

West Midlands Fire and Rescue Authority

Audit Committee

You are summoned to attend a meeting of the Audit Committee to be held on Monday, 14 November 2016 at 10:30 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	
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Standing Item

14 Update on Topical, Legal and Regulatory Issues (Verbal Report).

Distribution:

Adam Aston - Member, Mohammed Idrees - Member, Robert Sealey - Member, Bally Singh - Member, Paul Singh - Member, Tersaim Singh - Chairman

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This agenda and supporting documents are also available

Electronically on the West Midlands Fire Service website at

www.wmfs.net

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Minutes of the Audit Committee

Item 3

5 September 2016 at 12.30 pm
at Fire Service Headquarters, Vauxhall Road, Birmingham B7 4HW

Present: Councillors Aston, Idrees, Sealey, B Singh,
P Singh and T Singh (Chair)
Mr Ager (Independent Member)

Apologies: Mr James Cook – Grant Thornton

39/16 **Minutes of the Audit Committee held on 25 July 2016**

Resolved that the minutes of the meeting held on 25 July 2016, be approved as a correct record.

Councillor Aston's request at the previous meeting to review the Risk Assurance Map would be facilitated.

40/16 **Corporate Risk Update**

The Committee received the Corporate Risk Update. This was the first of the new cycle of six monthly reports and included the Corporate Risk Assurance Map Summary and the Position Statement. The Deputy Chief Fire Officer stated that this was a routine report that covered Quarter 4 to May 2016 (2015/16) and Quarter 1 to July, (2016/17).

There had been an increase in overall Corporate Risk Scores. In Quarter 4, 2015/16, the risk score for Corporate Risk 11 increased. The decision was made due to a trade dispute registered by the Fire Brigades Union involving Fire Control staff. However, this had decreased in Quarter 1, 2016/17 due to a local collective agreement on the staff and supervision arrangements for the shared Fire Control.

In Quarter 4, 2015/16 the risk score for Corporate Risk 5, decreased. The decision was made due to positive engagement and negotiations between senior management and Representative Bodies regarding the staffing trials. In Quarter 1, 2016/17 the risk score for Corporate Risk 1, decreased. The decision was made due to certain aspects of the Shared Fire Control review still being ongoing, there is a collective agreement for staffing and supervision arrangements.

In Quarter 1, 2016/17 the risk for Corporate Risk 6 decreased. The decision was made due to the trade dispute being lifted and the negotiated position in relation to staffing having been agreed.

The Corporate Risk Assurance Map Summaries for May 2016 (Quarter 4 2015/16) and July (Quarter 1 2016/17) were attached as appendices to the report together with the Corporate Risk Position Statements for Quarter 4 and Quarter 1.

Confidence levels were improving and there were no “red” risk scores in Quarter 1 for 2016/17.

In answer to a question regarding emerging risks from Brexit and future governance arrangements, the Deputy Chief Fire Officer explained that the Corporate Risks had been reviewed and two additional risks had been identified as External (Political and legislative) Environment and Business Development. A Future Governance Working Group had been set up and would be considering future arrangements.

Officers would attend future Audit Committees to provide interim briefings on specific risks and any changes to risks.

There was uncertainty on the impact and timeframes of Brexit on the West Midlands Community.

In answer to another question regarding a spike in arson incidents, it was explained that this stands alone and is not a high level corporate risk. Any increase in arson incidents would be reviewed at the Quarterly Performance meeting and this in turn is reported to Scrutiny Committee. If there was a massive spike in all indicators then this would be shown as a risk and be reported in the indicators. A rise in antisocial incidents would also be raised with the Police and the Committee were reassured that there was a good relationship with the Police and regular meetings were held at all levels.

Resolved that the Corporate Risk Assurance Map Summary be noted and the Position Statement for each risk be approved.

41/16 **Notification of Submission of the Annual Scheme Return to the Pension Regulator**

The Committee noted the submission of the following returns to The Pension Regulator under the requirements of the Pensions Act 2004:

- West Midlands Fire Service Firefighters Pension Scheme 1992 – Scheme Return 2015 – 2016
- West Midlands Fire Service Firefighters Pension Scheme 2015 – Scheme Return 2015 – 2016

42/16 **Audit Committee Update for WMFRA**

The Committee noted the CIPFA Audit Committee Update. The update focused on progress of the audit and high level summary. The Auditors were planning for the following years audit. The update reported on:

- The changing face of Corporate Reporting (Integrated Reporting)
- The Grant Thornton Website relaunch and dedicated section for the fire sector
- Advancing closure: the benefits to local authorities – the Fire Authority were on target to deliver
- CFO Insights – driving performance improvement
- Future Events and Workshops
 - Joint Venture Seminar at Grant Thornton Leicester Office on 13 September 2016
 - Income Generation Workshop 28 September 2016 in Birmingham

The Auditor informed the Committee of the electronic links to the documents highlighted and also offered to provide hard copies of the documents if required.

The Auditor confirmed that the Whole of Government Accounts would be completed week commencing 12 September 2016 and the Annual Audit Letter would be presented to the Audit Committee on 14 November 2016.

43/16 **CIPFA Audit Committee (Update No. 20)**

The Committee received the CIPFA Audit Committee Update No. 20. The update focused on the CIPFA survey into audit committees in local authorities and police. The remainder of the issue provided an update on recent legislation, reports and guidance. The Auditor felt that following the update on risks, there was nothing for Members of the Committee to concern themselves.

The update also provided a list of workshops and training events for Audit Committee Members. There was a development date for local government audit committees on 7 December in Birmingham and further details would be available soon.

Members were asked to complete the knowledge and skills framework at their earliest convenience. The forms would be circulated and should be returned to the Clerk by 19 September 2016.

44/16 **Audit Committee Work Programme 2016/17**

The Committee noted its Work Programme for 2016/17 and that the next meeting of the Audit Committee would be on 14 November 2016.

45/16 **Update on Topical, Legal and Regulatory Issues**

There was no new information to be presented

(The meeting ended 13.00)

Contact Officer: Julie Connor Strategic Hub 0121 380 6906

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

14 NOVEMBER 2016

1. **ANNUAL AUDIT LETTER 2015/16**

Joint report of the Chief Fire Officer and the Treasurer.

RECOMMENDED

THAT the Audit Committee notes the Annual Audit Letter (AAL) attached as an Appendix to this report.

2. **PURPOSE OF REPORT**

This report is submitted to inform the Audit Committee of the findings of the external audit work undertaken for the audit year 2015/16 which is summarised in the AAL.

3. **BACKGROUND**

3.1 The AAL summarises the key findings from external audit work undertaken for the 2015/16 audit year. The audit comprised two elements:

- To audit and give an opinion on the Authority's financial statements.
- An assessment of the Authority's arrangements in place to enable value for money to be achieved in the use of resources.

3.2 The Annual Findings Reports presented to the Audit Committee on 25th July 2016 outlined the findings of the audit work undertaken.

- 3.3 Following the Audit Committee meeting, the auditor issued an unqualified opinion on the Authority's 2015/16 financial statements included in the Authority's Statement of Accounts.
- 3.4 As part of the external audit work programme, the auditor was also required to provide a value for money conclusion. In carrying out this work, the auditor is required to follow the National Audit Office's Auditor Guidance Note 3 (AGN 03). The AGN 03 identifies the following criterion for auditors to evaluate:
- "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 tax payers and local people."*
- 3.5 As a consequence of this work, the auditor concluded that for 2015/16 the Authority had proper arrangements in all significant respects to secure economy, efficiency and effectiveness and to ensure it delivered value for money in its use of resources.
- 3.6 The Treasurer has been consulted and has agreed the content of the AAL.
- 3.7 Representatives from Grant Thornton will present and explain the findings detailed in the AAL to the Audit Committee.

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 is a legal requirement for the Authority to consider the AAL Statutory Instrument 2015 No. 234 – The Accounts and Audit Regulations 2015.

6. **FINANCIAL IMPLICATIONS**

The agreed scale fee for the provision of external audit services for the audit year 2015/16 was £38,636.

BACKGROUND PAPERS

The Audit Findings 2015/16 – Agenda item 4 – Audit Committee
25th July 2016.

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

PHIL LOACH
CHIEF FIRE OFFICER

MIKE GRIFFITHS
TREASURER

The Annual Audit Letter for West Midlands Fire and Rescue Authority

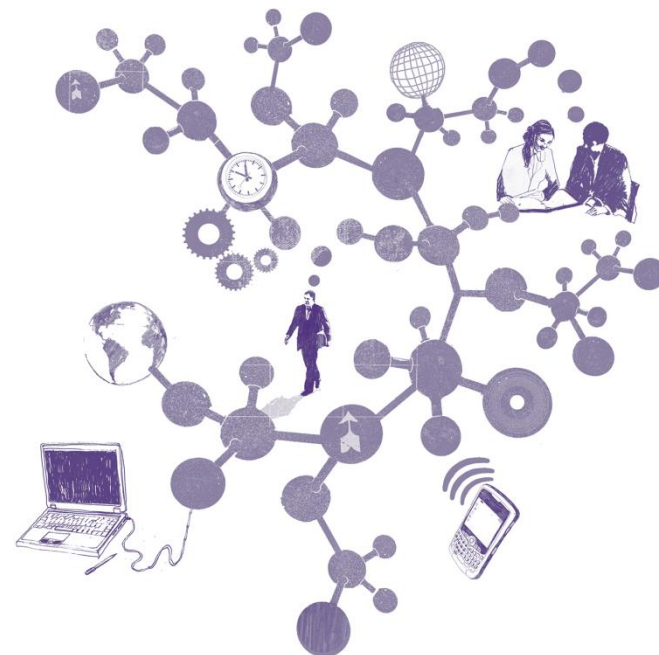
Year ended 31 March 2016

October 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at West Midlands Fire and Rescue Authority (the Authority) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Authority and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Authority's Audit Committee as those charged with governance in our Audit Findings Report on 25th July 2016 and to the Fire Authority on 19th September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Authority's financial statements on 28th July 2016.

Value for money conclusion

We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion 28th July 2016.

Whole of government accounts

We completed work on the Authority's consolidation return following guidance issued by the NAO and issued an unqualified report on 19th August 2016.

Certificate

We certified that we had completed the audit of the accounts West Midlands Fire and Rescue Authority in accordance with the requirements of the Code on 5th September 2016.

Grant Thornton UK LLP
October 2016

Looking Forward

Working with West Midlands Fire and Rescue Authority

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

We reported in our Audit Findings Report that:

- The financial statements submitted for audit were, yet again, of good quality, delivered by an effective closedown process and supported by excellent working papers.
- Of particular note was the speed and efficiency queries were responded to by Authority staff across all departments.
- We did not identify any adjustments affecting the Authority's reported financial position. Both the draft and audited financial statements record Total Comprehensive Income and Expenditure as net expenditure of (£186.512) million.
- We did identify a relatively small number of disclosure errors, and requested some adjustments to improve the presentation of the financial statements.

