1 assurance has been provided across the control environment. To date no limited assurances (red ratings) have been identified and as such no immediate interventions are required.</p> <p>The Risk Owner has provided a high (green) confidence opinion as to the effectiveness of the control environment in managing this risk.</p>

Ref. AU/AC/2016/Apr/22303164

Risk 10- The Fire Authority would be unable to manage its responsibilities under the Regulatory Reform (Fire Safety) Order and associated legislation, resulting in a decline in non domestic fire safety standards or legal action being taken against the Authority.

Emerging Issues	<p>The risk score using the likelihood x impact matrix is 2 (likelihood) x 2 (Impact) generating an overall risk score of 4 which is unchanged from the previous quarter.</p> <p>Brigade Support Vehicles are operational and are having an impact in supporting the maintenance of the Service's delivery model. In terms of wider integration into Service Delivery, performance against PIs continues to be green and within tolerances and capability continues to be built at delivery level to support increased volume of inspections</p>
Changes to control measures	<p>A new risk trigger has been added relating to the requirement for staff to provide consistent and high standard fire safety advice to businesses. All fire safety personnel are required to achieve a recognised fire safety qualification in accordance with the Chief Fire Officers Association (CFOA) qualifications framework. In ensuring competence is maintained the principles of the IPDS framework are applied.</p> <p>The Intelligence Led Audit Programme (ILAP) continues to be developed. As part of its purpose, ILAP is intended to enable for the appropriate inspection of premises based upon risk. In support of risk based inspection, command based risk profiles are used to enable the appropriate identification of premises. This has been reflected on the assurance map as a further level of control.</p> <p>In support of greater resilience within our Flexi-Duty model, each command officer now has an assigned fire safety specialist. A planned programme of refresher training is in place to ensure the effectiveness of this capability is maintained.</p>
Assurance updates	<p>Level 1 assurance has been updated and provided across the range of control measures. The level 1 control environment provides for substantial assurance (green rating) across the majority of controls. No controls were identified as providing limited assurance (red rating) and therefore no immediate interventions were identified as being required. This has enabled for the Risk Owner to provide a Substantial (green) confidence opinion and this is reflected on the Corporate Risk Assurance Map summary</p>

Risk 11 – The Fire Authority would be unable to maintain its command and control function, resulting in an inability to receive process and respond to emergency calls effectively .

Emerging Issues	<p>The overall risk score remains at 2(likelihood) x 4(Impact) = 8.</p> <p>Following recent submission of a report to the Fire Control Governance Board upon future role, responsibilities and resources, Fire Control staff are being consulted upon the proposals for change. Whilst the Service remains committed to the consultation process, business continuity arrangements to ensure that call handling and mobilising capability is maintained in any event that may lead to the significant temporary loss of control staff (pandemic for example) are in place.</p> <p>The Service is currently considering secondary fire control, alternative locations and the level of functionality required. Whilst, the current secondary fire control, located at what used to be the Academy is still fully functional, there will be a requirement to move should a suitable offer be made for the purchase of the Academy site.</p>
Changes to control measures	There is no change to the control measures associated with the effective management of this risk
Assurance updates	A number of the dates of the assurance controls require refreshing as some controls have not been updated for over two years. This will be done in quarter 4. To date no limited assurances (red ratings) have been identified and as such no immediate interventions are required. Therefore, the Risk Owner has provided a Substantial (green) confidence opinion as to the overall collective strength of the control environment and this is reflected on the Corporate Risk Assurance Map summary.

Risk 13 – The Fire Authority suffered a significant health, safety or environmental failure, resulting in a legal challenge and/or litigation

Emerging Issues	None this quarter
Changes to control measures	None this quarter
Assurance updates	As a consequence of organisational re-structure, a number of control owners have changed. This provides the opportunity for a fresh look at the level of assurance provided by these controls. However, given the continued good performance around key health, safety and environment performance indicators, there is nothing to suggest that the control level is anything other than substantial. This has enabled for the Risk Owner to provide a Substantial (green) confidence opinion as to the overall collective strength of the control environment and this is reflected on the Corporate Risk Assurance Map summary.



**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**AUDIT COMMITTEE**

**11 APRIL 2016**

1. **EXTERNAL AUDIT WORK PROGRAMME AND SCALE OF FEES FOR 2016/17**

Report of the Chief Fire Officer.

RECOMMENDED

THAT the Committee note the external audit work programme and scale of fees for the 2016/17 audit work to be undertaken by Grant Thornton UK LLP.

2. **PURPOSE OF REPORT**

This report is submitted to inform the Committee of the external audit work programme and scale of fees for 2016/17 as set out in the Planned Audit Fee for 2016/17 letter attached as Appendix 1.

3. **BACKGROUND**

- 3.1 Members will recall that following an exercise to outsource the public body audit work of the Audit Commission's in-house audit practice, the contract for undertaking of the external audit of this Authority was awarded to Grant Thornton UK LLP.
- 3.2 When the Audit Commission announced the contract awards it also confirmed that the scale of fees for the delivery of the work programme would be reduced by 40% in comparison to the 2011/12 scale of fees. The Commission stated that it was anticipated that the reduced fee would be fixed, irrespective of inflation, and would apply for the five year term of the contract although fees would be subject to annual review. The scale of fees proposed for the delivery of the 2016/17 work programme is £38,636 which is the same charge as 2015/16.

- 3.3 Similarly, the work programme proposed for 2016/17 is broadly the same as the 2015/16 work programme. Essentially, the work programme will consist of an audit of the financial statements, audit work to enable a value for money conclusion and on the Whole of Government Accounts (WGA) return. This is applicable to all public bodies.

4. **EQUALITY IMPACT ASSESSMENT**

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

5. **LEGAL IMPLICATIONS**

The Local Audit Bill sets out the framework to support the delivery of local public audit arrangements.

6. **FINANCIAL IMPLICATIONS**

The proposed scale fee for the 2016/17 external audit work programme is £38,636.

**BACKGROUND PAPERS**

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

PHIL LOACH  
CHIEF FIRE OFFICER



## APPENDIX 1

### PLANNED AUDIT FEE FOR 2016/17



Grant Thornton

Our ref: JAC/EJM/W09000020/Fee\_Letter\_16-17

Mr M Griffiths  
Strategic Enabler of Finance and Resources  
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21 March 2016

Dear Mike

#### **Planned audit fee for 2016/17**

The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](http://www.psaa.gov.uk).

In this letter we set out details of your audit fee for the 2016/17 financial year, along with the scope and timing of our work and details of our team.

#### **Scale fee**

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no planned changes to the overall work programme for local government audited bodies for 2016/17, bar the adoption of new measurement requirements for the Highways Network Asset.

CIPFA/LASAAC is expected to confirm, subject to consultation, that the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom will adopt the measurement requirements of the CIPFA Code of Practice on Highways Network Asset.

PSAA have determined that there is no reliable and equitable way of establishing the volume of additional audit work, and therefore fees required, at each applicable local authority to gain assurance over the new financial reporting requirements. Therefore, fees for the additional work identified by auditors in 2016/17 will be subject to approval by PSAA under the normal fee variations process.

Chartered Accountants  
Member firm within Grant Thornton International Ltd  
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A full list of members is available from our registered office.  
Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.

