

## LANCASHIRE COMBINED FIRE AUTHORITY

### AUDIT COMMITTEE

Tuesday, 28 July 2020, at 10.00 am - Virtual meeting accessible via MS Teams and YouTube (as a live webcast).

### MINUTES

#### PRESENT:

##### Councillors

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

##### Officers

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

##### In attendance

A Smith, External Audit, Grant Thornton  
A Ayre, External Audit, Grant Thornton  
R Lowry, Internal Audit, Lancashire County Council

#### 27/19 CHAIRMAN'S ANNOUNCEMENT

As the Chairman, County Councillor Hennessy initially had connection problems, County Councillor John Shedwick, Vice-Chairman took the Chair.

CC Shedwick welcomed Authority Members and members of the press and public to the virtual committee meeting of the Audit Committee. He advised that in response to the Covid-19 Pandemic the Government had made regulations that enabled virtual meetings. This meeting was accessible for Committee Members via Microsoft Teams and for members of the press and public via a live webcast on YouTube.

The Committee Members individually confirmed their attendance at the start of the meeting; both County Councillor Hennessy and Councillor Smith had initial connection issues but joined the meeting as indicated.

28/19 APOLOGIES FOR ABSENCE

None received.

29/19 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

30/19 MINUTES OF THE PREVIOUS MEETING

RESOLVED: - That the Minutes of the last meeting held on 28 January 2020 be confirmed as a correct record for signature by the Chairman.

31/19 INTERNAL AUDIT - ANNUAL REPORT 2019/20

The report was presented by Mrs Ruth Lowry, Head of Internal Audit, Lancashire County Council. The Internal Audit Annual Report summarised the work that the Internal Audit Service had undertaken during 2019/20 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 2019/20, detailed in the report now presented to Members.

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 audit work 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.

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.

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 2019/20 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 defined corporate governance as the way an authority ensured that it was 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 of the systems, and this was provided by internal and external auditors, both of whom provided positive reports, and by the outcome of the HMICFRS Inspection which rated the Service as Good.

The assessment also considered recommendations made as part of last year's Annual Governance Statement i) to continue to develop and embed a new assurance monitoring system app to collate information and intelligence; and, ii) to performance manage the completion of the appraisals and introduce new tools to improve the appraisal conversation. An update on the position in respect of these was considered by Members. Both areas were ongoing with target dates set as March 2021.

The various reviews highlighted an area for further improvement was to develop 360° assessments for leaders to inform personal development. 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 statement re-affirmed that Lancashire Combined Fire Authority and Lancashire Fire and Rescue Service had in place a satisfactory system of internal control which facilitated the effective exercise of its functions and which included arrangements for the management of risk.

It was noted that the Statement on Annual Governance arrangements had been considered, approved and signed by the Chairman of the Combined Fire Authority, the Chief Fire Officer and the Treasurer on 8 July 2020.

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

The external auditors were required to produce an annual audit plan, setting out the areas it intended to review during the year.

The Director of Corporate Services introduced Mr Andrew Smith, Key Audit Partner and Mr Andy Ayre, Audit Manager who were in attendance to present the report.

The Director of Corporate Services advised that the audit fee of £28.4k had been discussed with the Chairman and Vice-Chairman of the Committee. He felt that it was important to agree the fees in advance of the work being done and that the additional charges reflected additional work required.

Mr Smith advised there had been a £4,700 increase in the base fee to cover additional work which was largely around the valuation of land and buildings and pension liability; two areas that the regulator was very focussed on and which resulted in a late variation fee last year but was built into the plan going forwards.

Mr Smith highlighted that the impact of covid-19 meant the audit was being conducted remotely but no significant issues were anticipated. He advised that the pandemic had resulted in a change to the timetable as the Government had significantly put back the deadlines for the production of the draft accounts and the completion of audit. The deadline (which was July last year) was now 30 November. He also advised that the audit aimed to start mid-August, with fieldwork completed by the end of September and no problems were envisaged in order to report in November. If the audit was not completed by that date a statement must be made that the audit had not yet been completed and subsequently republished once the audit was complete. It was noted that several authorities had to follow this guidance last year.