Due to the excellent engagement between the finance and audit teams, the on-site work was delivered in a shorter timescale with an opinion being issued in July 2016. In previous years we have issued our opinion in September. This places the Authority in an excellent position to meet the reduced timescales for delivery of the audit which will impact in 2017/18.

The Authority's accounts show a strong financial position going forward, due to:

- Appropriate levels of reserves, specifically usable reserves, with an upward movement in Earmarked Reserves. The Authority's reserves are not used to subsidise the day to day transactions of the Authority.
- A low level of long-term borrowing, which has not increased for several years.

The changing landscape

The fire sector continues to face a period of unprecedented change. West Midlands Fire and Rescue Authority has demonstrated that it fully supports service wide transformation and has already achieved significant savings following reductions in central government funding of approximately £28 million over the Comprehensive Spending Review (CSR) period 2011/12 to 2015/16.

Funding reductions of this scale impact on both service support and service delivery functions and have required more challenging and innovative approaches to support the delivery of internal and external community facing services. Service transformation has been achieved at the same time as delivering against the Service's priorities and outcomes, set out in the three year rolling corporate strategy 'The Plan'. The Authority continues to respond to high risk (life and property) incidents within a risk based 5 minute attendance standard.

Looking forward over the next four years (2016/17 to 2019/20), the Authority is set to receive further reductions in core funding of approximately £10 million. The Service will continue to explore different approaches to achieve efficiencies to offset these funding reductions by focusing on growing and improving the services delivered to communities whilst seeking alternative funding streams to support the Service Delivery Model.

The Authority is also positioning itself well within the West Midlands against the backdrop of the Combined Authority and recent legislative changes which provide scope for closer working between Police and Fire. Senior Leaders of the Authority are supporting and leading change which will enable the Authority to respond well to future developments.

Audit of the accounts

Our audit approach

Materiality

In our audit of the Authority's accounts, we used the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We defined materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Authority's accounts to be £2,258,000, which is 2% of the Authority's gross revenue expenditure. We used this benchmark, as in our view, users of the Authority's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas, including:

- Cash & cash equivalents – materiality based on our 'triviality' level
- Officers' Remuneration – materiality £10,000
- Related Party Transactions – materiality based on review of each item

We have a duty to report any errors above each of these thresholds. Our work did not identify any errors which we are required to bring to your attention.

The scope of our audit

Our audit involved obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This included assessing whether:

- the Authority's accounting policies were appropriate, had been consistently applied and adequately disclosed;
- significant accounting estimates made by management were reasonable; and
- the overall presentation of the financial statements gave a true and fair view.

We also read the narrative report and annual governance statement to check they were consistent with our understanding of the Authority and with the accounts on which we gave our opinion.

We carried out our audit in line with the ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we obtained was sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts of West Midlands Fire and Rescue Authority

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at West Midlands Fire and Rescue Authority, we have determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition, • opportunities to manipulate revenue recognition are very limited, • the culture and ethical frameworks of local authorities, including West Midlands Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable. <p>Our audit work did not identify any issues in respect of revenue recognition within the financial statements.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work:</p> <ul style="list-style-type: none"> • We reviewed the journal control environment and not identified any significant control weaknesses. • We tested key journal entries and not found any items which impacted on our opinion. • We reviewed the accounting estimates, judgements and decisions made by management • We reviewed any unusual, significant transactions and not identified anything which would impact on our opinion. <p>Our audit work did not identify any evidence of management over-riding controls. In particular, the findings of our review of journal controls and testing of journal entries did not identify any significant issues.</p>
<p>Pensions commutation liability</p> <p>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>	<p>As part of our audit work:</p> <ul style="list-style-type: none"> • We reviewed prior year provisions in comparison with the actual payment made to pensioners. • We agreed payments made to pensioners or the estate of deceased former scheme members. • We agreed receipt of the top-up grant receivable from DCLG to meet the liability. • We reviewed disclosure requirements and found them to be appropriate. <p>Our audit work did not identify any issues in respect of the pensions commutation liability.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Authority's accounts on 28th July 2016, in advance of the 30 September 2016 national deadline.

The Authority made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Authority to the Authority's Audit Committee on 25th July 2016.

We did not identify any issues that required amendments to the main financial statements. There were minimal amendments required to the disclosures within the notes to the accounts.

Annual Governance Statement and Narrative Report

We are also required to review the Authority's Annual Governance Statement and Narrative Report. The Authority published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by and with our knowledge of the Fire and Rescue Authority.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

We were not required to invoke our additional powers and duties during the completion of this audit.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out on pages 9 and 10.

Overall VfM conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Key recommendations

As part of our Audit Findings report agreed with the Audit Committee in July 2016, we agreed recommendations to address our key findings. We discussed findings arising from our work with management and agreed one recommendation.

R1. The pace of change results in external modifications to working arrangements, partnerships and governance structures will continue to present a significant risk for the Authority going forward and as such, this should remain a key focus for the Authority over the coming months and years.

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>Informed decision making</p> <p>The Authority has historically managed its finances well, achieving financial targets and delivering against its 2015/16 budget, as well as being on course to deliver its 2016/17 budget.</p> <p>Nevertheless the scale and pace of change for the Fire Service will affect future projections, particularly following announcements from the Comprehensive Spending Review, Autumn Statement 2015 and then more recently the final Local Government Finance Settlement 2016/17, published in February 2016.</p>	<p>We reviewed the Authority'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 reviewed the Authority's updated medium term financial plan and monthly financial monitoring reports and assess the assumptions used.</p>	<p>Service delivery is focussed on: prevention, protection and response. Performance is analysed on a quarterly basis and reported to the Scrutiny Committee. This is measured based on Key Performance Indicators (KPI's) set out in 'The Plan 2015 to 2018'.</p> <p>Authority funding is reducing year on year. Core Government funding is currently 63% of overall annual income. The Medium Term Financial Strategy (MTFS) anticipates that by 2019/20 the core funding received from Government will have reduced by a further 16% or in monetary terms £10 million. Measures are set in each annual budget to ensure the on-going sustainability of the fire authority. We have reviewed progress against these, as reported to the Fire Authority on a quarterly basis.</p> <p>Overall we can conclude that adequate arrangements are in place to ensure the appropriate level of oversight at board level. The comprehensive organisation structure and frequency of meetings mean that information is relayed to members in a timely manner allowing them to resolve or challenge matters in relation to the operational and financial sustainability of the authority.</p> <p>We did not identify any material weaknesses in the medium term strategy, either financial or non-financial, and the strategy acknowledges the funding restraints the Authority faces both now and in the future. The main assumptions are around the increase in precept income. The long term forecast also takes in to account general inflation and price increases, pay awards, pensions and rental increases. These appear reasonable based on our understanding of the wider economy.</p> <p>An accompanying sensitivity analysis has been undertaken, demonstrating the robustness of the MTFS projections. The Authority has surpassed budgeted expectation for both revenue and capital. This demonstrates an ability to deliver the medium term financial strategy and set realistic budgets based on reasonable assumptions.</p> <p>The fire authority set extensive and challenging key performance indicators (KPIs). In year monitoring demonstrates a trend of consistent under achievement against a number of these KPIs. However, these are not as a result of deficiencies in the deployment of resources or poor decision making, but more where factors are to a large extent outside of the Authority's control. The narrative commentary confirms that procedures in place are adequate for ensuring informed decision making.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements</p>

Value for Money

Risk identified	Work carried out	Findings and conclusions
<p>Working with partners and other third parties</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 and 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 West Midlands Fire service.</p>	<p>We have understood 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 have assessed 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>	<p>The West Midlands Combined Authority, formed (in principle) in July 2015, is seeking agreement to devolve powers from Whitehall (Government) to the Midlands to be deployed by the local authorities. The aim is to meet the needs and demands of the community better. Funding was initially devolved in November 2015. Whilst the process is in its infancy nationally, the West Midlands arrangements make specific reference to the blue light partners.</p> <p>The Authority considered and agreed to be a non-constituent member of the combined authority to widen the level of services they provide and achieve better outcomes for the community while reducing the burden to the public sector. The Authority has 'observer' status at the Board of the Combined Authority without membership. The Authority makes a financial contribution of £25,000 per annum and participates in debates leading up to the full approval of the combined authority but not in any voting, should a vote arise. There is no formal blue-print for connection to the Combined Authority, so this represents a starting point for collaboration and joint working going forward. This places them in a strong position to integrate with the development of the Combined Authority for the purpose of providing a value added, holistic service to the local community and wider public. Governance arrangements are still in their infancy.</p> <p>Following the transfer of ministerial responsibility for Fire and Rescue to the Home Office in January 2016, discussions between the Fire Service and Chief Constable's Police Force have progressed. There is an agreement within the West Midlands that closer working between the blue light sectors, where synergies can be identified, is a positive move. There is limited information around how this will develop and the Authority is clear that there should be a clear focus on benefits and outcomes. Closer working at a senior level or at an operational level will present different opportunities and risks and should enhance the overall service for the public, rather than be an expensive distraction, particularly to the developments within the Combined Authority. However, where costs savings can be identified, this should be progressed at a pace, as the asset review is demonstrating.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements at this time.</p> <p>The pace of change results in these external modifications to working arrangements, partnerships and governance structures will continue to present a significant risk for the Authority going forward and as such, this should remain a key focus for the Authority over the coming months and years.</p> <p>On this basis we concluded that the risk was sufficiently mitigated and the Authority has proper arrangements</p>

Working with the Fire and Rescue Authority

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit 2 months before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced of your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work. We will continue to work with you to identify further efficiencies in the process to ensure a continued, smooth audit delivery.

We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for you to ensure that external changes to working arrangements, partnerships and governance structures remain a key focus for the Authority over the coming months and years. These present a key risk and the Authority will need to ensure that it maintains the agility it has demonstrated so far to keep pace and mitigate and minimise risk where it can.

Sharing our insight – we provided your Audit Committee with regular updates covering best practice, sector issues and relevant Grant Thornton national publications. Areas we covered included Making Devolution Work; Knowing the

Ropes: Audit Committee Effectiveness Review; Reforging Local Government and Innovation in public financial management.

National research reports – we have shared with you our publication on Joining up the dots, not picking up the pieces – Partnership working in Mental Health and Better Together – Building a successful joint venture company and will continue to support you as you consider greater use of alternative delivery models for your services.

Supporting development – we provided a workshop for senior officers on pension changes. We have also provided opportunities for Members to attend regional events in our Birmingham Office.

We also attended your relationship building breakfast event to see first-hand how you were working with other organisations to innovate and create ideas for new ways of working that would improve value for money and impact positively in your performance.

