

Lancashire Combined Fire Authority

Audit Committee

Thursday, 26 September 2024, at 10.00 am in the Main Conference Room,
Service Headquarters, Fulwood.

Minutes

Present:	
Councillors	
M Clifford (Chair)	
J Shedwick (Vice-Chair)	
M Salter	
J Singleton	
N Hennessy (Substitute)	

Officers
S Brown, Director of Corporate Services (LFRS) J Meadows, Head of Finance (LFRS) A Latham, Financial Accountant (LFRS) S Hunter, Member Services Manager (LFRS) L Barr, Member Services Officer (LFRS)
In attendance
L Rix, Internal Audit, Lancashire County Council A Dalecki, Internal Audit, Lancashire County Council G Jones, External Audit, Grant Thornton Y Li, External Audit, Grant Thornton

12/24	Apologies for Absence
	Apologies for absence were received from Councillors Hugo and Jackson, and County Councillor Clarke.
13/24	Disclosure of Pecuniary and Non-Pecuniary Interests
	None received.
14/24	Minutes of the Previous Meeting
	Resolved: - That the Minutes of the last meeting held on 08 July 2024 be confirmed as a correct record and signed by the Chair.

Statement of Accounts 2023/24

The Director of Corporate Services gave thanks to the External Auditors, Internal Auditors, and the Finance Team for all their work on the arduous process of the Statement of Accounts.

The Director of Corporate Services presented the report to the meeting. The report presented the Statement of Accounts for the financial year ended 31 March 2024 which included the Authority's 25% share of the North West Fire Control (NWFC) accounts. Its purpose was to give electors, local taxpayers, Fire Authority Member, employees, and other interested parties clear information about the Fire Authority's finances.

The Committee considered the Statement of Accounts as presented.

The aim was to provide information on:

- The cost of providing Fire Authority services in the financial year 2023/24.
- How these services were paid for.
- What assets the Fire Authority owned at the end of the financial year.
- What was owed, to and by, the Fire Authority at the end of the financial year.

The narrative report provided a guide to the most important matters which were included in the Statement of Accounts. The Statement of Accounts had been prepared in accordance with the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021 and the Code of Practice on Local Authority Accounting in the United Kingdom.

The Statement of Accounts contained: -

Statement on Annual Governance Arrangements – Set out the Authority's responsibilities regarding the system of internal control on corporate governance.

Independent Auditor's Report to Members of Lancashire Combined Fire Authority – The Auditor's report to the CFA on the accounts for 2023/24, which were set out in the agenda pack.

Statement of Responsibilities for the Statement of Accounts – Set out the responsibilities of the Authority and the Treasurer regarding the statement of accounts.

Comprehensive Income & Expenditure Statement – The Statement showed the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Fire Authority raised taxation to cover expenditure in accordance with regulations; this could be different from the accounting cost. The taxation position was shown in the Movement in Reserves Statement.

Movement in Reserves Statement – This statement showed the movement in year on the different reserves held by the Fire Authority analysed between usable and other reserves. The surplus or deficit on the Provision of Services line showed the true economic cost of providing the Fire Authority's services, more details of

which were shown in the Comprehensive Income and Expenditure Statement.

Balance Sheet – This showed information on the financial position of the Fire Authority as at the 31 March 2024, which included the level of balances and reserves at the Fire Authority's disposal, its long-term indebtedness and the value of the assets held by the Fire Authority.

Cash Flow Statement – This showed the cash and cash equivalent movements in and out of the Fire Authority due to transactions with third parties for revenue and capital purposes.

Fire Fighters Pension Fund Account and Net Assets Statement – This presented the financial position of the fire fighters pension fund account, which showed whether the Authority owed, or was owed, money by the Government in order to balance the account, together with details of its net assets.

The Director of Corporate Services drew the Members attention to Page 17 of the agenda pack for the review of the year which included information from the Annual Service Plan in 2023/24.