County Councillor Nikki Hennessy, Chairman of the Committee joined the meeting.

Mr Smith handed over to Mr Ayre to provide Members of the Audit Committee an overview of the planned scope and timing of the statutory audit which included: key matters that impacted on the audit, details of significant risks identified and the proposed response to the risk, details of other audit responsibilities, materiality, value for money arrangements, audit logistics and team and audit fees. The report also confirmed there were no significant facts or matters that impacted on the auditors' independence to express objective opinion on the financial statements.

County Councillor Holgate felt it was excessive to be undertaking an audit and valuation of property every year. In response, Mr Smith confirmed that CIPFA and auditing standards required this area of work auditing every year as the valuation represented a significant estimate by management. It was therefore identified as a significant risk which was one of the most significant assessed risks of material misstatement. However, he acknowledged that the valuation of land and buildings did not fundamentally change the Authority's financial position. He advised that Grant Thornton was campaigning to move away from fair value accounting through influencing CIPFA via an independent review led by Sir Tony Redmond (which sought views on the quality of local authority financial reporting and external audit).

The Director of Corporate Services confirmed that the Authority commissioned revaluations of its assets on a 5-year rolling basis (20% each year with the remaining 80% a desk-top exercise) given the majority of buildings were fire stations.

County Councillor Holgate did not feel the annual valuation was a sensible use of the Authority's resources as it didn't add any significant value and it wasn't a risk in real terms. He queried whether the Audit Committee could support the review of this requirement.

County Councillor Shedwick added that the Fire Authority did not have the biggest property portfolio. The Committee therefore asked the external auditors to note and feedback these comments as appropriate.

RESOLVED:- That the Audit Committee agreed the external audit plan for 2019/20 and the increased fee.

34/19 EXTERNAL AUDIT - UNDERSTANDING HOW THE AUDIT COMMITTEE GAINS ASSURANCE FROM MANAGEMENT

County Councillor Nikki Hennessy took the Chair.

It was noted that 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 April 2020, copy considered by Members.

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

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

35/19 INTERNAL AUDIT PLAN 2020/21

The Internal Auditors were required to produce an Annual Audit Plan, setting out work to be undertaken during the year. The plan amounted to a total resource of 70 audit days in 2020/21 which equated to an overall cost of £23,450 which represented a 3% increase from the previous year and was in line with the budget provision.

A proposed plan was presented by Mrs Ruth Lowry. It was noted that in light of the pandemic the plan may need to be discussed and reconfirmed. Mrs Lowry also advised that work would normally begin in September / October time however it was noted that the rest of the Internal Audit Team had been redeployed into operational roles (including Senior Auditor, Judith Taylor who would usually be present at this meeting). It was expected that the Team would return over the next couple of months and the plan, as considered now by Members would be fulfilled.

The internal audit plan was designed to provide the evidence necessary to support

an opinion of governance, risk management and control to encompass the following:

- Coverage of the key components of each part of the opinion, namely, governance, risk management and control;
- Sufficient coverage over operations as a whole so that a fair assessment may be made across the Service;
- Coverage of the controls that served to mitigate the most significant risks to an acceptable level;
- Coverage of the controls that operated most broadly to mitigate the most significant risks in the greatest number of individual instances to an acceptable level; and
- Follow up of the actions agreed by management to mitigate risks identified through previous audit activity.

The deployment of audit resources was proposed as follows:-

Governance and business effectiveness	3 days
Service delivery and support	20 days
Business processes	30 days
Follow up audit activity	4 days
Other components of the audit plan	13 days
Total	70 days

RESOLVED:- That the Audit Committee agreed the internal Audit Plan for 2020/21.

## 36/19 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 not identified any new risks which warranted inclusion on the corporate risk register.