We are looking forward to working with you next year and will continue to support you. Locally, our focus will be on:

- An efficient audit – continuing to deliver an efficient audit
- Improved financial processes – we will challenge our approach to ensure that as much work as is possible is brought forward to support faster close
- Understanding your operational health – we will focus our value for money conclusion work on challenges from new models of working
- Supporting development – we are in discussion with you on providing access to our CEO Room to provide space and support for your Chief Fire Officer as he works more strategically as part of the West Midlands Combined Authority
- Support outside of the audit – our advisory team are in discussion with you on how CFO Insights can be adapted to support the Fire and Rescue Service

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Fire and Rescue Authority	38,636	38,636	51,515
Total fees (excluding VAT)	38,636	38,636	51,515

Fees for other services

Service	Fees £
Audit related services	0
Non-audit services Presentations regarding changes in pension contribution allowances	3,500

Reports issued

Report	Date issued
Audit Plan	July 2016
Audit Findings Report	July 2016
Annual Audit Letter	October 2016



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WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

14 NOVEMBER 2016

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

Joint report of the Chief Fire Officer and Treasurer.

RECOMMENDED

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

2. **PURPOSE OF REPORT**

This 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 as the Authority's external auditors.
- 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

MIKE GRIFFITHS
TREASURER

Audit Committee Update for West Midlands Fire & Rescue Authority

Progress Report and Update Year ended 31 March 2017

November 2016

James Cook

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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, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

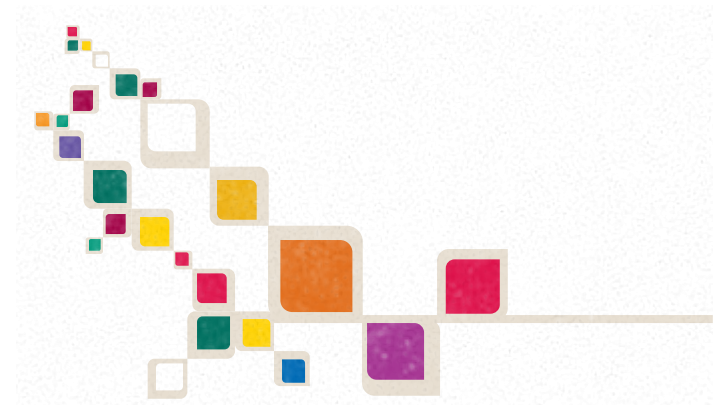
- Advancing closure – the benefits for local authorities (July 2016)
<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>
- Brexit – a public sector perspective (July 2016)
<http://www.grantthornton.co.uk/en/insights/brexit--a-public-sector-perspective/>

Members and officers may also be interested in our recent webinars:

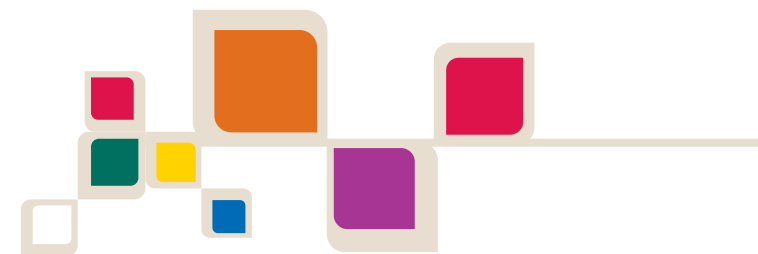
- Alternative delivery models: Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government.
<http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/>
- Cyber security in the public sector: Our short video outlines questions for public sector organisations to ask in defending against cyber crime
<http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/>

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.

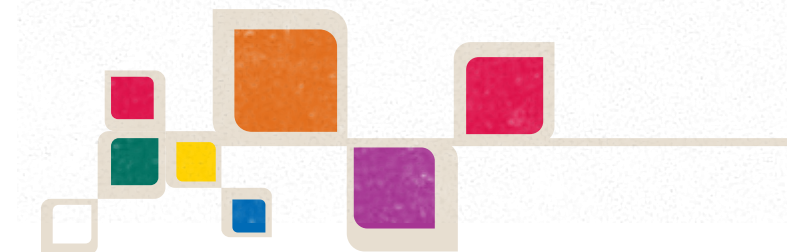


Progress to date



2016/17 work	Planned Date	Complete?	Comments
Fee Letter			
We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016.	April 2016	Yes	The 2016/17 fee letter was issued in April 2016
Accounts Audit Plan			
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 2016/17 financial statements.	March 2017	In progress	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.
Interim accounts audit			
Our interim fieldwork visits include:	January – March 2017	Not started	
<ul style="list-style-type: none"> • updating our review of the Fire Authority's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 			
Final accounts audit			
Including:	June – July 2017	Not started	
<ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Fire Authority's accounts • proposed Value for Money conclusion. 			

Progress to date



2016/17 work	Planned Date	Complete?	Comments
Value for Money (VfM) conclusion			
<p>The scope of our work to inform the 2016/17 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"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	March – July 2017	Not started	
Annual Audit Letter			
We will summarise all the work completed as part of our 2016/17 audit within one letter which will be issued after the opinion.	October 2017	Not started	
Engagement with the Fire Authority since the last Audit Committee meeting	On-going	On-going	<p>Made ourselves available to speak with the recent peer review team</p> <p>Confirmed the management responses to the recommendations raised in the Audit Findings Report in July</p>

Action plan with management responses

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The pace of change results in these external modifications to working arrangements, partnerships and governance structures will continue to present a significant risk for the Authority going forward and as such, this should remain a key focus for the Authority over the coming months and years.	Medium	Agreed - changes to the Fire Service over the coming months and years will continue to be assessed	On-going and will be reassessed as part of the 2016/17 VFM work The Authority is responsible

Fire Sector Accounting and other issues



CFOA Members vote to change the Articles of Association

CFOA Members have voted on proposals to change the Articles of Association which will change the structure of the Association.

The proposals intend to:

- strengthen the professional / operational leadership of the Fire and Rescue Service
- improve national co-ordination
- reduce duplication; increase efficiency
- support local service delivery
- provide increased influence for Fire and Rescue Authorities and their Services.

The proposals have been approved and the CFOA Board will now begin the process of implementing the changes on behalf of the membership. Key changes include:

- Removal of the term CFOA Board to be replaced with CFOA Trustees,
- Replacing the CFOA President's role as Chair of the CFOA Board with the new role of Chair of Trustees.

- Addition of the role of National Fire Chiefs Council (NFCC) Chair
- Addition of the section on NFCC
- Changing the name of Ordinary membership to Individual membership
- Addition of Professional Partner (PP) to categories of membership
- Changes to reflect the intention that most individual membership subscriptions will be paid for by the relevant Fire Authority as part of the PP package however leaving the option for an individual to choose to pay their own subscription if a service chooses not to be a PP
- Appointment process for Trustees
- Election process for the Vice President Elect removed. Trustees have the powers to determine the election process which provides the flexibility that may be required for future elections.

CFOA will now invite nominations from Chief Fire Officers for the role of Chair of the National Fire Chiefs Council. The Chair will work alongside Dave Etheridge as he takes on the role of President.

Members have also approved a new Code of Ethics and Disciplinary and Appeals Procedure which provides evidence of their commitment to both professionalism and integrity.

CFOA responds to Home Office workforce statistics

The Chief Fire Officers Association (CFOA) has responded to new statistics released by the Home Office which primarily focuses on the make up of English fire and rescue services workforce; focussing on age, religion, ethnicity and sexual orientation.

CFOA is pleased to see more transparency across fire and rescue services and more information available to the public. However, the Association has highlighted austerity measures which led to fire budget cuts of more than £300 million during the last six years (28% of government funding), leading to little recruitment taking place during this period, impacting on progressing workforce diversity.

In addition, the report shows the number of operational staff has fallen by almost a fifth during the last five years, highlighting the scale of reductions across fire and rescue services' workforce.

The figures show in 2015/2016 that:

- Firefighters in England were predominantly male (95%) white (96%) and aged 36 or older (73%)
- 5% of firefighters were women. This was 4.7% in the previous year and 4.1% five years ago

- Of those who stated an ethnicity, 3.8% were from an ethnic minority group (doesn't include all FRSs)
- 3% of firefighters were bisexual, gay or lesbian (doesn't include all FRSs)

Ann Millington, CFOA's Director of People & Organisational Development commented: "All fire and rescue services have undertaken work to change and challenge the views that it is a male profession.

"A lot of work has also been done to encourage more female firefighters along with people from a range of ethnicities and backgrounds to join; helping to ensure fire services are as representative as possible for the communities the serve. Despite austerity measures, services have continued to work on improving diversity through work programmes aimed to change culture and improve development opportunities for staff."

Ann Millington added: "As we widen our role to further expand our health and community work, we need diversity of ideas and skills, along with people who can help us integrate our services with our partners and the communities we serve. We are working together and with the Home office to attract people to our sector.

Full details can be found at: <https://www.gov.uk/government/collections/fire-statistics#fire-and-rescue-authorities-operational-statistics-latest-version>

"We want people to recognise that we can offer a career and a great place to work, while creating equal opportunities for people from different backgrounds; ultimately having a positive impact on the diverse communities we serve."

Dave Etheridge, CFOA's President said: "These figures provide an accurate picture of fire and rescue services at the current time, but also reflect almost seven years of austerity when recruitment was at an all time low and budgets were substantially reduced. A number of services are now recruiting and we will hopefully see a positive change in these statistics in the coming years.

"However the changes are likely to be relatively small to begin with due to building up recruitment levels. We are working hard to ensure we proactively encourage and work with a range of different people to ensure diversity, while breaking myths of what the role of a firefighter entails."



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WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

14 NOVEMBER 2016

1. **TREASURY MANAGEMENT – MID YEAR REVIEW
REPORT 2016/17**

Joint report of the Chief Fire Officer and Treasurer.

RECOMMENDED

THAT the report and Appendix are noted and the prudential and treasury indicators approved.

2. **PURPOSE OF REPORT**

2.1 The Authority agreed its Treasury Management Strategy Statement and Annual Investment Strategy and its Prudential Indicators in February 2016. Part of the requirements of the Treasury Strategy and Prudential Code are that periodic reports are presented to Members.

2.2 The mid-year review report outlines the performance of the Treasury Management function of the Authority in the current financial year.

3. **BACKGROUND**

3.1 The Authority is required to produce a mid-year report of Treasury Management activity in the current financial year.

3.2 Appendix 1, the mid-year Review Report 2016/17 meets the requirement of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code of Capital Finance in Local Authorities (the Prudential Code). The Authority is required to comply with both Codes through regulations issued under the Local Government Act 2003.

4. **EQUALITY IMPACT ASSESSMENT**

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

5. **LEGAL IMPLICATIONS**

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

6. **FINANCIAL IMPLICATIONS**

These are contained in the body of the report and the attached Appendix.