PSAA have proposed that 2016/17 scale audit fees (excluding work completed on the Highways Network Asset) are set at the same level as the scale fees applicable for 2015/16. The Authority's scale fee for 2016/17 has been set by PSAA at £38,636.

The audit planning process for 2016/17, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

#### Scope of the audit fee

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2016/17 will be undertaken under this Code, on the basis of the work programme and scale fees set out on the [PSAA website](#). Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

#### Value for Money conclusion

The Code requires us 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 NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

The NAO 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.*

#### Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2016	9,659
December 2016	9,659
March 2017	9,659
June 2017	9,659
<b>Total</b>	<b>38,636</b>

#### Outline audit timetable

We will undertake our audit planning and interim audit procedures in January to March 2017. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in June and work on the whole of government accounts return in July.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	January to March 2017	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Authority's accounts and VfM.
Final accounts audit	June 2017	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	June to July 2017	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July 2017	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	September 2017	Annual audit letter to the Authority	The letter will summarise the findings of all aspects of our work.

#### Our team

The key members of the audit team for 2016/17 are:

	Name	Phone Number	E-mail
Engagement Lead	James Cook	0121 232 5343	<a href="mailto:james.a.cook@uk.gt.com">james.a.cook@uk.gt.com</a>
Engagement Manager	Emily Mayne	0121 232 5309	<a href="mailto:emily.j.mayne@uk.gt.com">emily.j.mayne@uk.gt.com</a>
In Charge Auditor	James McLarnon	0121 232 5219	<a href="mailto:james.a.mclarnon@uk.gt.com">james.a.mclarnon@uk.gt.com</a>

#### Additional work

The scale fee excludes any work requested by the Authority that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Authority.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Mark Stocks, our Public Sector Assurance regional lead partner, via [mark.c.stocks@uk.gt.com](mailto:mark.c.stocks@uk.gt.com).

Yours sincerely

James Cook

Engagement Lead

For Grant Thornton UK LLP

**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**AUDIT COMMITTEE**

**11 APRIL 2016**

1. **COMMUNICATION WITH THE AUDIT COMMITTEE FOR  
WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

Report of the Chief Fire Officer.

RECOMMENDED

THAT the Committee note the content of the Communication with the Audit Committee attached as Appendix 1.

2. **PURPOSE OF REPORT**

The Communication is provided to keep Audit 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 Audit Committee members continue to remain informed upon audit matters, the external auditor has provided a Communication with the Audit Committee report. It is intention of the external auditor to provide an update at all Audit Committee meetings.

3.2 The Communication provides the Audit Committee with a report 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 estimates.

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**

There are no direct financial implications arising from this report.

**BACKGROUND PAPERS**

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

PHIL LOACH  
CHIEF FIRE OFFICER

# Communication with the Audit Committee

## West Midlands Fire & Rescue Authority

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**Year ended 31 March 2016**

March 2016

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Director

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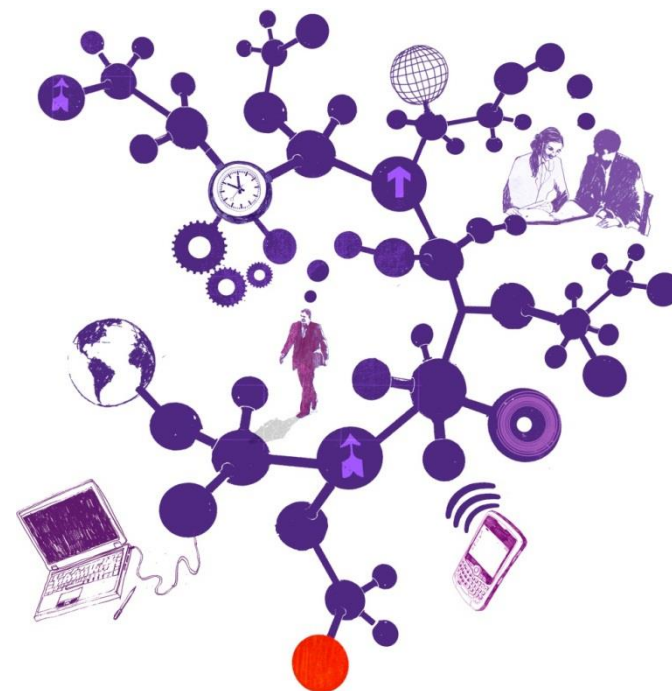
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.



# Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Authority's Audit 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 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 Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit 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 Committee and supports the Audit 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 Committee's oversight of the following areas:

- Fraud
- Laws and Regulations
- Going Concern
- Related parties
- Accounting estimates

This report includes a series of questions on each of these areas and the response we have received from the Authority's management. We ask the Audit Committee to consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# 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 Committee and management. Management, with the oversight of the Audit 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 Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As 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 Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit 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
<p>Has the Authority assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p>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.</p>
<p>What processes does the Authority have in place to identify and respond to risks of fraud?</p>	<p>The Authority has a Counter Fraud and Corruption Policy in place. This is also supported by a Whistleblowing Policy which includes a confidential reporting framework. Internal Audit include fraud risks in their planning process and act as an effective internal control against fraud. Regular reports are made to Audit Committee.</p> <p>In addition, the Authority receives advice from the Fraud Team at Sandwell Metropolitan Borough Council.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Evidence published by the National Fraud Authority amongst others, suggests that fraud is committed in all organisations to varying degrees, so it is likely that some fraud is occurring at West Midlands Fire &amp; Rescue Authority. The Internal Audit plan incorporates consideration of potential fraud. In addition to this management is expected to identify and record fraud risks where necessary on the corporate risk register. No instances of fraud have been detected in 2015/16.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Yes – there is an adequate process 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.</p>
<p>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)?</p>	<p>None known. Head of Internal Audit Opinion in 2014/15 did not highlight any weaknesses in this area.</p>
<p>Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?</p>	<p>None known. Head of Internal Audit Opinion in 2014/15 did not highlight any weaknesses in this area.</p>

# Fraud risk assessment

Question	Management response
<p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?</p> <p>What arrangements are in place to report fraud issues and risks to the Audit Committee?</p>	<p>Internal Audit provide the Audit Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken.</p>
<p>How does the Authority communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>There is an Employee Code of Conduct and Financial Regulations. Staff are regularly reminded of these.</p>
<p>How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?</p>	<p>There is a Counter Fraud and Corruption Policy and a Whistleblowing procedure in place which explain the procedures to follow. No significant issues have been reported under the Bribery Act. One whistleblowing disclosure was made in 2015/16 which was investigated. This had no impact on the financial statements and was not a financial matter.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>The 2014/15 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.</p>
<p>Are you aware of any instances of actual, suspected or alleged, fraud, either within the Authority as a whole or within specific departments since 1 April 2015?</p>	<p>There are no known instances of fraud that have been identified during the year.</p>

# Laws 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 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 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
<p>What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>The Monitoring Officer is responsible for ensuring the Authority is compliant with laws and regulations. These responsibilities cover:</p> <ul style="list-style-type: none"> <li>•complying with the law of the land (including any relevant Codes of Conduct);</li> <li>•complying with any General Guidance issued, from time to time, by the Standards Committee and / or advice of the Monitoring Officer;</li> <li>•making lawful and proportionate decisions; and</li> <li>•generally, not taking action that would bring the Authority, their offices or professions into disrepute.</li> </ul> <p>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.</p> <p>The Strategic Enabler of Finance &amp; Resources, the Authority's s151 officer is responsible for preparing the accounting statements in accordance with relevant legal and regulatory requirements.</p> <p>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.</p>
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>See response above</p>
<p>How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>See response above.</p>
<p>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015, or earlier with an on-going impact on the 2015/16 financial statements?</p>	<p>None noted.</p>

# Impact of Laws and Regulations

Question	Management response
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	The Strategic Enabler of Finance & Resources is advised of any outstanding litigation claims that would have a material impact on the accounts.
Is there any actual or potential litigation or claims that would affect the financial statements?	None noted.
Have there been any reports 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.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Authority is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Authority's financial resilience.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Authority's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Authority's financial and operating performance.

