

## LANCASHIRE COMBINED FIRE AUTHORITY

### AUDIT COMMITTEE

Friday, 27 November 2020, at 10.00 am - Virtual meeting accessible via MS Teams and YouTube (as a live webcast).

### MINUTES

#### PRESENT:

##### Councillors

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

##### Officers

K Mattinson, Director of Corporate Services (LFRS)  
J Bowden, Head of Finance (LFRS)  
S Collinson, Head of Media and Communications (LFRS)  
D Brooks, Principal Member Services Officer (LFRS)

##### In attendance

A Smith, External Audit, Grant Thornton  
J Taylor, Internal Audit, Lancashire County Council

#### 39/19 CHAIRMAN'S ANNOUNCEMENT

The Chairman, County Councillor H Khan welcomed Authority Members and members of the press and public to the virtual committee meeting of the Audit Committee. She 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.

#### 40/19 APOLOGIES FOR ABSENCE

None received.

41/19 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

42/19 MINUTES OF THE PREVIOUS MEETING

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

43/19 REVISIONS TO THE STATEMENT OF ACCOUNTS 2019/20

The Director of Corporate Services presented the report.

The draft Statement of Accounts for the financial year ended 31 March 2020 presented to Resources Committee in September confirmed that: i) 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 2020; ii) this would be subject to review by the Authority's external auditors, Grant Thornton; iii) that a further report would be presented to the Audit Committee in November, following completion of the external audit; and iv) at that meeting the Chair of the Audit Committee would be asked to sign the final statement of accounts, as well as the Treasurer. 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 was submitted for audit to Grant Thornton.

The Statement of Accounts had 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.

Adjusted Misstatements

The following significant adjustments had been made to the accounts, as referred to in the External Audit Findings Report – referred to elsewhere on this agenda: -

- HM Treasury published its consultation on reforms to public sector pension schemes on 16 July 2020. Following this the Authority requested updated IAS 19 calculations for the additional McCloud/Sargeant liability to allow for Authority specific membership data, rather than using data for the Fire scheme as a whole. In line with CIPFAs guidance the Authority had included this change in the remeasurement item. This resulted in a reduction of £4.1m to the Firefighter Pension Scheme liability. Hence the accounts had been adjusted for this.

It was noted that the actual impact of an increase in scheme liabilities that arose from McCloud/Sargeant judgment would be measured through the pension valuation process, which determined employer and employee contribution rates.

- The value of fixed assets had increased by £100k reflecting a discrepancy between the valuer's valuations and the value recorded in the fixed asset register.

- The draft accounts included a provision of £600k for backdating of pensionable allowances to the date of the High Court ruling, March 2019. The Authority was attempting to resolve the issue of further backdating via the collective bargaining arrangements, but this had not yet been concluded. Pending the outcome of those discussions the Authority had now allowed for 6 years of backdating and had adjusted the draft accounts to include £1.8m provision. As the estimated value was material and the obligation related to events prior to the start of the financial year, management had disclosed a prior period adjustment in relation to this matter.

#### Misclassifications and disclosure changes

A number of misclassifications and disclosure changes were noted.

The Director of Corporate Services / Treasurer advised that there was one further adjustment that had recently come to light. He referred to page 82 of the agenda pack, note 24 to the accounts entitled, 'adjust net surplus (deficit) on the provision of services for non-cash movements' which were adjustments that did not impact on cash. It was noted that the total for 2019/20 should be 24,420 because of a transposition error and this did not feature anywhere else in the accounts. The Director of Corporate Services confirmed this was not material to the accounts given the scale of the error and advised that after discussing this with the auditors it was proposed that the accounts be re-approved and signed as now presented and the letter of representation (to be discussed later on the agenda) be amended to reflect the change.

The Director of Corporate Services highlighted the following details:

Page 48 of the agenda set out the balance sheet which included 3 years of balance sheet because the prior period adjustment affected years 2018 and 2019 therefore these been re-stated.

Pages 50, 51 and 52 all set out the various adjustments that the prior period adjustment created.

Page 78, note 20 for contingent liability set out the note regarding the potential backdating of pensionable allowances which had been amended following the Norman v Cheshire Fire and Rescue Service to reflect 6 years of backdating in the accounts.