BACKGROUND PAPERS

Authority's Budget and Precept Report – February 2016

The contact name for this report is the Deputy Chief Fire Officer Philip Hales, telephone number 0121 380 6907

PHIL LOACH
CHIEF FIRE OFFICER

MIKE GRIFFITHS
TREASURER

WEST MIDLANDS FIRE SERVICE



Treasury Management Strategy Statement and Annual Investment Strategy

Mid-year Review Report 2016/17

1. Background

The Authority operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning to ensure the Authority can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Authority risk or cost objectives.

As a consequence treasury management is defined as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

2. Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011 has been adopted by this Authority.

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.
- Receipt by the Authority of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year.

- Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Authority the delegated body is the Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first six months of 2016/17;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Authority's capital expenditure (prudential indicators);
- A review of the Authority's investment portfolio for 2016/17;
- A review of the Authority's borrowing strategy for 2016/17;
- A review of any debt rescheduling undertaken during 2016/17;
- A review of compliance with Treasury and Prudential Limits for 2016/17

3. Economic update

Economic performance to date and outlook

UK: UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

The Bank of England meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to

Ref: AU/AC/KS/

0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

USA: The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Fed. embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

Europe: In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

Capita Asset Services interest rate forecast

Treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Bank Rate	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.25%	0.25%	0.25%	0.25%	0.25%
6m PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
12m PWLB rate	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%	1.20%
30yr PWLB rate	2.20%	2.20%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%
50yr PWLB rate	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%

Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates.

4. Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by the Authority on 15th February 2016. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Prudential Indicator 2016/17	Original Prudential Indicator	Revised Prudential Indicator
Authorised Limit	£47m	£47m
Operational Boundary	£43m	£43m
Capital Financing Requirement (31.3.16)	£40m	£40m

5. The Authority's Capital Position (Prudential Indicators)

This section of the report provides an update on:

- The Authority's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

Prudential Indicator for Capital Expenditure

The table below shows the capital programme which was approved by the Authority 15th February 2016, it has since been revised to reflect the impact of capital expenditure and financing decisions in 2015/16.

Capital Expenditure 2016/17	Approved Feb 2016 £000	Revised Estimate £000	Forecast Outturn £000
Land & Buildings:			
Coventry Fire Station	2,500	2,412	2,412
Aston Fire Station	200	191	50
Training at Heights Facilities	363	363	363
Boiler Replacement Programme	303	306	306
Roof Replacements	132	132	14
Windows & Door Replacements	131	131	131
Rewires	145	210	210
Dignity at Work	0	4	4
Haden Cross Fire Station	0	49	50
X-Plan	300	299	299
Bilston Modification Works	90	90	88
Secondary Control Room Relocation	0	500	500
Vehicles:			
Vehicle Replacement Programme	2,318	3,007	2,476
ICT & Equipment:			
MDT Upgrade/Replacements	0	310	300
Oracle Licensing	0	25	25
PBX Upgrade	0	54	54
Total	6,482	8,083	7,282

Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Authority by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure 2016/17	Approved Feb 2016 £000	Revised Estimate £000	Forecast Outturn £000
Total Spend	6,482	8,083	7,282
Financed by:			
Capital Receipts	1,105	1,105	1,105
Capital Grants / Contributions	1,025	2,635	2,635
Revenue Contribution to Capital	4,352	4,343	3,542
Total Financing	6,482	8,083	7,282
Borrowing Need	0	0	0

Changes to the Prudential Indicators for the CFR, External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

Prudential Indicator – CFR

The Authority is on target to achieve the original forecast CFR.

Prudential Indicator – External Debt / the Operational Boundary

	2016/17 Original Estimate	2016/17 Revised Estimate
Prudential Indicator – CFR		
Total CFR (31.3.16)	£40m	£40m
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	£43m	£43m
Total debt 31 March 2016	£40m	£40m

Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Authority has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2016/17 Original Estimate	2016/17 Revised Estimate
Gross borrowing (Excluding Ex WMCC)	£36m	£36m
CFR (31.3.16)	£40m	£40m

The Treasurer reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2016/17 Original Indicator	2016/17 Revised Indicator
Borrowing	£47m	£47m

6. Investment Portfolio 2016/17

In accordance with the Code, it is the Authority's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Authority's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

The Authority held £76m of investments as at 30 September 2016 (£56m at 31 March 2016) and the investment portfolio yield for the first six months of the year is 0.41% against a benchmark (average 7-day LIBID rate) of 0.28%.

The Treasurer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2016/17.

The Authority's budgeted investment return for 2016/17 is £0.2m, and performance for the year to date is in line with the budget.

Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

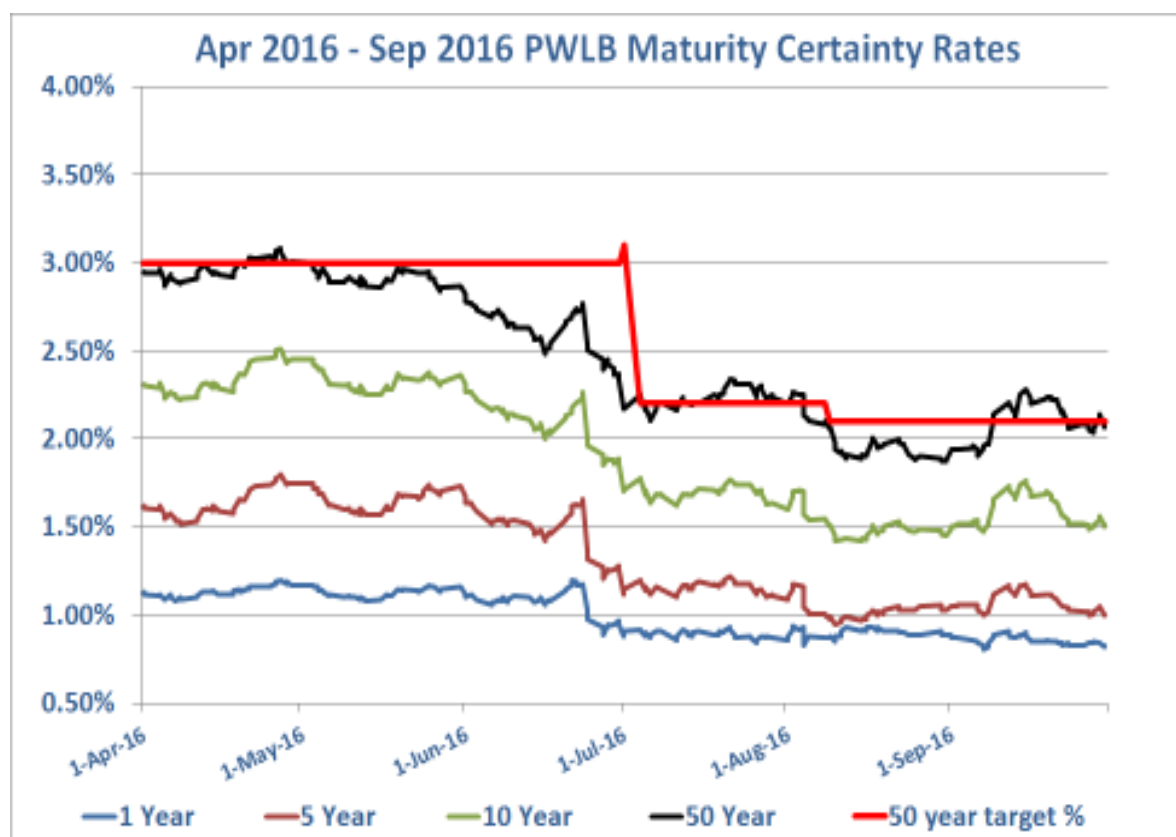
Ref: AU/AC/KS/

7. Borrowing

The Authority's CFR for 2016/17 is £40m (31.3.16). The CFR denotes the Authority's underlying need to borrow for capital purposes. If the CFR is positive the Authority may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

It is not anticipated that borrowing will be undertaken during this financial year however this requirement will be monitored by the Treasurer as part of the capital financing decisions.

The graph below show the movement in PWLB rates for the first six months of the year (to 30.9.16):



8. Debt Rescheduling

No debt rescheduling was undertaken during the first six months of 2016/17. The Treasurer will continue to monitor opportunities for restructuring the Authority's debt during the remainder of the year.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

14 NOVEMBER 2016

1. **ARRANGEMENTS FOR THE APPOINTMENT OF
EXTERNAL AUDITORS**

Joint report of the Chief Fire Officer and Treasurer.

RECOMMENDED

THAT the Audit Committee considers options available and approve a preferred option to put in place new arrangements to make an appointment by 31 December 2017.

2. **PURPOSE OF REPORT**

- 2.1 This report summarises the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.
- 2.2 The Audit Committee and Authority will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.
- 2.3 Members of the Audit Committee are requested to consider their preferred approach of either:
 - (a) Supporting the Local Government Association (LGA) in setting up a national Sector Led Body by indicating intention to “opt-in”
 - (b) Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Authority.
 - (c) Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities

- (d) Using an existing independent panel of the authority (this will only be applicable where a suitably constituted panel already exists).

2.4 A further report on the preferred approach will be presented to the Authority at its meeting on 20th February 2017.

3. **BACKGROUND**

3.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

3.2 The Authority's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State CLG. Over recent years the Authority has benefited from reduction in external audit fees. This has been as a result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission. The Authority's current external audit fees for 2016/17 are £38,636.

3.3 When the current transitional arrangements come to an end on 31 March 2018 the Authority will be able to move to local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.

- 3.4 The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Authority's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Authority. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

4. **OPTIONS FOR LOCAL APPOINTMENT OF EXTERNAL AUDITORS**

- 4.1 There are three broad options open to the Authority under the Local Audit and Accountability Act 2014 (the Act):

Option 1 To make a stand-alone appointment

- 4.2 In order to make a stand-alone appointment the Authority will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Authority's external audit. A new independent auditor panel established by the Authority will be responsible for selecting the auditor.

Advantages/benefit

- 4.2.1 Setting up an auditor panel allows the Authority to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

- 4.2.2 Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances
- 4.2.3 The Authority will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 4.2.4 The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2 Set up a Joint Auditor Panel/local joint procurement arrangements

- 4.3 The Act enables the Authority to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Authority under the Act and the Authority need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages/benefits

- 4.3.1 The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.
- 4.3.2 There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

- 4.3.3 The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Authority, depending on the constitution agreed with the other bodies involved.

- 4.3.4 The choice of auditor could be complicated where individual Authorities have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Authority. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this Authority then the Authority may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3 Opt-in to a sector led body

- 4.4 In response to the consultation on the new arrangement the LGA successfully lobbied for Authorities to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Advantages/benefits

- 4.4.1 The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.
- 4.4.2 By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.
- 4.4.3 Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.
- 4.4.4 The appointment process would not be ceded to locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities. The LGA are considering setting up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

Disadvantages/risks

- 4.4.5 Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- 4.4.6 In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Authorities to indicate their intention to opt-in before final contract prices are known.

