

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Tuesday, 30 July 2019, at 10.00 am in the Main Conference Room, Service Headquarters, Fulwood.

MINUTES

PRESENT:

Councillors

N Hennessy (Chairman)
S Clarke
S Holgate
A Kay
M Khan
J Shedwick (Vice-Chair)
D Smith

Officers

K Mattinson, Director of Corporate Services (LFRS)
J Bowden, Head of Finance (LFRS)
D Brooks, Principal Member Services Officer (LFRS)

In attendance

R Baker, External Audit, Grant Thornton
R Tembo, External Audit, Grant Thornton
J Taylor, Internal Audit, Lancashire County Council

1/19 APOLOGIES FOR ABSENCE

None received.

2/19 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

3/19 MINUTES OF THE PREVIOUS MEETING

RESOLVED: - That the Minutes of the last meeting held on 2 April 2019 be confirmed as a correct record and signed by the Chairman.

4/19 INTERNAL AUDIT ANNUAL REPORT 2018/19

The report was presented by Mrs J Taylor, Senior Auditor, Lancashire County Council. The Internal Audit Annual Report summarised the work that the Internal

Audit Service had undertaken during 2018/19 and the key themes arising from it. It provided an opinion on the overall adequacy and effectiveness of the systems of governance, risk management and internal control.

On the basis of programme of work for the year, the Head of Internal Audit provided substantial assurance over the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.

The opinion was based on the individual assurance levels provided for each of the individual audit reviews undertaken in 2018/19, detailed in the report now presented to Members.

Mrs Taylor advised that overall a strong control environment continued to operate, overseen by a Service Management Team that was responsive to internal audit findings and committed to continuous improvement. No significant areas of weakness in governance, risk management or control had been identified from the audit or consultancy services and where areas for improvement had been identified, actions had been agreed to enhance aspects of the control framework further and to ensure that it was effectively operating throughout. Follow up work confirmed that agreed actions were being appropriately implemented. It was confirmed that consideration was also given to the wider sources of assurance available including the results of the HMICFRS Inspection and the findings of Grant Thornton as the Authority's external auditor.

The work of the Internal Auditor was one of the key control measures in place within the Authority. As such, the annual report provided an assurance to Members that risks were being managed and controlled, and fed the Authority's overall assessment of the internal controls that operated within the Service.

With reference to point 3.12 on page 11 of the agenda pack regarding optimising rota management, County Councillor Holgate expressed concern that the 'majority' of appliances were 'largely' available and that the current processes were 'inefficient' which had significant resource implications and a detrimental impact on staff wellbeing. The Director of Corporate Services advised that Members of the Performance Committee did monitor appliance availability, and our on-call availability was the envy of many Fire Services with performance around 90%. He confirmed that included within the number of actions agreed to address inefficiencies was a project which had been set up to look at sourcing a digital/electronic system that could identify where cover was needed and the availability of staff to cover. It was agreed that the project outcomes would be reported by the lead Director to the Chairman of the Performance Committee.

Mrs Taylor advised that confirmation was awaited from the internal auditors of the Local Pension Partnership that audit work in relation to pension administration had been completed. Mr Baker advised that the pension administration audit covered a whole range of work for LCC and Grant Thornton did not rely on that information as part of its audit of the Authority.

RESOLVED: - That the Audit Committee noted and endorsed the report.

The Authority was required to produce an Annual Governance Statement as part of the year end process for 2018/19 along with the Authority's financial statements, following a review of the effectiveness of the internal controls in place. The report and the statement set out the key elements of the Authority's governance framework, how these had been evaluated, the outcome of the assessment of effectiveness and any areas for improvement.

The Audit Committee had previously approved a revised Code of Corporate Governance, in line with guidance produced jointly by CIPFA (Chartered Institute of Public Finance Accountants) and SOLACE (Society of Local Authority Chief Executives). The Code defines corporate governance as the way an authority ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

In order to assess the effectiveness of the Authority's current arrangements a self-assessment had been undertaken by the Executive Board who had considered the various sources of assurance that supported the core principles outlined in the report and the outcome of this was considered by Members under appendix 1 as now presented. One of the key elements of this was external assurance on our systems, and this was provided by our auditors, both of whom provided positive reports, and by the HMICFRS Inspection which rated the Service as Good.

The assessment also considered recommendations made as part of last year's Annual Governance Statement, and an update on the position in respect of these was considered as presented.

It was noted that the Internal Auditors undertook a review of Sources of Assurance in the first quarter of 2018/19, as part of the internal audit programme. This review confirmed that LFRS had sufficient, relevant sources of assurance to satisfactorily manage its risks in order to ensure compliance with the Code of Corporate Governance and achieve overall Service objectives.