An updated corporate risk register was considered by Members with changes summarised in the report. The Director of Corporate Services highlighted the following key areas: -

### Risk no. 1 – insufficient resources due to poor funding settlement

This risk was reviewed annually as part of the budget setting process in February. Discussions now pointed towards a 3-year Spending Review later this year which would provide more certainty. In addition, the outcome of a Fair Funding Review and the prospect of changes to the business rates retention model remained uncertain, both of which would impact on future funding. A further update would be provided as details became available. It was noted that funding had been received from the Government towards the cost of the pandemic and some of this was currently left in the budget.

### Risk no. 27 – Increased costs associated with changes to pensionability of allowances

Members were aware of ongoing discussions with representative bodies regarding making some allowances pensionable with an implementation date agreed of

1 June 2020. This added £600k to the budget which had been included in the agreed revenue budget for 2020/21. There remained however, uncertainty regarding any backdating of the allowances and associated timescales. The outcome of ongoing discussions with representative bodies regarding this was awaited. Any backdating would have a significant cost implication on the Authority's financial position.

Risk No 29 – High levels of staff absence due to the pandemic

Currently there remained a lot of uncertainty in terms of the way forward. It was noted that the Business Continuity Plan was implemented in March 2020 in response to Covid-19. Incident Management Teams and sub-groups had been implemented, the Service was working as part of the Lancashire Resilience Forum workstreams and a lot of work had been done to manage the impact and provide support to staff. It was noted that absence levels had been lower than were anticipated in March, hence appliance availability had been maintained. The risk score was under constant review however, given the uncertainty as the lockdown measures eased across the county the proposal was to leave the risk score at 25.

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

37/19 SCALE OF AUDIT FEES 2020/21

Councillor Smith joined the meeting.

The Public Sector Audit Appointments Limited (PSAA) (the successor to the Audit Commission) had produced a consultation document on the proposed scale of fees for 2020/21 in which it was proposed to maintain the fees at the current level of £23.7k with any variation to this being dealt with through local negotiations.

It was not felt that this approach accurately reflected the audit requirements at the present time. Whilst PSAA stated that the impact of some of the changes were likely to vary from one audited body to another, even within classes of similar bodies, it was not believed that this was an accurate reflection of the situation. It was readily acknowledged that fees would vary according to the complexity of organisation and this was already reflected in the base fee, however it was not believed that the fee for changes to asset valuations, or pension liability valuations or the extent of challenge required would vary significantly between one organisation and another, other than to reflect size and complexity which were already taken account of. As such the opinion was that PSAA should do more to agree the impact of changes to auditing standards at a national level, as opposed to simply passing these discussions onto local negotiation. Therefore after consultation with the Chair and Vice Chair a response was agreed as set out in the report.

Subsequently the PSAA confirmed the scale of fee and that they had commissioned a review of the scale fees framework in 2019 and published the findings of that review. They highlighted that the current level of scale fees generated significant comment from audit firms, opted-in authorities and other stakeholders and it was a common theme from commenters on public audit. In most cases, scale fees had reduced by 65% from 2011/12. The reasons for this included a significant reduction

in Audit Commission activity from 2012/13, the transfer of all the Commission's audit staff to firms, keen pricing from firms in successive procurements, improved audit efficiencies and reductions in PSAA costs. There was now mounting pressure on fees as the scope of audit and the role of the auditor had come under renewed scrutiny. Recent high-profile corporate failures in the private sector, concerns about the financial resilience of some local government bodies and additional technical requirements had led to an increase in the amount of work auditors were undertaking to discharge their statutory responsibilities. PSAA stated their fee setting process strived to take into account both the needs of opted-in bodies and the need for long-term sustainability of the local audit supply market. Their current review was exploring the arrangements for setting and varying scale fees. The results of this review would be reported to the Board during 2020, and hence should inform future consultations.

RESOLVED:- That the Audit Committee noted the response to the consultation documents as now considered and the subsequent confirmation that the fee remained at £23.7k, subject to local agreement on any variations.

38/19 DATE OF NEXT MEETING

Following discussion around the timing of the External Audit detailed in agenda item 6, the next meeting of the Committee was changed from Tuesday, 29 September 2020 to Monday 23 November 2020 at 10:00 hours – venue to be confirmed.

M NOLAN  
Clerk to CFA

LFRS HQ  
Fulwood