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



# Going concern considerations

Question	Management response
Does the Authority have procedures in place to assess the Authority's ability to continue as a going concern?	The Authority's latest Medium Term Financial Strategy indicates a balanced position in year with an efficiency plan to meet the indicated provisional reduction in core funding from 2016/17 – 2019/20. However, the Authority has appropriate levels of reserves to support these deficits in the short term. This strategy, as well as the in year budget (2015/16) reflects government changes in terms of core funding and the financial settlement. The 2016/17 budget was approved by the Authority on 15 <sup>th</sup> February 2016.
Is management aware of the existence of other events or conditions that may cast doubt on the Authority's ability to continue as a going concern?	The Authority has developed and approved a 2016/17 Budget and a Medium Term Financial Strategy which set out the financial challenges facing the Authority in the short to medium term and the action necessary to ensure that the Authority is able to continue to maintain a sustainable financial position.
Are arrangements in place to report the going concern assessment to the Audit Committee?	The Strategic Enabler of Finance and Resources has presented details of the 2016/17 budget and underlying assumptions to members. No significant issues were raised which cast doubt on the assumptions made. Members recognise that the Authority is facing a challenging financial position in the medium term, however in the short term the efficiency plan proposals and level of accumulated reserves are sufficient to ensure the delivery of priorities.
Are the financial assumptions (eg 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 Financial Plan has been prepared by appropriately qualified and experienced staff in consultation with Service Managers. The financial assumptions are therefore consistent with the Authority Plan.
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	The Authority's latest Medium Term Financial Strategy and 2016/17 Budget reflect government changes in terms of the indicated reduction in core funding and the financial settlement.

# Going concern considerations

Question	Management response
Have there been any significant issues raised with the Audit 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 Strategic Enabler of Finance and Resources presented details of the 2016/17 budget on 15 <sup>th</sup> February 2016. No significant issues were raised which cast doubt on the assumptions made. Members recognise that the Authority is facing a challenging financial position in the medium term, however in the short term the efficiency plan proposals and level of accumulated reserves are sufficient to ensure delivery of priorities.
Does a review of available financial information identify any adverse financial indicators including negative cash flow? 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 2016) 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.
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 2016/17.

# Related Parties

## Issue

### Matters in relation to Related Parties

For local government bodies the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS24: related party disclosures. The Code identifies the following as related parties:

- Subsidiaries;
- Associates;
- Joint ventures;
- An entity that has an interest in the authority that gives it significant influence;
- Key management personnel and close family members; and
- Pension fund for the benefit of employees.

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's 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. I will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

# Related Parties Assessment

Question	Management response
Who are the Authority's related parties?	<p>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:</p> <ul style="list-style-type: none"> <li>• the potential either to be controlled or influenced by the party or</li> <li>• the potential to exert control or influence over the party (as defined by guidance in the Code).</li> </ul> <p>The Authority discloses its related parties under the following headings:</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol> <p>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 2014/15 there were no such related parties identified.</p>
What are the controls in place to identify, account for, and disclose, related party transactions and relationships?	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• Annual return from Members stating details of any known related party interests.</li> <li>• Review of in-year income and expenditure transactions with known identified related parties from prior year or known history.</li> <li>• Review of related information with subsidiaries, companies and joint ventures, e.g. accounts.</li> <li>• Review of the accounts payable system and identification of amounts paid to assisted or voluntary organisations.</li> </ul>

# Accounting Estimates

## Issue

### Matters in relation to Accounting Estimates

Local authorities need to 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.

# Appendix 1: 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?
Valuation of property plant and equipment	<p>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.</p> <p>The Authority are having a full valuation in 2015/16 following the change in estimation technique for specialised assets which was introduced in 2012/13.</p>	Senior Financial Accountant 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 inline with RICS guidance - reliance on expert.	No
Impairment of property plant and equipment	<p>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.</p>	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 inline with RICS guidance - reliance on expert.	No

# Appendix 1: 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?
Depreciation of property plant and equipment	<p>The following asset categories have general asset lives:</p> <ul style="list-style-type: none"> <li>•Operational Vehicles - straight line over 10 years.</li> <li>•Ancillary Vehicles - straight line over 5 years.</li> <li>•Equipment - straight line over 5 years.</li> </ul> <p>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.</p> <p>Freehold land is not depreciated.</p> <p>No depreciation is accounted for in the year of acquisition but is accounted for in the year of disposal.</p>	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
Provision for irrecoverable debts	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	<p>A consistent proportion of the aged debt listing is applied after any specific debts have been provided for where circumstances of certainty are known.</p> <p>The proportion is based upon the type of debt and historic payment pattern.</p>	No

# Appendix 1: 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?
Provision for liabilities	<p>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 value.</p> <p>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.</p>	Charged in the year that the Authority becomes aware of the obligation. A calculation is made by the 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
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 1: 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?
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 is 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
Finance leases	Fixed assets recognised under finance leases are accounted for using the policies applied generally to Property, Plant and Equipment, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.	Finance review contracts and payments to ensure the lease is categorised correctly.	No	Accounting entries are based upon schedules setting out the costs over the life of the agreement, based upon the initial lease as a legally binding document. These are reviewed each year and applied over the life of the asset.	No
Non adjusting events – events after the Balance Sheet date	The Strategic Enabler of Finance & Resources makes the assessment. If the event is indicative of conditions that arose after the balance sheet date then this is an un-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 Strategic Enabler of Finance & Resources liaises with the Senior Team and considers all known information.	No, unless the specific un-adjusting event requires additional expertise.	This would be considered individually for each case.	No

# Appendix 1: 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?
Pensions – defined benefit pension amounts and disclosures (LGPS, Uniformed Schemes 1992 & 2006)	<p>The Authority is an admitted body to the Local Government Pension Scheme (LGPS).</p> <p>The Uniformed Schemes are unfunded and are administered by the Authority based upon guidance from DCLG.</p> <p>Information is passed from the Authority to the Actuaries upon which they base their assessment for the estimate.</p>	The Actuary reports are reviewed by Finance Staff for reasonableness.	Yes – the Actuary for the LGPS and the Uniformed Schemes.	<p>Reliance upon another auditor – PwC for their work on the Actuary of the LGPS through their audit of the Wolverhampton City Council.</p> <p>Reliance upon the expertise of the Actuary of the Uniformed Pension Schemes.</p>	No



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**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**AUDIT COMMITTEE**

**11 APRIL 2016**

1. **AUDIT COMMITTEE UPDATE FOR WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

Report of the Chief Fire Officer

RECOMMENDED

THAT the Committee note the content of the Audit Committee Update attached as an Appendix.