In the 2023/24 Financial Overview on Page 18 of the agenda pack, it was noted by Members that a £5 increase (£82.27), in Council Tax had been agreed in line with the Council Tax referendum limit which allowed for an affordable, prudent, and sustainable budget that ensured that the Authority was able to deliver against its corporate priorities. The net revenue position showed a small overspend of £0.2m.

The chart on page 19 of the agenda pack illustrated that employee costs accounted for the majority of the expenditure and approximately half of the income came from Council Tax.

It was stated on Page 20 of the agenda pack that the Authority's general fund balance at start of the year was £4.89m and the overspend of £0.22m from the Authority's expenditure had been transferred to the reserve which had taken the balance to £5.66m. The Reconciliation table in the report summarised the key adjustments with adjustments for Capital Purposes and the net change for Pension Adjustments.

The Authority also held an additional £8.44m of earmarked revenue reserves and £20.45m of capital reserves and receipts. The Capital reserves and receipts were fully utilised within the medium-term financial strategy. Over half of the earmarked reserves related to the Authority's two Private Finance Initiative (PFI) schemes, whereby monies were set aside in the early years of the scheme to meet future costs, thus easing the impact of inflationary pressures.

Page 21 of the agenda pack explained that the Authority's Total net liabilities remained broadly unchanged at £503.0m to £502.5m which reflected the Authority's compliance with International Accounting Standards and in particular, the requirement to show the full pensions liability in the accounts. Whilst the liability on the Local Government Pension Scheme was funded, the Fire-fighters Pension Scheme was unfunded, i.e. there were no assets from which future liabilities would be paid, and hence the Authority's overall Fire-fighters pension liability of

(£651.8m) was extremely large. If this liability was excluded, the Authority's Total Net Assets would be £148.8m. The Firefighters Pension Scheme liability remained largely unchanged with a small increase of £0.290m of £224.4m. The pension liability included estimated costs in relation to the McCloud judgement. Long-term assets had increased slightly in value to £127.8m from £126.6m which reflected the investment in the asset base and the impact of revaluations.

In terms of future financial plans, the financial sustainability of the Authority was addressed in February 2024 as part of setting the Budget and Medium-Term Financial Strategy for 2024/25. Given the economic uncertainty, the potential impact of the Fair Funding Review and potential changes to local retention of Business rates, it was extremely difficult to anticipate the model of funding beyond the existing settlement. For the purpose of the medium-term financial strategy, it had been assumed that the funding would increase broadly in line with inflation. It was on that basis that the Service had set a balanced budget in future years, allowing for council tax increases in line with forecast inflation.

In response to a query from County Councillor Singleton with regards to acquiring the market value of the Service's heritage assets, Georgia Jones, Key Audit Partner advised that the assets were very specialised and not sold on the open market and therefore the value was difficult to estimate. An insurance evaluation would assist with the accuracy of value; however, the cost of an assessment could offset the value of the assets.

County Councillor Singleton queried the difference between the 2023/24 interest paid of £1,341 on Page 73 of the agenda pack and the 2023/24 interest payment of £30,115 on Page 74. The Director of Corporate Services explained that the interest payment of £30,115 collected the interest element through the pensions assets and liabilities transactions. The interest paid of 1,341 included the interest paid on the Service's loan and also PFI transactions. Part of the Unitary Charge included the interest element that the provider would have to pay as part of the 25-year PFI transaction.

The Director of Corporate Services confirmed, in response to a question from County Councillor Singleton, that the long-term borrowing had been taken over a 40-year term with the date to be paid in 2039.

County Councillor Salter asked for clarification on the non-material amendments as mentioned in the recommendation to Members. Georgia Jones, Key Audit Partner advised that it was possible that some amendments to the Statement of Accounts could arise following the Committee meeting. If the changes were non-material, then the Chair and the Director of Corporate Services could sign the Statement of Accounts, however, if the amendments were material, Audit Committee approval would be required.

County Councillor Shedwick acknowledged that there were some items beyond the Service's control and congratulated the Finance Team on their fantastic statement of accounts.

It was noted by Members that Adam Latham, from the Finance Team, had recently qualified as an Accountant.