5. **THE WAY FORWARD**

- 5.1 The Authority has until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.
- 5.2 The LGA are working on developing a Sector Led Body. In a recent survey, 58% of respondents expressed an interest in this option. Greatest economies of scale will come from the maximum number of Authorities acting collectively and opting-in to a SLB. In order to the strengthen the LGA's negotiating position and enable it to more accurately evaluate the offering the Authority is asked to consider whether it is interested in the option of opting in to a SLB. A formal decision to opt-in will be required at a later stage.

6. **RISK MANAGEMENT**

- 6.1 There is no immediate risk to the Authority, however, early consideration by the Audit Committee of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.
- 6.2 Providing the LGA with a realistic assessment of the likely way forward will enable the LGA to invest in developing appropriate arrangements to support the Authority.

7. **EQUALITY IMPACT ASSESSMENT**

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

8. **LEGAL IMPLICATIONS**

- 8.1 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements;
- 8.2 Section 12 makes provision for the failure to appoint a local auditor: the authority must immediately inform the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor on behalf of the authority.
- 8.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person.

9. **FINANCIAL IMPLICATIONS**

- 9.1 Current external fees levels could potentially increase when the current contracts end in 2018.
- 9.2 The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above will need to be estimated and included in the Authority's budget for 2017/18. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.

- 9.3 Opting-in to a national SLB provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

BACKGROUND PAPERS

Minute No. 6/16 Audit Committee 18 January 2016

The contact name for this report is Philip Hales, Deputy Chief Fire Officer, telephone number 0121 380 6907.

PHIL LOACH
CHIEF FIRE OFFICER

MIKE GRIFFITHS
TREASURER

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

Item 8

14 NOVEMBER 2016

1. CORPORATE RISK BRIEFING DOCUMENT FOR WEST MIDLANDS FIRE AND RESCUE AUTHORITY

Report of the Chief Fire Officer

RECOMMENDED

THAT the Committee note and discuss the Audit Committee Corporate Risk Briefing Document attached as an Appendix.

2. PURPOSE OF REPORT

This update is provided to keep Audit Committee Members informed of a change to an overall risk rating. This provides the Audit Committee with the opportunity to engage in and influence more open discussion regarding how the risk is being managed. A Corporate Risk briefing has been included as an appendix to this report for discussion by the Audit Committee. This briefing focuses on Corporate Risk 4.1.

3. BACKGROUND

- 3.1 In order to ensure that Audit Committee Members continue to remain informed on Corporate Risk matters, the Strategic Enabler for Protection has provided a Corporate Risk Briefing Document. It is the intention of the Corporate Risk owners to provide an update at the Audit Committee meetings if a Corporate Risk changes.
- 3.2 The briefing document provides the Audit Committee with details for the increase in Corporate Risk 4.1, Delivery of Services – Protection.
- 3.3 A representative from the Strategic Enabling Team will be in attendance at the meeting to discuss the briefing document 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

Frequency of Risk Reporting to Audit Committee, Audit Committee Report, 11th April 2016.

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

PHIL LOACH
CHIEF FIRE OFFICER

CORPORATE RISK: AUDIT COMMITTEE BRIEFING

Report by Strategic Enabler for Protection

Corporate Risk 4

Delivery of Services – Protection 4.1

“The Fire Authority is unable to effectively discharge its duties under the Regulatory Reform (Fire Safety) Order and associated legislation, resulting in a decline in non-domestic fire safety standards; reduced confidence and credibility; and increased litigation and reputational damage”.

Context

Contained within the National Framework for Fire and Rescue Services 2012, is the expectation that Fire Authorities (Section 1.10) will:

“Set out its management strategy and risk based programme for enforcing the provisions of the Regulatory Reform (Fire Safety) Order 2005 in accordance with the principles of better regulation set out in the Statutory Code of Compliance for Regulators, and the Enforcement Concordat”.

Within West Midlands Fire Service, we have internally developed and implemented a bespoke piece of software which serves the purpose of our risk based programme. The software is called the Intelligence Led Audit Programme (ILAP) and is designed to take a wide range of factors into account in order to determine relative risk thereby supporting decision making in terms of resource allocation; in essence highlighting premises that are suitable for an audit/inspection from a Fire Safety Officer.

The software was an evolution of a previous system and has been in the service for a number of years.

Concerns

As detailed above, the software is designed to utilise a wide range of data to determine a relative risk score and provide intelligence for Fire Safety Officers. However, it has been identified that there are significant gaps in the data that we hold which is required to enable the software to accurately assess risk and inform our Protection activities. In addition, evaluation has shown that certain data sets are weighted too heavily within the risk calculation, resulting in premises being identified that if visited would not represent the best use of resources and potentially cause unnecessary disruption to businesses.

The organisational awareness around the fact that ILAP is not accurately identifying the most suitable premises for Fire Safety Officers to visit, means that there is a corporate risk that we are not fully meeting the expectations prescribed within the National Framework.

Impact on Corporate Risk

There has been awareness of the deficiencies with the system within the organisation for a considerable period of time (18 months) with mitigating steps put in place to reduce the risk on a temporary basis. Although there is still confidence in the steps taken to respond to the prevailing risk, because of the protracted time period in addressing the risk in a permanent manner, it is now appropriate to raise the likelihood factor associated with Corporate Risk 4.1 from 2 to 3. This has the overall impact of increasing the risk score from 4 to 6 moving it from a low risk to a medium risk and ensuring a quarterly review takes place.

How we are responding to the Risk

- Utilising “Command Risk Profiles” that have been produced by the Integrated Risk Management Team to provide information and intelligence for Fire Safety Officers to identify risk within their command area.
- Collecting performance information to understand how effectively we are using the command risk profiles.
- Developing a revised ILAP system that will address the issues identified and enhance the current system.
- Working with data providers (e.g. Experian) to understand what data they can provide and how it can be kept current and updated.
- Revising the Fire Safety Strategy (yet to be approved at SET) which will determine a schedule of inspection over the next three years to increase our inspections over the next three years to compensate for these concerns.

WEST MIDLANDS FIRE AND RESCUE AUTHORITY ^{Item 9}

AUDIT COMMITTEE

14 NOVEMBER 2016

1. BREACH OF DISCLOSURE REGULATIONS

Report of the Chief Fire Officer.

RECOMMENDED

- 1.1 THAT the Audit Committee, as Scheme Manager for the Firefighters Pensions Schemes, notes the content of this report.
- 1.2 THAT the Audit Committee considers the recommendations in relation to the Breach of Disclosure Regulations and either:
 - confirms its support for the recommendations identified at 1.3,
 - or
 - provides additional guidance to the Pension Board and asks them to reconsider in line with their guidance.
- 1.3 A summary of the recommendations is as follows:
 - 1.3.1 To ensure that processes, set out in Appendix 2, are in place to avoid a recurrence of the delay when statements are issued in 2017.
 - 1.3.2 The Scheme Administrator to consider the option of a self-service system.
 - 1.3.3 The Pension Board, at their next meeting, to consider their Terms of Reference in respect of the reporting of breaches of the law to The Pensions Regulator.
 - 1.3.4 A Risk Register is added as a Standing Item on future Pension Board Agenda.

2. **PURPOSE OF REPORT**

This report is submitted to the Audit Committee, as Scheme Manager of the Authority's Fire Pension Schemes, to consider the recommendations of the Pension Board in relation to the Disclosure Regulations breach. The Committee should either accept the recommendations of the Pension Board or provide additional guidance to the Pension Board and ask the Board to reconsider in line with the guidance provided.

3. **BACKGROUND**

- 3.1 The role of the Pension Board is to assist the Scheme Manager secure compliance with Scheme regulations, the Pensions Regulator and other specified matters.
- 3.2 The Scheme Manager has agreed the 'Terms of Reference' for the Pension Board.
- 3.3 As part of the 'Terms of Reference' the Scheme Manager may refer matters to the Pension Board for its consideration and recommendation.
- 3.4 The Pension Board will make a recommendation to the Scheme Manager.
- 3.5 The Scheme Administrator notified the Scheme Manager and Pension Board of a breach to the disclosure regulations. Further information is:
 - 3.5.1 West Midlands Fire Service has a Statutory obligation under The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 and The Public Sector Pensions Act 2013 to provide an Annual Benefit Statement to all active member of each of the Firefighters Pension schemes no later than 31st August each year.
 - 3.5.2 This briefing note is provided to the Pension Board to inform them of the breach, provide an explanation of the causes of the breach, and outline remedial action being taken to prevent a recurrence in subsequent years.
- 3.6 It was agreed that the Pension Board would have an extraordinary meeting to consider the report of the Scheme Administrator and make recommendations to the Scheme Manager.

- 3.7 The Scheme Administrator's report presented to the Pension Board at its extraordinary meeting is attached at Appendix 1.
- 3.8 The notes of the extraordinary Pension Board Meeting which include the Pension Board recommendations is attached at Appendix 2.

4. **EQUALITY IMPACT ASSESSMENT**

An initial Equality Impact Assessment has been completed for the Terms of Reference for the Pension Board which has not identified any concerns requiring a full Equality Impact Assessment.

5. **LEGAL IMPLICATIONS**

The Public Services Pensions Act 2013 outlines the role of the Pension Board.

6. **TRADE UNION CONSULTATION**

The Trade Unions were engaged and consulted on the Services approach to implementing the Pension Board.

7. **FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

The contact name for this report is Philip Hales, Deputy Chief Fire Officer, telephone number 0121 380 6907.

BACKGROUND PAPERS

Public Services Act 2013
West Midlands Fire Service Pension Board Terms of Reference
The Pensions Regulator

Briefing Note – Breach of Disclosure regulations
Failure to issue an Annual Benefit Statement to all scheme members by
31st August 2016

1. Background

West Midlands Fire Service has a Statutory obligation under The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 and The Public Sector Pensions Act 2013 to provide an Annual Benefit Statement to all active member of each of the Firefighters Pension schemes no later than 31st August each year.

Failure to meet the required obligation must be reported to The Pension Regulator.

The responsibility for monitoring compliance with the regulations is vested in the Local Pension Board.

This briefing note is provided to the Pension Board to inform them of the breach, provide an explanation of the causes of the breach, and outline remedial action being taken to prevent a recurrence in subsequent years.

2. Causes

Annual Benefit Statements are produced by West Midlands Fire Service Pensions section using the ALTAIR System provided to them under licence from Aquila Heywood Plc. As the 2016 Annual Benefit Statements were the first to be issued since the implementation of the 2015 Firefighters Pension Scheme a software update was required from the system supplier before production of the statements could begin.

The software update was provided to West Midlands Fire Service on Friday 29th July 2016.

In addition to the ability to produce the Annual Benefit Statements this update also enabled Authorities to extract the data required by the Government Actuaries Department for the 2016 valuation exercise. This data was required by 12th August and was produced and submitted by 5th.

Owing to Annual Leave commitments work on the Annual Benefit Statements was then begun on Monday 15th August.