2. **PURPOSE OF REPORT**

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

3. **BACKGROUND**

3.1 In order to ensure that Audit Committee Members continue to remain informed on audit matters, the external auditor has provided an Audit Committee Update report. It is the intention of the external auditor to provide an update at all Audit Committee meetings.

3.2 The update provides the Audit Committee with a report on Grant Thornton's progress in delivering their responsibilities and also includes:-

- a summary of emerging national issues and developments that may be relevant to West Midlands Fire and Rescue Authority; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

3.3 Representatives from Grant Thornton will be in attendance at the meeting to discuss the reports 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.

**BACKGROUND PAPERS**

None

The contact officer for this report is Deputy Chief Fire Officer, Philip Hales, Telephone Number – 0121 380 6907.

PHIL LOACH  
CHIEF FIRE OFFICER

# Audit Committee Update for West Midlands Fire & Rescue Authority

## Progress Report and Update Year ended 31 March 2016

March 2016

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# Introduction

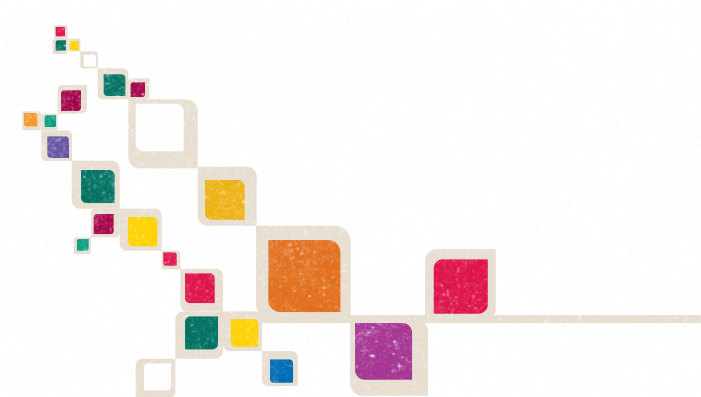
This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Innovation in public financial management (December 2015); [www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/](http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/)
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); [www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/](http://www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/)
- Making devolution work: A practical guide for local leaders (October 2015) [www.grantthornton.co.uk/en/insights/making-devolution-work/](http://www.grantthornton.co.uk/en/insights/making-devolution-work/)

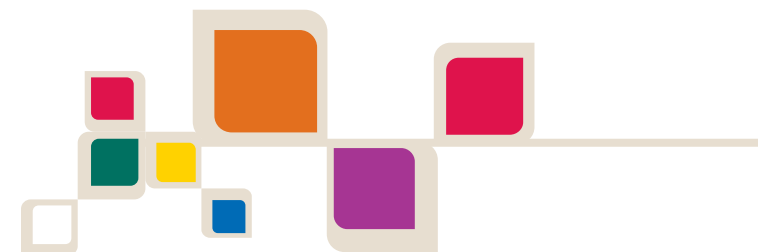
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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.



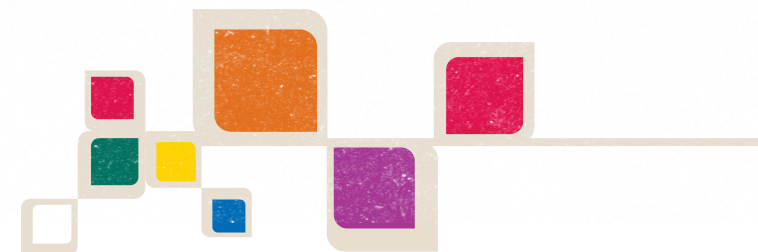


# Progress to date



2015/16 work	Planned Date	Complete?	Comments
<b>Fee Letter</b>			
We are required to issue a 'Planned fee letter for 2015/16' by the end of April 2015.	April 2015	Yes	The 2015/16 fee letter was issued in April 2015
<b>Accounts Audit Plan</b>			
We are required to issue a detailed accounts audit plan to the Fire Authority setting out our proposed approach in order to give an opinion on the Fire Authority's 2015/16 financial statements.	March 2016	Yes	<p>We continue to assess the risks facing your Authority and meet with Senior Officers to ensure that these risks are fully understood and our audit work is appropriate.</p> <p>If there are any changes to our plan between our initial risk assessment and the delivery of our opinion we will discuss this with the Strategic Enabler for Finance and Resources before presenting to the Audit Committee.</p>
<b>Interim accounts audit</b>			
<p>Our interim fieldwork visits include:</p> <ul style="list-style-type: none"> <li>• updating our review of the Fire Authority's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	January – March 2016	Yes	<p>We will:</p> <ul style="list-style-type: none"> <li>• engage with the finance team to streamline and improve the audit approach for 2015/16 where possible</li> <li>• Discuss any technical issues early, including the impact from the pension commutation guidance</li> <li>• Undertake as much early testing as possible.</li> </ul> <p>We will continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.</p>
<b>Final accounts audit</b>			
<p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2015/16 financial statements</li> <li>• proposed opinion on the Fire Authority's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	June – September 2016	Not started	We will undertake work on your draft financial statements to provide an opinion by the statutory deadline. We are planning to complete our audit by 31 <sup>st</sup> August. as part of the transition to the earlier closedown and audit cycle from 2017.

# Progress to date



2015/16 work	Planned Date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2015/16 VfM Conclusion requires conclusions on whether:</p> <p><i>"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</i></p> <p>This change of guidance was issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	March – July 2016	In progress	<p>We have considered the potential significant risks for our VfM conclusion and identified the following issues.</p> <ul style="list-style-type: none"> <li>• Financial resilience</li> <li>• Working with partners and other third parties</li> </ul> <p>Our work on the VfM Conclusion will include attending meeting with key Senior Officers and key document reviews. We are aiming to deliver this work ahead of the national timescales as a move towards the faster close from 2017.</p>
<p><b>Annual Audit Letter</b></p> <p>We will summarise all the work completed as part of our 2015/16 audit within one letter which will be issued after the opinion.</p>	October 2016	Not started	
<p><b>Engagement with the Fire Authority since the last Audit Committee meeting</b></p>	On-going	On-going	<ul style="list-style-type: none"> <li>• Meetings with key Senior Officers to discuss the audit planning and significant risks facing the Fire Authority</li> <li>• Agreement of the pensions work to support staff ahead of the forthcoming pension changes in April 2016</li> <li>• Delivery of Grant Thornton publications and training material to Audit Committee members as requested</li> </ul>



# Fire Sector Accounting and other issues





# Machinery of Government Change

## – Fire and Rescue Policy transfer to Home Office

The Government is committed to closer collaboration between the police and fire and rescue services. The Home Office and Department for Communities and Local Government have been working closely together in support of this commitment. A consultation on Emergency Service Collaboration was published on 11 September and closed on 23 October 2015.

This Government is clear that greater joint working between the emergency services can deliver better local accountability, an improved service for communities and significant savings for taxpayers. Similarly the Government believes that central policy making, as well as local delivery, can benefit from a more joined up approach and that this can be best achieved by transferring responsibility for fire and rescue policy from the Department for Communities and Local Government to the Home Office.

