

# Audit Progress Report and Sector Update

West Midlands Fire and Rescue Authority  
Year ending 31 March 2018

January 2018



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# Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a Fire and Rescue Authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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

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.

# Progress to date

## Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and will issue a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2017/18 financial statements.

We are due to commence our interim audit in January 2018. Our interim fieldwork visit will include:

- Updated review of the Authority's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report any significant findings from the interim audit to you in our Progress Report at the next Audit Committee.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We discuss our plan and timetable with officers.

The final accounts audit is due to begin at the end of May with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. 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".

The guidance confirmed the overall criterion as: "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".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We will make our initial risk assessment to determine our approach in January 2018 and report this to you in our Progress Report at the next Audit Committee

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

## Other areas

### Meetings

We met with Finance Officers in November as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also meet with your Chief Fire Officer to discuss the Authority's strategic priorities and plans.

### Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

# Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2017/18.	April 2017	Complete
<b>Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2017-18 financial statements.	January 2018	In progress
<b>Interim Audit Findings</b> We will report to you the significant findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	September 2018	Not yet due

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# Sector Update

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Local government finances are at a tipping point. Local Government bodies are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, sans-serif font, centered within the button.

Public Sector

A purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local  
government

# Independent Review of Building Regulations and Fire Safety: interim report

Commissioned by government following the Grenfell Tower fire to make recommendations on the future regulatory system, Dame Judith Hackitt's interim report was published on 18 December 2017. Its purpose is to make recommendations that will ensure we have a sufficiently robust regulatory system for the future and to provide further assurance to residents that the complete system is working to ensure the buildings they live in are safe and remain so. It is examining the building and fire safety regulatory system, with a focus on high-rise residential buildings.

The work of the review to date has found that the current regulatory system for ensuring fire safety in high-rise and complex buildings is not fit for purpose. This applies throughout the life cycle of a building, both during construction and occupation, and is a problem connected both to the culture of the construction industry and the effectiveness of the regulators.

The key reasons for this are:

- Current regulations and guidance are too complex and unclear. This can lead to confusion and misinterpretation in their application to high-rise and complex buildings.
- Clarity of roles and responsibilities is poor. Even where there are requirements for key activities to take place across design, construction and maintenance, it is not always clear who has responsibility for making it happen.
- Despite many who demonstrate good practice, the means of assessing and ensuring the competency of key people throughout the system is inadequate. There is often no differentiation in competency requirements for those working on high-rise and complex buildings.

- Compliance, enforcement and sanctions processes are too weak. What is being designed is not what is being built and there is a lack of robust change control. The lack of meaningful sanctions does not drive the right behaviours.
- The route for residents to escalate concerns is unclear and inadequate.
- The system of product testing, marketing and quality assurance is not clear.

The National Fire Chiefs Council has welcomed the report's findings. The interim recommendations highlight significant fire safety matters that fire and rescue services up and down the country are concerned about, including:

- Clarity of guidance
- Competence of those working on the design, construction, inspection and maintenance of complex and high-risk buildings
- Timing of consultation with fire and rescue services during the build process
- Procedures for the handover of safety information before buildings are occupied; and
- Fire Risk Assessments and the lack of formal qualifications

The Independent Review will now undertake its second phase of work and publish a final report in spring 2018. This will include targeted work in partnership with the sector and other stakeholders.

[Click on the report cover to download and read more.](#)



## DCLG Publication

### Challenge question:

Has your Authority considered the findings of the Interim Report?



# Combined Authorities: Signs of Success

In her foreword to ‘Building our Industrial Strategy’ the Prime Minister states that the initiative “will help to deliver a stronger economy and a fairer society – where wealth and opportunity are spread across every community in our United Kingdom, not just the most prosperous places in London and the South East.”

Combined Authorities (CAs) – the newest model for the governance of local public services – are central to this.

In response to this, Grant Thornton and Bond Dickinson have jointly commissioned a report which provides an insight into the establishment of each combined authority in the context of their specific challenges. It is still early days for most combined authorities – the political and administrative difficulties of adopting this model are not to be under-estimated - but early signs are emerging of their potential to innovate and drive success.