	<p>The Chair thanked the Finance Team for all their hard work.</p> <p>Resolved: - That the Committee: -</p> <ul style="list-style-type: none"> i) approved the Statement of Accounts and authorised the Audit Committee Chair and the Director of Corporate Services to sign them; and ii) approved any non-material amendments post Committee.
16/24	<p>External Audit Letter of Representation</p>
	<p>As part of the year-end process, the Authority was required to sign a letter of representation. This letter confirmed that the Authority had disclosed all relevant information in its accounts for the year in question and that all issues which should have been brought to the attention of the auditors had been.</p> <p>The Treasurer confirmed that he would sign the letter, as there were no issues which he felt required disclosure.</p> <p>Resolved: - That the Audit Committee authorised the signing of the letter by the Chair of the Committee.</p>
17/24	<p>External Audit - Audit Findings Report</p>
	<p>Ying Li, Audit Manager presented the Audit Findings report to the Committee.</p> <p>Under the Statutory Code of Audit Practice for Local Government bodies, the Authority's external auditors, Grant Thornton, were required to issue a report to those charged with governance that summarised the conclusions from their audit work.</p> <p>The audit was substantially complete, and the Value For Money (VFM) work had been completed. The auditors expected to issue an unqualified audit opinion following the Audit Committee meeting subject to receipt of the management letter of representation and final quality procedures, subject to the below outstanding matters;</p> <ul style="list-style-type: none"> • Completion of testing for creditor, grant income, employee benefits expenses, pension liabilities, cash and bank balance, land and building revaluation, journals, and financial instrument. • Verify the responses from the pension fund auditor to gain assurances on underpinning controls and supporting data for the pension fund net liability. • Final review of the audit file by the Engagement Lead and Audit Manager. Regular reviews of the file had taken place throughout the audit. • Update post balance sheet events review to the date of signing. • Receipt of the management representation letter. • Review of the final set of financial statements. <p>Some of the matters had been completed at the time of the Committee and some were still outstanding. Grant Thornton had worked closely with the Finance Team</p>

and thanks were given for their work and excellent communication.

Members noted that the Value For Money arrangements report would be presented at the next Audit Committee meeting.

The Audit Manager drew Members attention to Page 8 of the agenda pack which detailed that the materiality had been revised as the actual gross expenditure had changed significantly from that anticipated at the planning stage. This had resulted in a review of the appropriateness of the materiality figure.

The risks identified in the Audit Plan and corresponding commentaries were:

- Improper revenue / expenditure recognition.
 - The substantive income and expenditure testing had not identified any material errors that were required to be brought to the Service's attention.
- Management override of controls.
 - From the review of all journals posted during they year, 41 higher risks or unusual journal had been identified that warranted detailed audit testing. Audit work to date had not identified any significant issues in respect of management override of controls. The work was subject to the final review by the Engagement Lead.
- Valuation of land and buildings.
 - As part of the overall audit work, 25 asset valuations had been tested, including large assets or those with movements outside of expectations. In completing the work, Grant Thornton examined the accounting entries, data and assumptions used, and relevant asset indices.
- Valuation of Pension Fund Net Liability
 - The pension fund net liability of £651.920m was made up of the Firefighters pension scheme (FFPS) net liability of £651.826m and Local Government Scheme net liability of £0.094m. For the LGPS pension scheme, the Authority had considered the potential impact of IFRIC 14 before audit challenge. The Authority obtained additional information relating to accounting surplus from its actuary which concluded the asset ceiling as £nil. The balance of £0.094m represented the unfunded liabilities only. The audit work was ongoing in respect of valuation of pension fund liability. The audit work could not be concluded until the IAS19 letter from the Pension fund auditor had been received and considered.

Ying Li advised that during the course of the Audit, two recommendations for the Authority had been identified as detailed on page 124 of the agenda pack. The recommendations had been agreed with management and progress would be reported during the course of the 2024/25 audit.