Page 85, note 30 for critical judgements informed the accounts of the interpretation of any large decisions which included the McCloud / Sargeant Judgement and Norman v Cheshire Fire and Rescue Service pensionability of allowances which had already been mentioned.

In response to a question raised by Councillor Smith the Director of Corporate Services advised that the cost of the pensionability of allowances was built into this year's budget however there was nothing in the budget for any backdating, when an agreement on this was reached it would impact on reserves.

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

#### 44/19 EXTERNAL AUDIT - LETTER OF REPRESENTATION

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 Director of Corporate Services / Treasurer advised that note 13 had been included regarding the prior period disclosure note. He provided a verbal disclosure note regarding the non-adjustment of accounts for the non-cash transposition error discussed earlier. The following disclosure would be inserted into the final letter of representation from the Treasurer and Chair:

“We have considered the unadjusted misstatements schedule included in your Audit Findings Report Addendum. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Authority and its financial position at year end. The financial statements are free of material misstatements including omissions.”

Subject to the additional disclosure the Treasurer confirmed he would sign the letter, 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.

#### 45/19 EXTERNAL AUDIT - AUDIT FINDINGS REPORT

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 Smith.

Mr Smith advised that at the time of writing the report the audit work was substantially complete and there were no issues which they were aware of 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.

As reported earlier on the agenda (Revisions to the Statement of Accounts 2019/) there were three adjusted mis-statements relating to:

- McCloud – IAS 19 adjustment for HM Treasury Consultation remedy;
- the difference between the valuer's report and the fixed asset register; and
- backdating of pension contributions of day crew plus and other allowances.

In addition, there were seven minor disclosure changes which were required (as set out on page 22 of the Audit findings Report).

It was noted that the auditor report highlighted:

- All information and explanations requested from management were provided;
- The financial statements were received on 15 July 2020, and published in advance of the statutory deadline;
- The financial statements were prepared to a good standard with embedded quality review processes in place;
- Working papers were available at the start of the audit and were detailed, and clear to understand;
- The responses to audit samples and queries were comprehensive and timely.

It was noted that a draft audit fee of £28.4k was originally agreed as part of the Audit Plan.

It was noted that additional audit work has been required to review the critical judgement on the backdating of pension contributions on day crew plus allowances.

In addition, Covid-19 had impacted on the audit of the financial statements in several ways, including:

- Revisiting planning – the auditors had needed to revisit their planning and refresh risk assessments, materiality and testing levels. This had driven additional areas of audit work.;
- Management's assumptions and estimates - there was increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations were impacted by the reduction in economic activity and the auditors were required to understand and challenge the assumptions applied by management. There were similar challenges for management and the auditors on areas such as credit loss allowances, financial guarantees, and other provisions.
- Financial resilience assessment – the auditors were required to consider the financial resilience of audited bodies. Whilst the impact on the Authority had not been as significant as on other parts of the local government sector, there had been a small increase in the amount of work needed to undertake on going concern and value for money (financial sustainability).
- Remote working – the most significant impact in terms of delivery was the move to remote working. In many instances the delays were caused by the auditor's inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone was more time-consuming. The Government's current expectation to work from home as the default position was now likely to make this a greater issue for the audit than if it had been possible to gradually return to offices and Authority premises over the autumn of this year, as originally anticipated.

The auditors were currently reviewing the impact of this on fees, and it was proposed that the Treasurer be authorised to agree an amended fee with the

auditors in due course, and to report this to the subsequent Audit Committee.

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;
- iv) Noted that fees would increase as a result of additional work undertaken and authorised the Treasurer to agree and amended fee with the auditors.

#### 46/19 INTERNAL AUDIT MONITORING REPORT

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 6 November 2020 was presented by Mrs J Taylor.

It was noted that as a result of the Covid-19 pandemic, which had resulted in the re-deployment of the internal audit service onto activities geared towards the pandemic response, no internal audit activity was carried out between April and mid-September 2020. Since the re-commencement of the internal audit activity, focus had been on agreeing a firm timetable for the individual audit assignments and commencing follow up audits and operational reviews.