The Government confirmed that responsibility for Fire and Rescue Policy for England will transfer from the Department for Communities and Local Government to the Home Office.

- Ministerial responsibility for Fire transferred from 5 January 2016 to Mike Penning, Minister of State at the Home Office and Minister of State at the Ministry of Justice.
- As of 1 April 2016 the group of staff working on the national fire policy function will transfer to the Home Office. This group comprises Fire Policy Division, National Resilience and Fire Programmes Division, the Chief Fire and Rescue Advisor's team and staff working on Firefighter Pensions.
- Melanie Dawes, the DCLG Permanent Secretary will remain Accounting Officer for fire budgets until 1 April when Mark Sedwill, Permanent Secretary at the Home Office, will take over this role.

### Challenge questions

Are members aware of the implications of this legislative change and is this being reflected in the strategic and financial plans they are seeing?

# Provisional Local Government Finance Settlement – Fire and Rescue Services

On 17 December the Government announced the provisional local government finance settlement.

## Key points in provisional settlement:

- Single-purpose fire and rescue authorities (outside London) will receive £1.38 billion of core spending power under the 2016-17 settlement.
- The reduction in core spending power for single purpose fire and rescue authorities will be 1.7 per cent in 2016-17, with an overall reduction of 2.0 per cent from 2015-16 to 2019-20.
- The Government continues to fund existing national resilience capabilities (for example, specialist urban search and rescue capability; high volume pumps; mass decontamination equipment; detection, identification and monitoring equipment for chemical, biological and nuclear incidents; and a national mobilisation co-ordination function.) Around £20 million will be provided to the fire and rescue sector in 2016-17.
- We will allow fire and rescue authorities to spend 100% of their fixed asset receipts on the revenue costs of reform projects. This will support fire and rescue authorities seeking to collaborate more widely with other blue light emergency services, such as merging back office functions.
- We will bring forward legislation to enable Police and Crime Commissioners to take on responsibility for fire and rescue services, subject to local support and introduce a new statutory duty for the emergency services to collaborate by early 2017, subject to parliamentary approval, on areas such as procurement, new stations and vehicle maintenance.

## Challenge questions

Do members understand the financial impact of the Local Government Finance Settlement on their Authority's delivery of services going forward?

# Supporting Public Service Transformation

Many fire and rescue authorities are considering how to transform or redesign their fire prevention and community safety services in a way that improves value for money for the taxpayer and makes best use of the latent capacity of their staff. Increasingly, this involves fire and rescue services supporting and delivering against the objectives of other public service providers, such as local authorities, the police and ambulance service and public and national health organisations, as well as range of voluntary and community based organisations.

Effective evaluation offers important insights into why some approaches are more successful than others and into how to deliver better services within constrained budgets. It provides decision makers – both in fire and rescue authorities and in their partner organisations – with the evidence they need to support new ways of service provision and to make the best possible case for securing the resources needed to deliver them.

The Public Transformation Network champions a 'whole place', multi-agency approach to public service reform. It helps local public sector partners remodel services so they are designed around the needs of people, not the needs of organisations. It has produced an introductory guide to evaluation which community safety practitioners and analysts in fire and rescue services may find helpful.

The guide is complemented by the Network's guidance on Cost Benefit Analysis for Local Partnerships which can be found at:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/300214/cost\\_benefit\\_analysis\\_guidance\\_for\\_local\\_partnerships.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/300214/cost_benefit_analysis_guidance_for_local_partnerships.pdf)

The Network's evaluation guide sets out some guiding principles and key considerations to help local providers measure the impact of changes to services. It aims to help local providers to ensure the highest quality, credibility and accountability for services that have been redesigned and enable multi-agency partnerships delivering new services to demonstrate value for money and how redesigned services make a real difference to local communities. The guide can be found at: <http://publicservicetransformation.org/images/articles/learning-zone/evaluation-analysis/EvaluationGuideFinalv2.0.pdf>

The Network's website also hosts a number of webinars and useful resources on evaluation and other elements of public service reform, such as collaborative leadership and commissioning. Link to the website: [www.publicservicetransformation.org](http://www.publicservicetransformation.org)

# Publication of Draft Investigatory Powers Bill

The Government has published a draft Investigatory Powers Bill which contains changes to the purposes for which fire and rescue services can acquire communications data.

In the draft Investigatory Powers Bill published on 4 November 2015, the Government plans to restrict the power of fire and rescue services to acquire communications data to only 'threat to life' situations. Currently, under RIPA powers, fire and rescue authorities can acquire communications data for three purposes:

1. for the purpose of preventing or detecting crime or of preventing disorder;
2. in the interests of public safety; and,
3. for the purpose, in an emergency, of preventing death or injury or any damage to a person's physical or mental health, or of mitigating any injury or damage to a person's physical or mental health.

However, data from the Home Office and from information collected from fire and rescue authorities in 2013 and more recently from Chief Fire Officers by the Department for Communities and Local Government, shows low use of these powers over the last five years. On this basis it is intended to limit fire and rescue authorities' investigatory powers to those described in 3 (above). Where fire and rescue authorities identify the need for data in respect of purposes 1 and 2 above, it is expected that fire and rescue services will work closely with the police to acquire such data.

The new Bill continues to allow a "first hour" exemption (the 'golden hour') for investigation of 999 calls typically used to seek information on hoax callers.

## Challenge questions

Have members questioned officers on whether data handling procedures reflect the recent changes?



# Grant Thornton Publications





# Reforging local government: Summary findings of financial health checks and governance reviews

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.



Our report is available at <http://www.grantthornton.co.uk/en/insights/reforging-local-government/>, or in hard copy from your Engagement Lead or Engagement Manager.

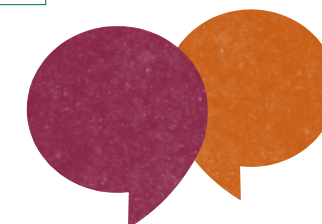
Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

# CFO Insights – driving performance improvement

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.



We are happy to organise a demonstration of the tool if you want to know more.

# Innovation in public financial management

In December 2015 we issued a report, which drew on a survey of almost 300 practitioners worldwide, also includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM and it covers four major topics that, globally, will impact on the future of public financial management:

**Changing practices.** Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

**The right PPP formula.** 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity, most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of their application have been mixed. There has been little improvement since our 2011 survey,

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which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

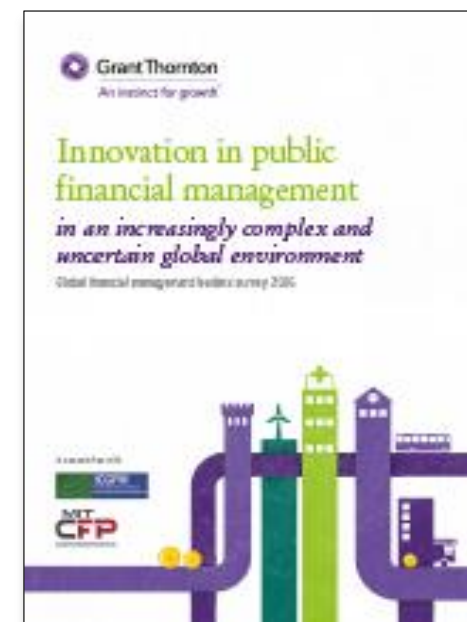
**Transparency with technology.** Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even among the best, most transparency efforts are focussed on releasing data sets than data insights.