On page 129 of the agenda pack, on Note 6 Capital Expenditure Disclosure, a variance of £751k had been identified between the expected Capital Financing Requirement (CFR) and the CFR in the draft accounts. This variance was due to the omission of the capital financing element from the North West Fire Control's (NWFC) accounts (Joint Operation) in the opening CFR balances. Since it was a disclosure error and had no impact on the main financial statements, the Capital Expenditure disclosure had been amended in the 2023/24 accounts with a foot

	<p>note explaining the treatment.</p> <p>Georgia Jones, Key Audit Partner, summarised that the two issues that needed to be completed were the review of land and buildings, with which no issues were anticipated, and the late guidance around pensions and the calculation for the Local Government Pension Scheme (LGPS) accounting surplus.</p> <p>County Councillor Shedwick thanked Grant Thornton for the report, the information on asset valuations, and the recommendations on page 125 of the agenda pack where the management response stated that the issues raised had been addressed. He gave thanks to Grant Thornton and the Finance Team.</p> <p>Resolved: - That the Committee: -</p> <ul style="list-style-type: none"> i) Noted and endorsed the matters raised in the report; ii) Noted and endorsed the Action Plan set out within the Audit Findings Report.
18/24	<p>External Audit - Auditors Annual Audit Report 2023/24</p>
	<p>Georgia Jones, Key Audit Partner, presented the report.</p> <p>Under the National Audit Office Code of Audit Practice, the external auditors were required to consider whether the Service had in place, proper arrangements to secure economy, efficiency, and effectiveness in its use of resources.</p> <p>As reported, the audit was substantially complete, and the auditors expected to issue an unqualified audit opinion following the Audit Committee meeting subject to receipt of the management letter of representation and final quality procedures.</p> <p>The review of value for money arrangement covered the 3 areas of: i) financial sustainability; ii) governance and iii) improving economy, efficiency, and effectiveness.</p> <p>Georgia Jones drew the Members attention to Page 150 of the agenda pack and the overall summary of the Value for Money assessment of the Authority's arrangements. Improvements had been made from the previous year and the 2023/24 Auditor judgements on arrangements were:</p> <ul style="list-style-type: none"> - Financial Sustainability – No significant weaknesses in arrangements were identified, but one improvement recommendation had been made to support the Authority in improving arrangements relating to efficiency savings. The recommendation related to reporting of planned and achieved savings. - Governance – No significant weaknesses in arrangements were identified, but seven improvements had been made to support the Authority in continuing to improve its arrangements. - Improving economy, efficiency, and effectiveness. <p>Members noted that improvement recommendations were good practice and did not suggest that there were issues with exiting arrangements.</p>

The auditor's review did not identify any significant weaknesses in arrangements across any of these areas, but had made 10 improvement recommendations as set out on pages 167 to 171 of the agenda pack as now considered by Members:

1. Recommendation – That the Authority should consider making improvements to the reporting of plans to bridge identified gaps in the revenue budget, and performance against savings and efficiency plans, by:

- disaggregating efficiency savings from adjustments to revenue contributions to capital in the MTFS summary table; and
- reporting specifically on efficiency savings achieved as compared to the approved plan, within the quarterly financial update.

The Authority should continue development of its savings plan in advance of 2026/27, including consultations and costing of invest-to-save projects, so that delays in implementation could be avoided. Savings plans should be subject to quality impact assessments where appropriate, and responsibilities for delivery of savings should be clearly assigned.

Management Comment – Noted, budget monitoring reports to the Resources Committee would be developed to include progress against agreed savings plans in the MTFS.

2. Recommendation – The Authority should consider opportunities to improve risk management by:

- consolidating very similar risks and actions to reduce duplication in the Corporate Risk Register;
- adding environmental risks to the risk scoring criteria;
- providing more comprehensive information to the Audit Committee, such as residual risk scores and action owners/timelines for implementation;
- mapping corporate risks to the strategic objectives outlined in the Community Risk Management Plan.

Management Comment – Noted, the corporate risk register was based on NFCC national best practice and whilst it could look like duplication, the Service had adopted sector best practice. As part of the ongoing review of the risk management processes, the proposal would be considered.