Production of the statements needed to be done in four separate batches to account for the following membership types;

- a) Fully Protected 1992 scheme members
- b) Fully Protected 2006 scheme members
- c) Members of the 1992 or 2006 scheme who had joined or would join the 2015 scheme before retirement
- d) Members of the Modified Pension scheme

Whilst production of the statements for the first two batches was a simple matter of running the process used in previous years this was not the case for those members of the third or fourth groups.

When producing the statements the process operated as follows;

1. Relevant members were selected
2. Statements were produced
3. Spot checking of Statements took place
4. Errors detected were reported to system supplier. Owing to timescales the system supplier did not fix these errors but simply advised on a work around.
5. Work around was implemented
6. Process returns to point 2 until no errors are detected.
7. Statements are printed
8. Statements are issued by registry

Following this process from step 1 to 5 could take up to a week depending on the number of errors found and the speed with which a work around was notified.

Processing benefit statements for groups a to c took until 9th September and the statements then took a further two weeks to be distributed via registry. The statements for group d were manually produced and issued via email on 20th September.

3. Action to prevent a recurrence in 2017

To avoid a recurrence of the delay when statements are issued in 2017 the following process will be used.

1. Membership data will be checked during the period January to March 2017. This is to ensure that all records are updated as needed with the correct scheme information.
2. Discussions will take place with the Admin team to ensure that they will have an appropriate level of staff availability to envelope and distribute the statements.
3. The documents to be produced will be reviewed during March 2017 to ensure that they are as uniform as possible and hold all the required data.
4. Payroll data will be loaded to ALTAIR at the earliest opportunity after 31st March 2017.

5. A test batch of statements for each of the 4 groups will be produced by 30th April 2017. Any errors will be notified to Aquila Heywood as soon as discovered and a fix will be requested.
6. An informal Pension Board meeting will be held during May to monitor progress of this action plan and to consider alternative solutions should any issue be encountered.
7. The test batch will be reprocessed following delivery of any fix.
8. If no errors remain unfixed statements will be printed during July 2017 and issued during August to ensure receipt prior to 31st.
9. If errors remain at 30th June these will be escalated to Aquila Heywood management team and statements will be produced for all members unaffected during July as planned.
10. Any statements which are still in error at 31st July will be amended and issued manually.

Notes of the Extraordinary Pension Board

Tuesday 25 October 2016 at 1400 hours
at Fire Service Headquarters, Vauxhall Road, Birmingham

Present:	Andy Dennis - Wendy Browning-Sampson Kal Shoker	Employee Representative Employer Representative Employer Representative
Apologies:	Stuart Bourne	Employee Representative
Officer:	Paul Gwynn Pension Advisor	Payroll and Pension Manager

1. Request for a Volunteer to Chair the Meeting

Wendy Browning-Sampson informed the Board of the resignation of the Independent Chair, David Wilkin, from the Board and asked for a volunteer to act as Chair of meeting.

The Independent Chair had recently resigned and the Board were in the process of recruiting a new Independent Chair.

Andy Dennis volunteered to Chair the meeting and this was accepted by the Board.

It was agreed that if another meeting of the Board was required before a new Independent Chair was appointed, that an Employer Representative would act as Chair.

2. Declarations of Interest

Andy Dennis declared an interest in that he was in receipt of a Fire Service Pension.

3. Breach of Disclosure Regulations – Failure to issue an Annual Benefit Statement (ABS) to all scheme Members by 31 August 2016

The Board received a briefing note from the Pension Advisor and a discussion took place on the timescales involved and the implications of the software update from the software supplier Aquila Haywoods plc, which contributed to the delay in issuing the Annual Benefits Statement.

It was noted that the Pensions Section were aware earlier in the year of the requirements to provide data to GAD and annual benefits statements at or around the same time in August 2016.

Clair Alcock, the Pension Adviser had highlighted to authorities and GAD, that the timeframes would be difficult and were advised to pre warn the Regulator of the potential risk.

Haywoods suggested two possible dates for the upgrade, either June or August. The Pensions Section opted for the August date for the software update as did many other clients to enable as many fixes to be resolved before the final preparation of ABS.

There were a number of problems with the software, and Haywoods suggested some “work around” resolutions, some of the batches contained incorrect information and had to be reprinted and a decision was made to send all of the statements out at the same time rather than separately. The team wanted to concentrate on finalising all the statements rather than dealing with queries in between sending batches of ABS.

Feedback indicated that Members of the various Pension Schemes have been delighted to receive their statements and the Pensions Section have not received any complaints about the delay and there has not been any adverse impact on Members.

The Pension Board discussed delays in Registry and suggested that this workload should be built into future timelines and workloads.

The Board also discussed the benefit of sending the statements electronically and asked the Pension Manager to investigate this option for the future.

The contract with Haywoods was considered and the Board were informed that this service was purchased through the Northumberland Collaborative framework. A user group negotiates and the licencing costs were based on the number of people in the scheme. It was noted that approximately 75 – 80% of fire services use the Haywoods system, with 40% of Police Services and a smaller number of Local Government Pension Schemes. The remaining contract timelines with Haywoods would also be checked.

Paul Gwynn and Kal Shoker had attended the Firefighters Pension Scheme Annual General Meeting on the 11 October 2016 and it was reported that a number of authorities had also failed to meet the requirement to issue ABS by 31 August 2016. This was mainly caused by the quality of data and/or the software issues. The West Midlands Fire Service issues were mainly caused by the software.

A Public Service toolkit, giving examples of the law and the traffic light Framework provided by The Pension Regulator was circulated to the Members of the Board. The Board felt that the Statements that had been prepared early should have been sent out to mitigate the issue being determined as a red traffic light breach.

It was also felt that an email could have been sent out to Members informing them of the delay.

It was noted by the Members of the Board that breaches are covered by the Terms of Reference but the process of informing the Regulators is not included. The Terms of Reference would be amended and approved by the Pension Board at their next meeting to resolve this issue.

It was felt that a Risk Register should be created and any issues/breaches can be recorded in future. The Risk Register would be added as a standing item to the agenda of future Pension Boards.

It was agreed that the members of the Pension Board would meet in May to receive an update of the latest position in respect of the issue of Annual Benefit Statements in August 2017.

The Pension Advisor would look at the Service Legal Agreement with Haywoods and the Pensions Board requested that the Advisor examine the option to provide a self-service ABS and explore the option to use alternative suppliers.

The Board agreed the Action Plan outlined in the Briefing note as a way forward and The Board agreed to prepare a report for the Audit Committee meeting scheduled to take place on the 14 November 2016. The report would include the Pension Advisor's briefing note and would also include the Notes of the extraordinary Pension Board meeting held on the 25 October 2016.

The meeting closed at 1540 hours.

Julie Connor Strategic Hub 0121 380 6906 Julie.Connor@wmfs.net

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

14 NOVEMBER 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 2016/17 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 October 2016 Audit Committee – 14 November 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 2016/17 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:

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

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

[ILO: UNCLASSIFIED]

[ILO: UNCLASSIFIED]

2 Summary of work completed and in progress @ 31 October 2016

Auditable Area	ANA Rating	Suggested/Agreed Actions					Level of Assurance
		Fundamental	Significant	Merits attention	Total	Number accepted	
Completed:							
Accounts Receivable	KFS	-	-	-	-	-	Substantial
Accounts Payable	KFS	-	-	-	-	-	Substantial
In progress:							
Fixed Asset Accounting/Asset Planning	KFS						
Payroll	KFS						
Data Protection	Medium						
IT	High						

Key: KFS = Key Financial System

[ILO: UNCLASSIFIED]

3 Issues arising

Accounts Receivable

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

Accounts Payable

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

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. Internal Audit is facilitating this exercise.

CIPFA – Audit Committee Updates

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

Audit Committee – Terms of Reference

We submitted the Audit Committee Terms of Reference for annual review at the April 2016 meeting of the Audit Committee.

Internal Audit Plan 2016/17

We submitted the Internal Audit annual plan for 2016/17 to the committee for approval at the April 2016 meeting.

Internal Audit Annual Report 2015/16

We presented the Internal Audit annual report for 2015/16 to the committee for comment and approval at the June 2016 meeting.

Audit Committee Annual Report

Assistance was provided in the preparation of the Annual Report of the Chair, on the work of the Audit Committee.

Counter Fraud

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

5 Service quality questionnaire feedback

Overall Satisfaction with Audit Services

Average Score

No SQQs
received to date

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

Minutes of a Meeting of the Pensions Board

11 July, 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 Paul Gwynn (Adviser)

Apologies: Mr Stuart Bourne

9/16 Declarations of Interest

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

10/16 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.

Actions arising from the Minutes:

- Action 1 The Adviser had provided a one page guide on each pension scheme identifying the differences between the Schemes which would be discussed under item 5 of the agenda.
- Action 2 The outcome of the Audit Review of the Pensions Section would be discussed during the meeting.
- Action 3 A breakdown of new recruits and details of the Opt Out rate for new recruits would be provided in item 6 of the agenda, Pension Section Supporting Information.
- Action 4 Response times to enquiries for pension information being achieved by Greater Manchester Fire and Rescue Service Pensions Team would be provided during item 6 of the agenda, Pension Section Supporting Information.
- Action 5 The Pension Board had requested that sample checking of pension records for deferred members be undertaken. It had

been confirmed that the Auditor could charge for the additional work. It was confirmed that it would be not be possible to work with the Police to undertake this task but it may be possible to work with another Fire Service. The action was agreed as ongoing.

Action 6 The Adviser had continued to liaise with the members of the Pension Board and update them on any changes as they occurred.

Action 7 Wendy Browning-Sampson confirmed the date for the regional training was 3 September.

Action 8 The Adviser had received a reply regarding one case following the outcome of Gad v Milne which would be reported during the meeting.

11/16 Discretions Policy

The Discretions Policy had been submitted to the Audit Committee for approval. The Committee had enquired about arrangements in the eventuality of a person dying which had been clarified. A number of minor changes had been requested although the changes were regarding housekeeping.

In answer to members' questions, the following points were raised:

- Continued Professional Development (CPD) was pensionable for members on the 92 to 2006 scheme.
- In response to a question regarding whether CPD was on the Additional Pension Benefit (APB) rate, it was confirmed that pensionable pay was not on the APB rate.
- The discretions were largely in line with other Services and although there were a number of small differences, it was unlikely that there would be differences surrounding what was pensionable, and what wasn't.
- It was considered that there were no discretions that could potentially be troublesome or concerning although it could be a case of having to wait for the policy to be tested.
- If a discretion is used and a member was to complain as a result, there is an issue if it is found that the discretion was not necessary.

- If a discretion will impact on a living member, any decision made will consider what is best for the member. Issues only arise when a member is deceased.
- Wendy Browning-Sampson stated that communication was key and that better information should be made available.
- The Chair asked the Adviser to publish the link to the Discretions Policy

12/16 Comparison of available Pension schemes

The comparison of available pension schemes was submitted to the Board as a result of Action 1 from the previous meeting.