**The new normal.** Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons one major financial crisis, but with how governments can live with less over the long term.

Our report, Innovation in public financial management, can be downloaded from our website:

<http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/>

## Grant Thornton reports





# 2016 Transparency Report

Grant Thornton's commitment to quality underpins all that we do and this is reflected in our 2016 Transparency Report.

We have more than 42,000 people in over 130 countries and this report is a public statement of our commitment to provide high-quality services to businesses and organisations operating throughout the world.

It is designed to help clients, audit committees, regulators and the public, who make up our many stakeholders, understand us better.

The report covers the three key aspects of our business, namely:

- Audit and assurance;
- Taxation; and
- Advisory services.

The report provides information on our audit methodology and sets out how we monitor the quality of our work and engage with external regulators.

It also covers our arrangements for governance and management and sets out our most recent financial information.

The report can be downloaded from our website:

[www.grantthornton.global/globalassets/1.-member-firms/global/grant-thornton-global-transparency-report-2016.pdf](http://www.grantthornton.global/globalassets/1.-member-firms/global/grant-thornton-global-transparency-report-2016.pdf)

Alternatively, hard copies can be provided by your Engagement Lead or Audit Manager.

## Grant Thornton reports





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**WEST MIDLANDS FIRE AND RESCUE AUTHORITY**

**AUDIT COMMITTEE**

**11 APRIL 2016**

1. **INTERNAL AUDIT – PROGRESS REPORT**

Report of the Audit Services Manager.

RECOMMENDED

THAT the Internal Audit Progress Report be noted.

2. **PURPOSE OF REPORT.**

To ask the Committee to note the issues raised from the work undertaken by Internal Audit so far in the current financial year.

3. **BACKGROUND**

The Internal Audit Progress Report contains details of the matters arising from internal audit work undertaken so far in the current year. The purpose of the report is to bring the Audit Committee up to date with the progress made against the delivery of the 2015/16 Internal Audit Plan. The information included in the progress report will feed into, and inform, the overall opinion in the Internal Audit Annual Report issued at the year end.

It summarises the audit work undertaken in a tabular format, and includes:

- the areas subject to review (Auditable Area)
- the level of risk to the Authority assigned to each auditable area (high, medium or low)
- the number and type of recommendations made as a result of each audit review.
- the number of recommendations accepted by management.
- the level of assurance given to each system under review.
- details of any key issues arising from the above.

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**

None

Peter Farrow  
Audit Services Manager, Sandwell MBC



## Internal Audit Progress Report @ 31 January 2016 Audit Committee – 11 April 2016



1. Introduction
2. Summary of work completed and in progress
3. Issues arising
4. Other activities
5. Service quality questionnaire feedback

# 1 Introduction

The purpose of this report is to bring the Audit Committee up to date with the progress made against the delivery of the 2015/16 Internal Audit Plan.

The information included in this progress report will feed into, and inform our overall opinion in our Internal Audit Annual Report issued at the year end.

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

<b>Limited</b>	<ul style="list-style-type: none"> <li>• A risk of objectives not being achieved due to the absence of key internal controls and a significant breakdown in the application of controls.</li> </ul>
<b>Satisfactory</b>	<ul style="list-style-type: none"> <li>• A sufficient framework of key controls for objectives to be achieved, but the control framework could be stronger and controls are applied, but with some lapses.</li> </ul>
<b>Substantial</b>	<ul style="list-style-type: none"> <li>• A robust framework of controls ensures objectives are likely to be achieved and controls are applied continuously or with only minor lapses.</li> </ul>

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

Priority rating for issues identified		
<b>Fundamental</b> action is imperative to ensure that the objectives for the area under review are met.	<b>Significant</b> requires action to avoid exposure to significant risks in achieving the objectives for the area under review.	<b>Merits attention</b> action is advised to enhance risk mitigation, or control and operational efficiency.

## 2 Summary of work completed and in progress @ 31 January 2016

Auditable Area	ANA Rating	Suggested/Agreed Actions					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
<b>Completed:</b>							
Pension Certification	-	-	-	-	-	-	Substantial
Budgetary Control	KFS	-	-	-	-	-	Substantial
Procurement	High	-	-	-	-	-	Substantial
Accounts Receivable	KFS	-	-	-	-	-	Substantial
Fixed Asset Accounting/Asset Planning	KFS	-	-	-	-	-	Substantial
Accounts Payable	KFS	-	-	-	-	-	Substantial
<b>In progress:</b>							
National Fraud Initiative	-						
Workforce Planning	Medium						
Payroll	KFS						
IT	High						
Follow Up	-						

Key: KFS = Key Financial System

[ILO: UNCLASSIFIED]

### 3 Issues arising

#### **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.

### 4 Other Activities

#### **Audit Committee – Self Assessment of Good Practice and Effectiveness**

The Audit Committee commenced a self-assessment of good practice and effectiveness exercise, based on the model provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their Audit Committees – Practical Guidance for Local Authorities 2013 Edition. Internal Audit is facilitating this exercise.

#### **CIPFA – Audit Committee Updates**

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

#### **Internal Audit Charter**

We updated the Internal Audit Charter, which was presented to, and approved at, the January 2016 meeting of the Audit Committee.

#### **Audit Committee – Terms of Reference**

We are submitting the Audit Committee Terms of Reference for annual review at the March 2016 meeting of the Audit Committee.

### 5 Service quality questionnaire feedback

Overall Satisfaction with Audit Services	Average Score
	4.6

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

<b>PENSIONS BOARD</b>
-----------------------

**8 February, 2016 at 1400 hours**  
**at Fire Service Headquarters, Vauxhall Road, Birmingham**

**Present:** Mr David Wilkin (Chair)  
Mr Kal Shoker  
Ms Wendy Browning-Sampson  
Mr Andrew Dennis  
Mr Stuart Bourne  
  
Mr Paul Gwynn (Adviser)  
Ms Sara Pearson  
(Pensions Practitioner)

1/16 There were no apologies for absence.

2/16 Declarations of Interest

Mr Andrew Dennis declared an interest stating that he is in receipt of a Fire Service Pension.

3/16 Minutes of the Pensions Board held on 21 July 2015 and actions arising

The minutes of the Pension Board meeting held on 21 July 2015 were agreed as an accurate record, subject to the following amendments.

4.1 The word “this” was removed in the second sentence of the first paragraph. It now reads:

During the transition period 2012-2022, it was expected that more people would leave the scheme during the tapering period.

The words “in the” and “Schemes” were added in the second paragraph. It now reads:

The Adviser explained the details of the Retained Firefighters Modified Pension Scheme and confirmed that the Compensation Regulations were designed to cover individuals in the 1992 or 2006 Schemes who had no other cover.