The report identified that 7 days had been spent this financial year on the completion of the 2020/21 plan, equating to 10% of the total planned audit activity of 70 days. Mrs Taylor advised that currently 15 days had been spent on the audit programme which included work on the key financial systems (account payable, accounts receivable and general ledger). It was noted that the work on treasury management was progressing with payroll the only key system that would not commence until the New Year. An outline of the scope and findings from the work completed was included in the report and considered by Members.

It was noted that Covid-19 had had a significant impact on the delivery of the audit services so far this year however, Mrs Taylor was confident that this would be caught up in the second half of the year.

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

#### 47/19 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. 2 – premises risk information

A key priority through 2020/21 was the maintenance via an agreed position developed with the Fire Brigades Union of a review programme of site-specific risk information plans associated with build environmental risks. Agreement was reached that this aspect of Service delivery remained a core function and should be safeguarded during the Covid-19 pandemic, given the potential that risk sites may very well have reviewed their own operating procedures and policies in light of the impact of the national crisis. The Response and Emergency Planning Department was undertaking assurance of Level 4 PORIS sites and had subsequently developed a series of best practice templates along with a series of proposals to introduce such plans across the organisation.

#### Risk no. 12 – Ineffective health and safety in the workplace

A further independent audit of Health and Safety and Environmental Management Systems was carried out as part of our ISO 45001 and ISO 14001 certification process. Non-conformances and opportunities for improvement were collated together into the SHE Audit Improvement Action Plan and monitored to conclusion through the Health, Safety and Environment Advisory Group. The audit did not identify any non-conformance issues or any opportunities for improvement.

#### Risk no. 14 – Delayed mobilisation, impacting on service delivery

New road speed algorithms had been deployed at North West Fire Control which ensured a more accurate travel time was factored into mobilisation decisions. The system was also being updated to reflect historic turn-in times. Both of these changes should enhance mobilisation and ensure that the appropriate appliance was deployed to incidents.

#### Risk no. 21 – Risk of rapid external fire spread in high rise premises resulting in a major incident

National policy reform was underway, involving revised Building Regulations, amendments to the Fire Safety Order in 2012 (giving Fire and Rescue Services enforcement powers for cladding and flat front doors) and the new Building Safety Bill in 2022 (making Fire and Rescue Services a joint regulator with the Health and Safety Executive and Building Controls).

Lancashire Fire & Rescue Service Inspectors were undertaking the Ministry of Housing, Communities and Local Government commissioned 'Building Risk Review' of all 75 High Rise residential premises in Lancashire to identify if any hazards exist beyond the use of ACM cladding. Such hazards include other unsatisfactory cladding systems, combustible balconies, and compartmentation breaches etc. Where issues were identified, interim measures were put in place, including an enhanced operational response. All High-Rise owners and managers had been written to, signposting the Government Cladding Remediation Fund.

It was noted that additional funding had been supplied to all Fire and Rescue Authorities to enhance protection arrangements and provide additional equipment. The Service had received approximately £300k of protection transformation funding to review our fire safety protection arrangements to ensure they were fit for the future. Therefore, the Planning Committee had approved a Protection Transformation Team be established which included responsibility to oversee the

Building Risk Review (BRR). Revised governance for Fire Protection would be introduced to drive reform with introduction of dedicated Area Manager and Group Managers for Prevention and Protection. A comprehensive programme was in place to fill all roles and upskill the Protection Workforce to meet the complex demands of the FSO and FSB. Future Risk Based Inspection Programmes would be informed by the findings of the BRR. Inspectors would work with building owners, managers, and residents, to secure appropriate risk mitigation resorting to enforcement only when justified and necessary to do so. In addition, approximately £150k had been received from specific Grenfell related funding which had been used to buy equipment that assisted the evacuation of people from high rise buildings.

RESOLVED: That the Committee noted the actions taken and endorsed the revised corporate risk register.

48/19 DATE OF NEXT MEETING

The next meeting of the Committee would be held on Tuesday, 23 March 2021 at 10:00 hours – venue to be confirmed.

Further meeting dates were agreed for 27 July 2021 and 30 November 2021.

M NOLAN  
Clerk to CFA

LFRS HQ  
Fulwood