The Adviser confirmed that members receive details of the scheme they are on. The scheme members are on is obligatory (a member cannot choose which scheme they wish to be on).

In answer to members' questions, the following points were raised:

- There was the potential for members to be on different schemes if they held wholetime and retained duty system roles, although such a member would have no choice about which scheme they would be on.
- The retirement age under the 92 to 2006 scheme is 55 and therefore, 50 would be classed as early retirement.

13/16 Pension Section Supporting Information

The Adviser advised that the Pension Section Supporting information report looked at the previous twelve month period, from May 2016. The report noted that there were 32 new joiners during this period, however this was 32 new joiners to the pension scheme, and not necessarily 32 new joiners to the Service. The new joiners could include members of staff returning from career breaks.

In answer to members' questions, the following points were raised:

- In response to a question asking if the number of pensioners under the 2006 scheme would grow, it was confirmed that the numbers would grow but not by many.
- The reasons for members deferring was not necessarily known.
- There would eventually be no active users in the 2006 scheme.
- It was possible that a person who had previously left the 2006 scheme and who had re-joined another Service could qualify for

the 2015 scheme, or could fall under the 2006 scheme as protection.

- In response to a question regarding why people were being recorded as deferred when the Service would not be paying their pensions, it was confirmed that this was largely due to various anomalies, for example, persons leaving and then re-joining.
- It was confirmed that the number of ill-health retirements (6 in total) was slightly higher than normal. It was noted that ill-health retirements can sometimes be awarded after a person has been retired, for example via the outcome of an appeal.
- In response to a question asking for clarification over who or what was considered to be 'other leavers', it was confirmed that these were people who were not due to leave but had left and these basically become the same as those who are classed to have deferred.

Paragraph 2.2 of the report, the breakdown of pension information requests, reflected that the average response time to requests had decreased. The Adviser explained that this was due to the work being carried out on the backlog.

The Chair asked what actions had been implemented to resolve this.

The Adviser explained that requests were being monitored closely. It was noted that there were potentially more issues in the coming months due to a lack of staff and an increase in the number of requests from within the Wolverhampton area. Additionally, regulations had changed regarding transfers creating more work. As a result, the administration system needed to be reprogrammed to reflect these changes, with tasks taking longer to complete in the meantime.

The Chair asked how these changes and decrease in response times had been communicated to members and how it had been received.

The Adviser explained that this had yet to be communicated to members and that he would speak with Mike Griffiths, Strategic Enabler of Finance and Resources, with regard to this. In terms of capacity, there is a service that the Pensions section would like to provide, a service that the section can provide, and a service which the section has to provide to meet the statutory requirements. It was advised that the Pensions Section currently fulfilled the statutory requirements. The annual benefits statement could be completed but any further work could prove difficult, although the statements are backed up by a number of pension seminars.

The Adviser confirmed that 31 August remained the target for the issue of annual benefit statements to all members and that the work being

undertaken to meet the deadline was on target with statements expected to be sent out July / August.

In response to a question asking if the statements were issued electronically or via hard copy, the Adviser confirmed that hard copies would be issued. Issuing electronic copies was possible but it could affect timescales due to the time taken to load the relevant data onto the system. However, it could be an intention for next year.

Kal Shoker enquired if it was possible to send out more information such as a questions and answers document. The Adviser advised that this could be done but only to a certain extent because the information required could vary from one member to another as it was generally quite personalised.

With regard to which members were asking for benefits estimates, the Adviser explained that requests were predominantly from members who had gone into the 2015 scheme.

The Chair asked if the figures quoted in the report reflected one quote per person and if there were any limits to demands. The Adviser explained that yes, it generally was one quote per person, however anyone could access / request information regardless of time served / age. Additionally, members automatically received a benefits estimate prior to their retirement. In terms of time taken to process such requests, it could take up to 3 months although this could be shorter dependent on circumstances, for example if a person was leaving the Service within a month.

The Adviser informed the Board progress against Action 4 from the previous meeting:

- Greater Manchester Fire and Rescue Service (GMFRS) Pensions Team had been contacted with regard to response times to enquiries for pension information. The GMFRS Pensions Team had confirmed that they did not monitor key performance indicators and this was tied in with how the team used to be set up which was paper based. However, response times could be determined using service history.

14/16 Training

- LGA Training

Wendy Browning-Sampson advised that Hereford & Worcester Fire and Rescue Service (HWFRS) were hosting the training opportunity. The training was for the new members of the HWFRS Pension Board plus existing members.

The Chair confirmed that members of the Pension Board should attend but it would be useful for Wendy Browning-Sampson to obtain and

circulate the checklist which would help steer the training and ensure it was meaningful.

Wendy Browning-Sampson advised that she would speak with Human Resources representatives in the region to identify what their respective Services were doing. There was the potential for members of the different Services' Pension Boards to attend the Pension Board meetings of other Services (as long as there was an appetite for this to be undertaken).

Andy Dennis enquired what status would members attend in when attending the Pension Board meetings of other Services.

The Chair advised that members would attend as observers.

Andy Dennis asked if members would have to declare a declaration of interest being on a Pension Board.

The Chair confirmed that there would be no requirement for a declaration of interest to be made.

- Attendance of Pensions Adviser and KPMG at a future meeting

The Chair stated that KPMG should only attend a future meeting when required and for the members of the Board to remain mindful of the need to call them in when needed.

Wendy Browning-Sampson agreed and suggested the use of KPMG as a group in the region, to minimise cost.

15/16 Annual Effectiveness Assessment

No specific areas were identified by the Board.

The Chair noted that as a committee, the Board were continuing to attend as a quorum.

It was noted that it would be interesting to see how other Pension Boards operated.

The Chair suggested that there was a need to ensure that the Board was calibrated around the terms of reference and that it needed to be useful for the Scheme Manager.

16/16 Update on Topical, Legal and Regulatory Issues

- 1992 Scheme – 20 Year Issue

The Adviser informed the Board that with regard to the 1992 Scheme 20 year issue, whereby the Government had ruled that it was illegal

under the Age Discrimination Act, the rules had been agreed in December 2015 with a publication deadline of May 2016. However, the rules had still not been published. The draft regulations have been made available for guidance. The Government had widened out the scope to include any member who had completed 30 years before the age of 50, including transferees.

As a result, there are approximately 500 members affected within West Midlands Fire Service (WMFS). Potential problems include:

- Shortage of staff within the Pensions Section
- It may not be possible / may not happen
- It could happen at the same time as the processing and issuing of the annual benefit statements

The Pensions Section were waiting for the publication of the regulations and once published, communication with members would commence.

In response to a question asking if the scale would be similar to the outcome of *Gad v Milne* in terms of numbers and cost, it was confirmed that the numbers would be approximately the same but the cost would be lower.

Wendy Browning-Sampson raised the issue experienced at Shropshire Fire and Rescue Service regarding retired firefighters and benefits being incorrectly paid, and asked if it could happen within WMFS.

The Adviser explained that there were potentially two possibilities where an issue could occur:

- Firstly, under the guaranteed minimum pension (1978 to 1992), if contracted out, a person must earn a certain amount, and there could be a potential issue with members on the retained duty system and that the figures could be wrong.
- Secondly, a zero pension increase and / or a rise in state benefits could cause this but it is not believed that this is an issue within WMFS

Andy Dennis enquired if, in terms of the retained duty system, the modified scheme was a contracted out scheme.

The Adviser explained that the scheme could potentially be contracted out or contracted in.

- Scheme Advisory Board

The Scheme Advisory Board which had been published by the Firefighters Pension Scheme Advisory Board Secretariat was considered by the Board:

- Kal Shoker would liaise with Mike Griffiths regarding the conference call to each Chair of a Pension Board (referenced on page 2 of the Scheme Advisory Board document)
- A survey would be sent to the Pension Board to complete
- Members of the Board had familiarised themselves with the annual benefit statements
- The Board was already aligned with the regional groups
- Members were welcome to attend the national two day event on 10 and 11 October 2016 (it was noted that this was already carried out via the attendance of the regional group which fed into the Firefighters Technical Group)
- Meetings of the Pension Board would be moved, where applicable, to align with the meetings of the Scheme Advisory Board (it was felt that meetings were currently aligned)

17/16 Any Other Business

The Chair informed members of the Board that it would be his last meeting as he was leaving West Midlands Police, thanking members for their support and hard work.

The members congratulated the Chair and wished him well.

8. Date and Time of Next Meeting

The next meeting was scheduled for 6 February 2017 at 1400 hours.

PENSIONS BOARD

11 JULY 2016

ACTIONS

Action No.	Action
1.	<p>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.</p> <p>Update 11/7: It was confirmed that it would be not be possible to work with the Police to undertake this task but it may be possible to work with another Fire Service.</p>
2.	The Adviser to publish the link to the Discretions Policy
3.	The Adviser to liaise with Mike Griffiths regarding the communication to members about the change to the regulations and the decrease in response times due to greater demands for requests for information and staff shortages.
4.	Kal Shoker to liaise with Mike Griffiths regarding the conference call to each Chair of a Pension Board (referenced on page 2 of the Scheme Advisory Board document)

AUDIT COMMITTEE

14 NOVEMBER 2016

1. **AUDIT COMMITTEE – SELF ASSESSMENT OF GOOD PRACTICE AND EFFECTIVENESS**

Report of the Audit Services Manager [Sandwell MBC].

RECOMMENDED

THAT the Committee note the results of stage two of their self-assessment of good practice and effectiveness exercise and give consideration to the next steps.

2. **PURPOSE OF REPORT.**

- 2.1 To ask members of the Committee to note the results of stage two of their self-assessment of good practice and effectiveness exercise and use it to help inform any future training needs and exercises.

3. **BACKGROUND**

- 3.1 The Audit Committee has completed a Members knowledge and skills framework assessment, based on the model provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) in their Audit Committees – Practical Guidance for Local Authorities.
- 3.2 The assessment forms part of an overall review of the Audit Committee, again based around guidance Chartered Institute of Public Finance and Accountancy (CIPFA) in their Audit Committees – Practical Guidance for Local Authorities. This includes three separate activities:

Self-assessment exercise

This has already been completed by the Audit Committee.

Members knowledge and skills framework

This has now been completed and the results will be considered at this meeting of the Audit Committee.

Evaluating the effectiveness

At the next meeting of the Audit Committee, the third and final part of the exercise evaluating the effectiveness of the committee will be undertaken.