4.8 The word “Regular” was amended to read “Regulator”.

Actions arising from the Minutes

- Action 1 The Terms of Reference had been approved by the Scheme Manager at the meeting of the Audit Committee held on 7 September 2016.
- Action 2 The Adviser agreed to provide each Member of the Board with a one page guide on each pension scheme identifying the differences between the Schemes following the meeting.
- Action 3 The Adviser had provided an overview of each scheme which would be discussed under Agenda Item 5.3 of the agenda.
- Action 4 A budget code had been arranged and was noted as 73163.
- Action 5 Attendance of Clair Alcock, LGA Pensions Adviser at the Pensions Board to be discussed under Agenda Item 5.4 of the agenda.
- Action 6 Opt Out figures were provided in the Pension Section Supporting Information under Agenda Item 4 of the agenda.
- Action 7 The number of enquiries being received by the Pensions Team would be provided under Agenda Item 4 of the agenda.
- Action 8 An outline of the team structure and comparison with other Fire and Rescue Authorities together with productivity statistics and the costs per Member would be provided under Agenda Item 4 of the agenda.
- Action 9 The Internal Auditor had visited the Pensions Section. An indication of the Audit Review of the Pensions Section would be provided to the next meeting of the Pension Board.

The Pension Board had requested that sample checking of pension records for deferred members is undertaken.

The Internal Auditor has stated that they would charge for the additional work. It was suggested as a sensible approach that a reciprocal arrangement could be made with the Police for the work required. The Treasurer had agreed to contact his opposite number at the Police to discuss this approach. The Adviser would ask the Treasurer to let him know the outcome of these discussions and would report back to the Pension Board

Action10 The issuing of Annual Benefits Statements had been added to the Payroll and Pensions Risk Register.

Action11 The Adviser confirmed that an email had been sent to all Scheme Members confirming the details of the Pensions Board membership and that the first meeting had been held on 21 July 2015.

#### 4/16 Pension Section Supporting Information

4.1 The Adviser confirmed the West Midlands Fire Service Firefighters' Pension Schemes Membership as at 31 December 2015.

4.2 It was noted that there had been reasonable activity levels in the work of the Pensions Section that may increase over the next year. The Adviser agreed to break down the new recruits as a percentage of the whole and provide details regarding the Opt Out rate for new recruits.

There had been 25 Opt Outs which was not unexpected, the reasons for the Opt Outs had not been collected prior to June 2015, but anecdotally it was understood the main reason was down to cost.

Later in the year there were less opt outs, this was probably due a quieter phase of the dispute and members making more detailed enquiries.

All requests had been processed within a three month period, except for one case that had been delayed due to legal complications.

4.3 It was estimated that the latest applications would meet the three month time frame and Members were informed of the time frame when submitting their request.

The Adviser provided an overview of the Pension Section Structure and a comparison with Greater Manchester Fire and Rescue Service. He explained that the Payroll/Pensions Section was being restructured at the present time with a temporary post becoming permanent in the future.

The Chair asked the Adviser to provide an indication of the response times to enquiries for pension information being achieved by Greater Manchester Fire and Rescue Service Pensions Team.

4.4 The Risk Register was attached as an appendix to the report and it was noted that the failure to issue annual benefit statements had been added to the Risk Register.

4.5 The last internal Audit Review carried out in November 2014 had provided 'Substantial Assurance' over the adequacy of controls.

- 4.6 The Adviser confirmed that the Annual Benefits Statements would be issued by 30 August 2016.
- 4.7 There had been two Stage 1 Internal Dispute Resolution Procedures (IDRP) received in the last twelve months.

One case was turned down at Stage 1 and further rejected at an Appeals Committee. The other case was now out of time.

The Adviser had taken advice from the Pensions Regulator and informed the Pensions Board of a breach of the conditions.

Another complainant had been advised by the Pension Advisory Service to make a complaint as he had not received a response to a request for information for 12 months. This was a breach of the three month term and subsequently the regulations had changed.

The Adviser had informed the Union Representative that the complainant should make a formal complaint and the Brigade would progress the complaint.

#### 4.8 Abolition of Contracting Out for Defined Benefit Pension Schemes

The Advisor stated that all serving Members would be informed of the increase in National Insurance contributions. The increase would amount to approximately £270 p.a. In answer to a question, the Adviser didn't think this would increase the number of opt outs as Members were due to receive a pay award and an increase in their individual tax allowance.

A potential increase in interest rates and the impact of the abolition of tax relief on pension contributions were also discussed.

The Adviser confirmed that a number of station visits had been arranged during March/April and that members of the Pensions Section would be talking about changes in pension contributions and changes in tax.

Grant Thornton LLP would be meeting with senior managers about taxation on pensions and would highlight the changes to those affected.

#### 4.9 Automatic Enrolment

The Scheme Manager had confirmed that the Automatic Re-Enrolment date would be 1 August 2016.

The Scheme Manager also confirmed that anyone who has opted out of a Qualifying Pension Scheme within 12 months of the re-enrolment date will not be automatically re-enrolled.



#### 4.10 Opt Out Levels and Reasons for Opt Outs

The Opt Outs were noted and Andy Dennis drew attention to the four Opt Outs from the 2015 Scheme and asked if they had been informed of the latest situation. The Adviser stated that where individuals had contacted the Section, they had been advised of the current position.

#### 5/16 Governance

5.1 Minutes of the Audit Committee held on 7 September 2015 were noted and no further direction had been received from the Audit Committee.

5.2 The approved terms of reference were noted.

5.3 The Members of the Pension Board received copies of the Pension Schemes and the Adviser agreed to provide the Employee Representatives with a copy of the Discretions Policy and a one page summary of the different Pensions Schemes.

This was felt to be beneficial as Andy Dennis stated that there was still quite a lot of confusion with members about the retirement age and transitional regulations. Andy Dennis also enquired if the visits to stations were sufficient and suggested that the information was also placed on the Intranet as previously the pension calculator had proved useful.

Members of the Board would be welcome to attend any of the communication sessions.

5.4 The Members of the Board agreed to keep a watching brief on any training that is required and would continue to develop personally.

Wendy Browning-Sampson stated that Shropshire Fire and Rescue Service had arranged a training session and had opened this to other Pension Board Members and following a meeting later that week, Wendy would let the other Members know when the training was due to take place.

The Adviser would continue to liaise with the Members of the Pension Board and update them on any changes as they occur.

Wendy Browning-Sampson stated that the Fire Brigades Union had challenged the appointment of Employee Representatives on one other Pension Board in the Region.

It was confirmed that within the West Midlands Pension Board, the Employer Representatives, Kal Shoker and Wendy Browning-Sampson

had been appointed and the Employee Representatives, Stuart Bourne and Andy Dennis had been elected.

#### 5.5 Annual Effectiveness Assessment, Measure of Effectiveness and Individual Assessment

The Members of the Board confirmed their effectiveness in that they are meeting the terms of reference and agreed that they would be able to better judge their effectiveness at the next meeting.

The minutes were available on CMIS and were also reported to the Audit Committee. The Adviser had informed the members that the Pension Board had met and would send another email following the second meeting of the Pension Board to Members of Scheme. Further information would be provided during the station visits and at a future Management Briefing.

Following consideration of the current arrangements the members of the Pension Board felt comfortable and agreed to review again in the future.

The Adviser confirmed that the Internal Auditors were currently carrying out an audit of the Payroll and Pension Department. The Adviser would speak to the Treasurer about a reciprocal arrangement for audit arrangements with the Police. The Internal Audit Report should be available for the next Pension Board meeting.