3. The Authority should consider enhancing the level of detail within Internal Audit progress reports to the Audit Committee, to include details of recommended actions, management's response, timelines for completion of actions and confirmation that actions had been completed.

Management Comment – Noted, it would be discussed with the Internal Audit team.

4. It was recommended that the Authority considered expanding the quarterly financial update to the Resources Committee to include:

- year to date revenue outturn against year-to-date budgets, and reasons for variances; and
- details of the best-case and worst-case outcomes against the revenue and capital budgets (and the basis for those estimates).

Management Comment – Noted, the Service would consider developing the monitoring reports further to provide additional analysis.

5. The Authority should consider introducing referencing of meeting agendas and

papers to the Authority's strategic objectives around as outlined in the CRMP. Management Comment – Noted, the Service continually reviewed the information provided to Members and would consider the improvement recommendation.

6. The Terms of Reference for every Committee should include quoracy conditions and should be reviewed at least every three years.

Management Comment – Noted, the TOR had recently been updated to include this.

7. The Authority should take action to review policies and procedures (including Service Orders) where this was identified as being overdue. Following review, policies and procedures should be approved by the Authority or appropriate Committee, even where no changes had been made.

Management Comment – Noted, out of date policies and procedures would be brought up to date.

8. The Authority should establish, implement, and embed procedures to provide assurance that Contract Standing Orders were adhered to in all instances.

Management Comment – Noted, improvements were being put in place now resourcing issues in the procurement teams had been resolved.

9. The Authority should consider including information on performance against the capital plan in the quarterly performance monitoring reports provided to the Performance Committee. The Authority should continue to seek to mitigate slippage and delays in the delivery of the capital programme.

Management Comment – Noted, the performance report included revenue performance and not capital and they were reported in detail to the Resources Committee and the CFA. The performance report would be reviewed to ensure consistency.

10. The Authority should implement a framework for structured and consistently applied contract management. Contract management for key service contracts such as North West Fire Control collaboration and PFI agreements should be prioritised. Arrangements should include:

- regular reviews of existing contracts to safeguard the achievement of value for money and compliance with legal and regulatory requirements;
- monitoring of contract performance and deliverables against key performance indicators and other measures to identify and resolve service performance issues; and
- reporting of contract management activity to the Authority or Performance Committee.

Management Comment – Noted, the service would be reviewing Contract Management arrangements against best practice during 2025/26 as identified in the Procurement Strategy.

Georgia Jones informed Members that the external auditors were satisfied with the responses they had received to their recommendations.

Resolved: - That the Committee noted the management comments and endorsed the content of the report as presented.

19/24	Internal Audit Monitoring Report
	<p>The Internal Auditors produced a summary of progress against the annual plan for each Audit Committee meeting, setting out progress to date and any significant findings. The report for the period 01 April 2024 to 06 September 2024 was presented by Laura Rix, Senior Auditor.</p> <p>To date, 14 days had been spent this financial year on completion of the 2024/25 plan, equating to 20% of the total planned audit activity of 70 days. The table in the report showed the current status of all audit work.</p> <p>With regards to the Implementation of Learning from National Incidents, the report was in the process of compilation and would be available for the next Audit Committee meeting. Members were informed that the District Planning Activity work had now been completed and work would soon commence on Cyber Security.</p> <p>In response to a question from County Councillor Singleton in relation to 2 planned Audit days for follow up audit activity, Laura Rix explained that there 2 days in the plan and 1.5 days had been used with 0.5 days variation. The only other follow up work was key financial systems which would take place later in the year, however, there were no issues which was positive.</p> <p>Resolved: - That the Committee noted the report.</p>
20/24	Date of Next Meeting
	<p>The next meeting of the Committee would be held on 28 November 2024 at 10:00 hours in the Main Conference Room at Lancashire Fire and Rescue Service Headquarters, Fulwood.</p> <p>Further meeting dates were noted for 27 March 2025 and agreed for 24 July 2025.</p>

M Nolan
Clerk to CFA

LFRS HQ
Fulwood