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

Appendix A - Members knowledge and skills framework results

Peter Farrow
Audit Services Manager, Sandwell MBC

Core areas of knowledge

Knowledge Area	Details of core knowledge required	How the Audit Committee member is able to apply the knowledge	Average score 5 = high 1 = low
Organisational knowledge	An overview of the governance structures of the authority and decision-making processes. Knowledge of the organisational objectives and major functions of the authority	This knowledge will be core to most activities of the Audit Committee including review of the Annual Governance Statement, internal and external audit reports and risk registers	4
Audit Committee role and functions	An understanding of the Audit Committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements. Knowledge of the purpose and role of the Audit Committee	This knowledge will enable the Audit Committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others.	3.5
Governance	Knowledge of the six principles of the CIPFA/SOLACE Good Governance Framework and the requirements of the Annual Governance Statement (AGS). Knowledge of the local code of governance	The committee will plan the assurances it is to receive in order to adequately support the AGS. The committee will review the AGS and consider how the authority is meeting the principles of good governance.	4
Internal audit	An awareness of the key principles of the <i>Public Sector Internal Audit Standards</i> and the <i>local Government Application Note</i> . Knowledge of the arrangements for delivery of the internal audit service in the authority and how the role of the head of internal audit is fulfilled.	The Audit Committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards. The Audit Committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report, including an opinion and information on conformance with professional	3

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		standards. In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed.	
Financial management and accounting	Awareness of the financial statement that a local authority must produce and the principles it must follow to produce them. Understanding of good financial management principles. Knowledge of how the organisation meets the requirements of the role of the chief financial officer, as required by the <i>CIPFA Statement on the Role of the Chief Financial officer in Local Government</i> .	Reviewing the financial statements prior to publication asking questions. Receiving the external audit report and opinion on the financial audit. Reviewing both external and internal audit recommendations relating to financial management and controls. The Audit Committee should consider the role of the CFO and how this is met when reviewing the AGS.	3
External Audit	Knowledge of the role and functions of the external auditor and who currently undertake this role. Knowledge of the key reports and assurances that external audit will provide. Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken.	The Audit Committee should meet with the external auditor regularly and receive their reports and opinions. Monitoring external audit recommendations and maximising benefit from audit process. The Audit Committee should monitor the relationship between the external auditor and the authority and support the delivery of an effective service.	3
Risk management	Understanding of the principles of risk management, including linkage to good governance and decision making. Knowledge of the risk management policy and strategy of the organisation. Understanding of risk governance arrangements, including the role of members and of the Audit Committee.	In reviewing the AGS, the committee will consider the robustness of the authority's risk management arrangements and should also have awareness of the major risks the authority faces. Keeping up to date with the risk profile is necessary to support the review of a number of Audit Committee agenda items, including the risk-based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee. The committee should also review reports and action plans to develop the application of risk management practice.	4

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Counter- fraud	An understanding of the main areas of fraud risk the organisation is exposed to. Knowledge of the principles of good fraud risk management practice (Red Book 2) Knowledge of the organisation's arrangements for tackling fraud.	Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation's fraud strategy and receives reports on the effectiveness of that strategy. An assessment of arrangement should support the AGS and knowledge of good fraud risk management practice will support the Audit Committee member in reviewing that assessment.	3
Values of good governance	Knowledge of the Seven Principles of Public Life. Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff. Knowledge of the whistleblowing arrangements in the authority.	The Audit Committee member will draw on this knowledge when reviewing governance issues and the AGS. Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The Audit Committee member should know to whom concerns should be reported.	4
Treasury management (only if it is within the terms of reference of the committee to provide scrutiny)	<i>Effective Scrutiny of Treasury management</i> is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: <ul style="list-style-type: none"> • Regulatory requirements • Treasury risks • The organisation's treasury management strategy • The organisation's policies and procedures in relation to treasury management 	Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny.	3

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Specialist Knowledge that adds value to the Audit Committee

Knowledge area	Details of supplementary knowledge	How the Audit Committee member is able to add value to the committee	Average score 5 = high 1 = low
Accountancy	Professional qualification in accountancy	More able to engage with the review of the accounts and financial management issues coming before the committee. Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussions of risks and resource issues. More able to engage with the external auditors and understand the results of audit work.	2
Internal audit	Professional qualification in internal audit.	This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing. The committee would be more able to provide oversight of internal audit and review the output of audit reports.	2.5
Risk management	Risk management qualification. Practical experience of applying risk management. Knowledge or risks and opportunities associated with major areas of activity.	Enhanced knowledge of risk management will inform the committee's oversight of the development of risk management practice. Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers.	3.5
Governance and legal	Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law.	Legal knowledge may add value when the committee considers areas of legal, risk or governance issues.	3
Service knowledge relevant to the functions of the organisation	Direct experience of managing or working in a service area similar to that operated by the authority. Previous Scrutiny Committee experience.	Knowledge of relevant legislation, risks and challenges associated with major service areas will help the Audit Committee to understand the operational context.	4

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Programme and project management	Project management qualifications or practical knowledge of project management principles.	Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews.	3
IT systems and IT governance	Knowledge gained from management or development work in IT	Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls.	3

Core Skills

Skills	Key elements	How the Audit Committee member is able to apply the skill	Average score 5 = high 1 = low
Strategic thinking and understanding of materiality	Able to focus on material issues and overall position, rather than being side-tracked by detail	When reviewing audit reports, findings will include areas of higher risk, or materiality to the organisation, but may also contain more minor errors or control failures. The Audit Committee member will need to pitch its review at an appropriate level to avoid spending too much time on detail.	4
Questioning and constructive challenge	Able to frame questions that draw out relevant facts and explanations. Challenging performance and seeking explanation while avoiding hostility or grandstanding.	The Audit Committee will review reports and recommendations to address weaknesses in internal control. The Audit Committee member will seek to understand the reasons for weaknesses and ensure a solution is found.	4
Focus on improvement	Ensuring there is a clear plan of action and allocation of responsibility	The outcome of the Audit Committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities. Where errors or control failures have occurred, then the Audit Committee should seek assurances that appropriate action has been taken.	4

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Able to balance practicality against theory	Able to understand the practical implications of recommendations to understand how they might work in practice.	The Audit Committee should seek assurances that planned actions are practical and realistic.	4
Clear communication skills and focus on the needs of users	Support the use of plain English in communications, avoiding jargon, acronyms, etc	The Audit Committee will seek to ensure that external documents such as the Annual Governance Statement and the explanatory foreword to the accounts are well written for a non-expert audience.	4
Objectivity	Evaluate information on the basis of evidence presented and avoiding bias or subjectivity.	The Audit Committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views.	4
Meeting management skills	Chair the meeting effectively: summarise issues raised, ensure all participants are able to contribute, focus on the outcome and actions from the meeting.	These skills are essential for the Audit Committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members.	4

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WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE WORK PROGRAMME 2016/17

Date of Meeting	Item	Responsible Officer	Completed
2016			
25 July	Audit Findings 2015/16	Grant Thornton	
	Statement of Accounts 2015/16 (Approval)	Grant Thornton	
	Treasury Management Annual Report 2015/16	Treasurer	
	Corporate Risk Update	Director of Service Support	
	Self-Assessment	Internal Auditor	
	CIPFA Audit Committee Update	Internal Auditor	
5 September	Minutes of the Audit Committee held on 6 June 2016	Democratic Officer	
	Audit Committee Draft Work Plan 2016/17		
	Corporate Risk Six Monthly Report	Director of Service Support	
	Audit Committee Update	Grant Thornton	
	Minutes of the Audit Committee held on 25 July 2016	Democratic Officer	
	Work Programme 2016/17		

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19 September [Authority]	Audit Findings 2015/16 Statement of Accounts 2015/2016 (note)	Grant Thornton Treasurer	

14 November 2016	Treasury Management – Mid year review 2016/17 Appointment of the External Auditor Annual Audit Letter 2015/16 Audit Committee Update Internal Audit Progress Report Assessment of Good Practice and Effectiveness Breach of Disclosure Regulations Corporate Risk Briefing Document Minutes of the Audit Committee held on 5 September 2016 Audit Committee Work Plan Minutes of the Pension Board held on 11 July 2016	Treasurer Treasurer Grant Thornton Grant Thornton Audit Manager Audit Manager DCFO DCFO Democratic Officer Democratic Officer	
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2017			
16 January 2017	Internal Audit Progress Report Internal Audit Charter – Annual Review Audit Committee Update Minutes of the Audit Committee held on 14 November 2016 Audit Committee Work Plan	Audit Manager Audit Manager Grant Thornton Democratic Officer Democratic Officer	

<p>27 March 2017</p>	<p>Audit Committee Update Communication with the Audit Committee for WMFRA Audit Plan 2016/17</p> <p>Internal Audit Plan 2017/18 Audit Committee Terms of Reference</p> <p>External Audit Work Programme and Scale of Fees Corporate Risk Report Six Monthly Update</p> <p>Minutes of the Pensions Board held in February 2017</p> <p>Minutes of the Audit Committee held on 16 January 2016</p> <p>Audit Committee Work Plan</p> <p><i>Committee Members' Private meeting with Internal Auditors (to follow Committee)</i></p>	<p>Grant Thornton Grant Thornton</p> <p>Grant Thornton</p> <p>Audit Manager Audit Manager</p> <p>Director of Service Support Director of Service Support</p> <p>Pensions Board Representative</p> <p>Democratic Officer</p> <p>Democratic Officer</p> <p><i>Audit Manager</i></p>	
<p>5 June 2017</p>	<p>Annual Internal Audit Report 2016/17</p> <p>Governance Statement 2016/17</p> <p>Monitoring Policies and RIPA (Annual Whistleblowing Report)</p>	<p>Audit Manager</p> <p>Treasurer</p> <p>Monitoring Officer/Director of</p>	

	<p>Annual Report of the Audit Committee for approval</p> <p>Audit Committee Update</p> <p>Minutes of the Audit Committee held on 27 March 2016</p> <p>Audit Committee Work Plan</p> <p><i>Committee Members' Private meeting with External Auditors</i></p> <p><i>Workshop for Members on Statement of Accounts 2016/17</i></p>	<p>Service Support</p> <p>Chair</p> <p>Grant Thornton</p> <p>Democratic Officer</p> <p>Democratic Officer</p> <p><i>Grant Thornton</i></p> <p><i>Treasurer</i></p>	
26 June 2017 [Authority]	<p>Governance Statement 2016/2017</p> <p>Audit Committee – Terms of Reference, Annual Review (will now be reported to the Authority's AGM)</p> <p>Annual Report of the Audit Committee 2016/17</p>	<p>Treasurer</p> <p>Audit Manager</p> <p>Chair</p>	
24 July 2017 [Audit Committee 2017/18]	<p>Audit Findings 2016/17</p> <p>Statement of Accounts 2016/17 (Approval)</p> <p>Treasury Management Annual Report 2016/17</p>	<p>Grant Thornton</p> <p>Grant Thornton</p> <p>Treasurer</p>	

	<i>Self Assessment of Members of Audit Committee</i> Audit Committee Draft Work Plan 2017/18	Internal Auditor Democratic Officer
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