The various reviews highlighted a number of areas for further improvement. As part of the review, the Service was required to identify and disclose any significant internal control issues, of which there had been none, hence the overall conclusion was that the system of internal controls was adequate.

The Chairman commented that on page 43 of the agenda pack the key element of governance in relation to compliance with the principles of data transparency was assessed as 'adequate'. In addition the review of effectiveness on page 56 confirmed the corporate governance arrangements were in all cases 'at least adequate' with the majority areas good. She then queried how all areas could move to a good assessment. In response, the Director of Corporate Services confirmed that the term adequate did mean the Authority complied with the transparency code. If there was an area that Members wanted to be looked at again, he would need to discuss it with the Executive Board who would consider any implications (time constraints, other priorities etc) to make a considered decision.

Mr Baker added that the external auditors did consider and provide a view on the annual governance statement; including whether it had been produced in accordance with the guidelines and that it represented their understanding of the Authority. He confirmed that substantial assurance had been received from internal audit and that if something did happen he would expect a recertification.

RESOLVED: - That the Committee noted and endorsed the self-assessment and the Annual Governance Statement.

6/19 EXTERNAL AUDIT - UNDERSTANDING HOW THE COMMITTEE GAINS ASSURANCE FROM MANAGEMENT

This item was considered before the Statement of Accounts.

In order to comply with Auditing Standards, the External Auditors, Grant Thornton were required to obtain an assurance as to how those charged with governance gained assurance over management processes and arrangements, as set out in their letter dated March 2019, copy considered by Members.

A response had been prepared by the previous Chairman of the Audit Committee which was considered by Members.

RESOLVED:- That the Committee noted and endorsed the response submitted.

7/19 EXTERNAL AUDIT - LETTER OF REPRESENTATION

This item was considered before the Statement of Accounts.

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.

The Treasurer confirmed that there were no issues that should have been brought to the attention of the auditors but which had not been. The Treasurer confirmed he would sign the letter at the meeting, as there were no further issues which he felt required disclosure.

RESOLVED: - That the Audit Committee authorised the signing of the letter by the Chair of the Committee.

8/19 EXTERNAL AUDIT - AUDIT FINDINGS REPORT 2018/19

This item was considered before the Statement of Accounts.

Under the statutory Code of Audit Practice for Local Government bodies our external auditors, Grant Thornton were required to issue a report to those charged with governance summarising the conclusions from their audit work. Members considered this report which was presented by Mr Baker.

Mr Baker advised that the statutory deadline to complete the audit work had been brought forward to the end of July which meant a more pressured timescale however, it was noted that at the time of writing the report the audit work was substantially complete and there were no issues that would require further modification of the audit opinion or material change to the financial statements.

As such the anticipated audit opinions were:-

- The anticipated audit report opinion would be unqualified;
- The External Auditors anticipated issuing an unqualified value for money conclusion.

In response to a question raised by Councillor Smith regarding the frequency of property valuations, Mr Baker confirmed that 20% were fully revalued with the rest updated using a desk top evaluation. The Director of Corporate Services advised that this Committee considered how property was valued from changes identified in the code of practice a number of years ago (resolution 15/13 refers) which set out that the same type of assets be valued at the same time; whereas the Authority commissioned revaluations of its assets on a rolling basis given the majority of buildings were fire stations.

As reported on the agenda (Revisions to the Statement of Accounts 2018/19) there was one adjusted mis-statement relating to costs associated with both the Fire-fighter Pensions scheme and the Local Government Pension Scheme, which arose from a legal challenge in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Firefighters Pension Regulations 2015. Initial accounting advice provided by CIPFA was to treat this as a contingent liability, however following the Supreme Court's refusal to allow an appeal the accounting policy adopted by external auditors required the additional liability to be recognised in the accounts. It was noted that the fee charged included an additional £2k in respect of the additional work for this which brought the total fee to £26k. The proposed additional fee was consistent with similar audited bodies and ultimately required Public Sector Audit Appointments approval before final agreement.

The Director of Corporate Services highlighted that this year's audit had been challenging for all involved. He advised that this appeared to be a national issue affecting the majority of local government audits this year across all audit firms. Discussion took place regarding this, and specifically the impact of additional work around pension adjustments and building valuations, the revised auditing timeframes, further fee reductions and the capacity to undertake the work in the required timeframes. Both the Director of Corporate Services and External Audit Partner felt that national issues required addressing and better planning was needed to ensure the right timeframe and resources were in place in future. All staff were commended for their efforts to achieve the deadline.

The auditors had identified 3 minor misclassification and disclosure changes required (as set out on page 20 of the Audit findings Report). However, it was worth noting that the auditor reports highlighted "The financial statements were received on time..... and were prepared to a good standard".