The report benchmarks combined authorities using key indicators of growth, housing, transport and skills amongst others. We have also used our Vibrant Economy Index, which goes beyond financial returns and takes into account the wellbeing of society, to compare city regions. We believe that these benchmarks can serve as a baseline for assessment of progress over time.

## Key findings from the report:

- CAs must begin to reduce the institutional blurring with historic local government structures that has occurred with their formation. As greater clarity emerges over their roles, functions, and profiles of individual mayors, their perceived legitimacy will increase.
- CAs stand and fall on their ability to add value through targeted investment, strategic co-ordination, joined-up policy and the leveraging in of additional resources (particularly additional private sector funds).
- There is no single checklist or set of criteria for measuring the success of mayors and combined authorities, each city region must articulate its own challenges and show progress in tackling them.
- A balanced set of benchmarks encompassing both economic and social success will, however, serve as a useful stimulus for the debate around the impact of the combined authority model over time.

[Click on the report cover to download and read more.](#)



## Grant Thornton Publication

### Challenge question:

Is your Authority considering how the combined authority model may evolve?





# Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

## Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

[Click on the report cover to download and read more](#)



## Grant Thornton Publication

### Challenge question:

Is your Authority considering the risks and governance issues for its commercialisation agenda?



# Overview of General Data Protection Regulation (GDPR)

## What is it?

GDPR is the most significant regulatory data protection development in 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

## What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25<sup>th</sup> May 2018.

### How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that might reasonably be used to identify a living individual, either directly or indirectly. Various unique identifiers (including online cookies and IP addresses) will likely fall within the scope of personal data

### What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

## Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

## Notifications and Rights

- Organisations must notify relevant incidents to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

## Claims and Fines

- Privacy regulators can impose penalties of up to €1 million on public sector organisations, for the most serious violations
- Individuals and representative organisations may be able to seek compensation for infringements of data protection rights

## GDPR

### Challenge question:

Can your authority effectively erase Personally Identifiable Data?

Have you appointed a Data Protection Officer?

How will your authority ensure citizens' data isn't duplicated across different information siloes without their knowledge?

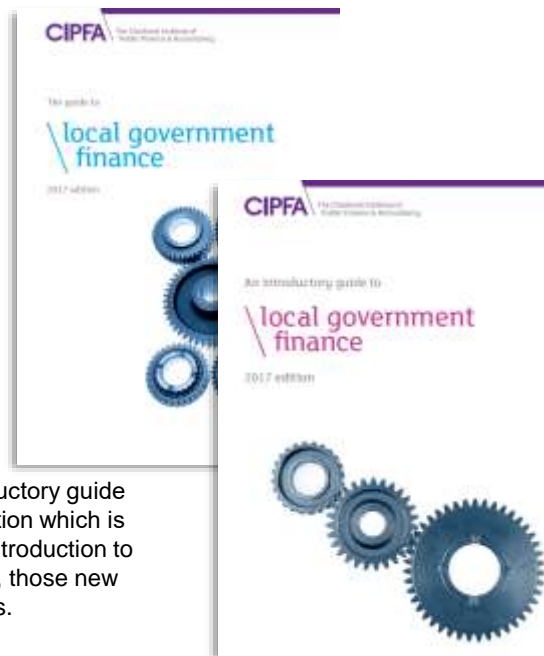
# CIPFA publications

CIPFA have published 'The guide to local government finance' 2017 edition. The guide seeks to provide information on current arrangements for local government finance and sets out the principles of sound financial management.

The guide covers a range of local government services. It examines the funding systems that support those services including council tax, business rates and the local government finance settlement. The guide covers both revenue and capital financing and has separate chapters on key areas and their specific intricacies including:

- capital finance
- budgeting and financial reporting
- treasury management
- auditing
- governance
- education
- housing
- police
- social care.

CIPFA have also published 'An introductory guide to local government finance' 2017 edition which is aimed at those requiring more of an introduction to local government finance for example, those new to the sector or non finance specialists.



CIPFA have updated their guidance on the key considerations in setting up and managing a pooled budget in the publication 'Pooled Budgets and the Better Care Fund: A Practical Guide for Local Authorities and Health Bodies' (2017 Edition)

Although pooled budgets have operated widely across health and social care for a long time, they were brought into prominence by the Better Care Fund, introduced in 2015–16.