#### 6/16 Update on Topical Legal and Regulatory Issues

The Adviser confirmed that following the Gad v Milne case, approximately £6.75m had been paid out on 1 February 2016 to living pensioners who are affected by the outcome of this case.

There is a legal requirement for the Adviser to notify the Board where they had been unable to find people affected by the outcomes of the case and how this had been reflected within the Authority's Accounts. The Adviser confirmed that he had written to the widows of deceased members who had been affected by these issues and had also the ex-wives of those pensioners affected. Three out of the six people affected had been contacted. The Adviser was still waiting for a reply regarding one case and would provide a report on the current situation for the next meeting of the Board.

Kal Shoker informed the Pensions Board that the Department of Communities and Local Government were due to pay the grant by the middle of January but had not paid the Fire Service until 5 February 2016 which was after the date that the payments were made.

The Adviser informed the Pension Board of another ongoing challenge to the transitional regulations and protection between schemes. There

was currently a legal challenge to the Judiciary by the Fire Brigades Union using a West Midlands Fire Service test case, but no guidance had been issued to date.

In response to a question from the Chair in respect of the implications for the future, the Adviser confirmed this was in respect of protection and similar to the Police Pension Scheme, and it was noted that this was being challenged as well.

The challenge affected those who had joined between the ages of 18-20 years of age and those members who had taken a contributions holiday.

The numbers affected could be similar to the Gad v Milne case, however, there was still a lot of confusion and once the final Regulations had been received an update would be included as part of the communication visits.

7. Any Other Business

Stuart Bourne asked for clarity about the recording of a breach of the conditions.

The Adviser confirmed that a first breach should be reported to the Pension Board and recorded in the minutes. Any subsequent breaches should be reported to the Regulator.

The Adviser stated that formal complaints should be put in writing to the Payroll and Pensions Manager.

Wendy Browning-Sampson requested that the pages of the whole pack of Agenda papers be numbered.

8. Date and Time of Next Meeting

The next meeting was scheduled for the 18 July 2016, however, with the agreement of the members of the Board, the meeting was rearranged to take place on Monday 11 July 2016 at 1400 hours.

PENSIONS BOARD

8 FEBRUARY 2016

ACTIONS

Action No.	Action
1.	The Adviser agreed to provide each Member of the Board with a one page guide on each pension scheme identifying the differences between the Schemes following the meeting.
2.	The outcome of the Audit Review of the Pensions Section would be provided to the next meeting of the Pension Board.
3.	The Adviser agreed to break down the new recruits as a percentage of the whole and provide details regarding the Opt Out rate for new recruits.
4.	The Adviser to provide an indication of the response times to enquiries for pension information being achieved by Greater Manchester Fire and Rescue Service Pensions Team.
5.	The Pension Board had requested that sample checking of pension records for deferred members is undertaken. The Internal Auditor has stated that they would charge for the additional work. It was suggested as a sensible approach that a reciprocal arrangement could be made with the Police for the work required. The Treasurer had agreed to contact his opposite number at the Police to discuss this approach.
6.	The Adviser would continue to liaise with the members of the Pension Board and update them on any changes as they occur.
7.	Wendy Browning Sampson to advise the other members of the Pension Board of the dates of Regional training opportunities.
8	The Adviser was still waiting for a reply regarding one case following the outcome of Gad v Milne and would

	provide a report on the current situation for the next meeting of the Board.
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# WEST MIDLANDS FIRE AND RESCUE AUTHORITY

## AUDIT COMMITTEE WORK PROGRAMME 2015/16

Date of Meeting	Item	Responsible Officer	Completed
<b>2015</b>			
29 June [Authority]	Annual Report of the Audit Committee 2014/15	Chair	
7 September	Corporate Risk 2015/16 – Quarter 1	Director of Service Support	
	Treasury Management Annual Report 2014/15	Treasurer	
	CIPFA Audit Committee Update	Audit Manager	
	Minutes and Terms of Reference of the Pensions Board	Chair of the Pensions Board	
	Decisions on Discretions to Firefighter Pension Scheme	Pension and Payroll Manager	
	Work Programme 2015/16	Democratic Officer	
21 September [Authority]	Audit Issues 2014/15	Grant Thornton	
	Approval of Statement of Accounts 2014/2015	Treasurer	

9 November 2015	Quarter 1 Internal Audit Progress Report	Audit Manager	
	Treasury Management – Mid year review 2015/16	Treasurer	
	Audit Committee – Knowledge and Skills Framework	Audit Manager	
	External Audit progress Report	Grant Thornton	
	Value for Money Report 2014/15	Grant Thornton	
	Annual Audit Letter 2014/15	Grant Thornton	
November	<i>Corporate Risk Management Training</i>	Strategic Hub	
2016			
18 January	Quarter 2 Internal Audit Progress Report	Audit Manager	
	Internal Audit Charter – Annual Review	Audit Manager	
	CIPFA Audit Committee Update No. 18	Audit Manager	
	Quarter 2 Corporate Risk Report	Director of Service Support	
	Evaluating the effectiveness of the Audit Committee	Audit Manager	



	External Audit Committee Update	Grant Thornton	
11 April	<p>External Audit Committee Update for WMFRA Communication with the Audit Committee for WMFRA Audit Plan 2015/16</p> <p>Quarter 3 Internal Audit Progress Report at 31.1.16 Internal Audit Plan 2016/17 Audit Committee Terms of Reference</p> <p>External Audit Work Programme and Scale of Fees Frequency of Corporate Risk Reporting to Audit Committee Corporate Risk Report Quarter 3 Update 2015/16</p> <p>Minutes of the Pensions Board</p> <p><i>Committee Members' Private meeting with Internal Auditors (to follow Committee)</i></p>	<p>Grant Thornton Grant Thornton  Grant Thornton</p> <p>Audit Manager Audit Manager Audit Manager</p> <p>Director of Service Support Director of Service Support</p> <p>Chair of the Pensions Board</p> <p><i>Audit Manager</i></p>	
6 June [Authority]	Approval of Audit Plan 2015/2016 [fee letter and proposed actions].	Grant Thornton	
6 June	<p>System Memorandum (If applicable)</p> <p>Annual Internal Audit Report</p>	<p>Grant Thornton</p> <p>Audit Manager</p>	

	<p>Review of the Effectiveness of the System of Internal Audit</p> <p>Consider Governance Statement Audit Committee Skills Audit</p> <p>Annual Whistleblowing report</p> <p>Annual Report of the Audit Committee</p> <p>Quarter 4 Corporate Risk Report</p> <p>External Opinion Plan 2015/16 Audit Year (approach to financial statements)</p> <p><i>Committee Members' Private meeting with External Auditors</i></p> <p><i>Workshop for Members on Statement of Accounts</i></p>	<p>Audit Manager</p> <p>Treasurer</p> <p>Monitoring Officer/Director of Service Support</p> <p>Chair</p> <p>Director of Service Support</p> <p>Grant Thornton</p> <p><i>Grant Thornton</i></p> <p><i>Treasurer</i></p>	
27 June [Authority]	<p>Approval of the Governance Statement 2014/2015</p> <p>Audit Committee – Terms of Reference, Annual Review (will now be reported to the Authority's AGM)</p>	<p>Treasurer</p> <p>Audit Manager</p>	