RESOLVED: - That the Committee:-

- i) Noted and endorsed the matters raised in the report;
- ii) Noted the unqualified opinion on the financial statements;
- iii) Noted the value for money conclusion.

9/19 REVISIONS TO THE STATEMENT OF ACCOUNTS 2018/19

The report presented the changes made during the audit of the Statement of Accounts of the Combined Fire Authority for the financial year ended 31 March 2019.

The core Financial Statements for the financial year ended 31 March 2019 were presented to the Resources Committee May. The report confirmed that:-

- the unaudited Statement of Accounts would be signed by the Treasurer to certify that it presented a true and fair view of the financial position of the Authority as at 31 March 2019;
- this would be subject to review by the Authority's external auditors, Grant Thornton;
- that a further report would be presented to the Audit Committee in July, following completion of the external audit;
- at that meeting the Chair of the Audit Committee would be asked to sign the final statement of accounts, as well as the Treasurer;
- Following this a final audited set of accounts would be presented to the Resources Committee for information.

In light of this the Committee noted and endorsed the report and accounts, based on the various outturn reports presented on the same agenda.

Subsequent to that the full set of accounts were produced and signed by the Treasurer and submitted for audit to Grant Thornton.

The Statement of Accounts had now been updated to reflect the following changes identified during the audit (as reported in the Audit Findings Report – elsewhere on the agenda) and a revised statement of accounts was considered by Members, attached as appendix 2.

The accounts had been adjusted to reflect the impact of the McCloud judgement on the pension liabilities. This adjustment related to costs associated with both the Firefighter Pensions Scheme and the Local Government Pension Scheme which arose following a legal challenge in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Firefighters Pension Regulations 2015. In December 2018 the Court of Appeal ruled that the 'transitional protection' offered to some members as part of the reform to public sector pensions amounted to unlawful discrimination. On 27 June 2019 the Supreme Court refused leave to appeal this case. In light of this it would be envisaged that the Court would require changes to arrangements who were transferred to the new schemes which would lead to an increase in pension scheme liabilities. Following the Supreme Court decision the external auditors required this additional liability to be recognised in the accounts

which had been adjusted accordingly.

As all changes requested by Grant Thornton to adjust misstatements, misclassifications and disclosure changes had been made to the accounts the Treasurer to the Fire Authority and the Chair of the Audit Committee were required to approve the revised accounts and sign the Balance Sheet and the Statement of Responsibilities.

RESOLVED: - That the Committee re-approve the revised Statement of Accounts.

10/19 INTERNAL AUDIT - MONITORING REPORT 2019/20

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 up to the 30 June 2019 was presented by Mrs J Taylor.

It was noted that work carried out during the period 1 April 2019 – 30 June 2019 was in accordance with the agreed audit plan.

The report identified that 2 days had been spent this financial year on the completion of the 2019/20 plan, equating to 3% of the total planned audit activity of 70 days. Consistent with previous years, the audit programme was scheduled for completion during the second half of the financial year. In addition, the auditors had spent a further 2 days during the first quarter of this financial year in completing and finalising reviews outstanding from the 2018/19 audit plan. The findings from the review were included in the 2018/19 Annual Report which Mrs J Taylor had presented to Members alongside this report.

Progress to date in relation to the Plan was provided and discussed by Members.

RESOLVED:- That the Audit Committee noted and endorsed the report.

11/19 RISK MANAGEMENT

The report highlighted action taken in respect of corporate risk since the last Audit Committee meeting. The latest review of the corporate risk register had identified one new risk which warranted inclusion on the corporate risk register.

Pensionability of Allowances

Following a High Court decision on the pensionability of allowances, which provided a different interpretation to both the historical basis and to previous decisions of the Pensions Ombudsman, the pensionability of various allowances would change with associated cost implications.

The position was unclear and the fire service (including LFRS) was awaiting guidance from the Local Government Employers (LGE). Issues to be determined include:-

- What would be the correct interpretation;

- The impact in respect of each of the three pension schemes;
- Did backdating apply;
- How to treat both employee and employer contributions;
- The position of representative bodies.

Whatever the final position, making allowances pensionable would add a significant cost to our budget.

Based on the above analysis it was clear that this presented significant risk from a cost perspective, as such it was proposed to add this risk to the corporate risk register as a high risk, with the situation going forward being monitored.

An updated corporate risk register was considered by Members with changes summarised in the report.

RESOLVED: - That the Audit Committee noted the actions taken, endorsed the revised corporate risk register.

12/19 DATE OF NEXT MEETING

The next meeting of the Committee would be held on 24 September 2019 at 10:00 hours in the Main Conference Room at Lancashire Fire and Rescue Service Headquarters, Fulwood.

Further meeting dates were noted for 28 January 2020 and 31 March 2020.

M NOLAN
Clerk to CFA

LFRS HQ
Fulwood