The aim of CIPFA's guidance is to define the basic principles of financial management, governance and accountability that partners in budget pooling arrangements or, indeed, other forms of partnership working, should follow, and to consider the relevant accounting issues.

The guide provides practical tools such as a checklist of matters to consider, an example of how to decide which agency should lead the arrangement, a model scheme of delegation to boards. The guide considers the background to budget pooling, including the purpose of pooling, the basics of partnership arrangements, and some other options available to health and social care organisations pursuing similar objectives. It goes on to consider specific issues arising from pooling: managing a pooled budget, corporate governance, financial management, audit and assurance, and VAT. These matters then feed into an appendix on accounting issues.

## CIPFA Publication

### Challenge question:

Are these publications of use to you?



# DCLG Consultation

## DCLG are currently consulting with Local Authorities and other interested parties on proposed changes to the prudential framework of capital finance.

The statutory framework for the Prudential System is set out in Chapter I of the Local Government Act 2003 and in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended. The framework includes four statutory codes. Alongside CIPFA's Prudential Code and Treasury Management Code, the DCLG is responsible for Statutory Guidance on both Local Authority Investments and on the Minimum Revenue Provision.

Over the past years the regulatory and economic environment has changed significantly and led the sector to consider more innovative types of investment activity. The government has also monitored changes in the practices used for calculating Minimum Revenue Provision.

As a result the Department for Communities and Local Government is seeking views on proposals to update the guidance on Local Authorities Investments and on Minimum Revenue Provision for full implementation in 2018/19. This consultation closes on 22 December 2017 and may be accessed [here](#).

### Local Authorities Investment Code

The Government recognises that there is great variation in the objectives and nature of local authority investment, including local economic regeneration projects, however it believes that local authorities need to be better at explaining "why" not just "what" they are doing with their investment activity.

That means that the sector needs to demonstrate more transparency and openness and to make it easier for informed observers to understand how good governance and democratic accountability have been exercised.

To this end a number of proposals are made including requiring local authorities to:

- prepare a Capital Strategy which includes clear disclosure of the Investment Strategy
- disclose the contribution that investment activities make to their core functions
- use indicators to assess total risk exposure
- apply the principles of prioritising security and liquidity over yield for investment in non financial assets (in the same way that they are required to do for financial assets)
- disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income
- disclose additional information where authorities borrow to invest in revenue generating investments
- Disclose steps to ensure expertise of key officer and councillors involved in the decision making process.

### Minimum Revenue Provision Guidance

Local authorities are normally required each year to set aside some of their revenues as provision for debt. More precisely, the provision is in respect of capital expenditure financed by borrowing or long term credit arrangements. Given the changes in current practice and recent interest, the Government feels that it is time to look into updating the guidance as part of the more general update of the statutory codes comprising the prudential system. Four proposals are made:

- change to the definition of the basis of MRP
- confirmation that a charge to the revenue account cannot be a credit
- confirmation that a change to the MRP methodology would not generate an overpayment of MRP calculated retrospectively
- Introduces maximum useful economic lives for MRP calculations based on asset life

#### DCLG consultation

##### Challenge question:

- Is your Strategic Enabler for Finance and Resources planning to respond to the consultation?



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# Links

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## Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/combined-authorities-signs-of-success/>

<http://www.grantthornton.co.uk/en/insights/the-board-creating-and-protecting-value/>

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

## CIPFA website links

<http://www.cipfa.org/policy-and-guidance/publications/codes-of-practice>

<http://www.cipfa.org/policy-and-guidance/publications/a/an-introductory-guide-to-local-government-finance-2017-edition-online>

<http://www.cipfa.org/policy-and-guidance/publications/t/the-guide-to-local-government-finance-2017-edition-online>

## DCLG website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/668831/Independent\\_Review\\_of\\_Building\\_Regulations\\_and\\_Fire\\_Safety\\_web\\_accessible.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/668831/Independent_Review_of_Building_Regulations_and_Fire_Safety_web_accessible.pdf)



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