

# LANCASHIRE COMBINED FIRE AUTHORITY

## AUDIT COMMITTEE

Tuesday, 20 July 2021, at 10.00 am in the Washington Hall, Service Training Centre, Euxton.

## MINUTES

### PRESENT:

#### Councillors

J Shedwick (Chairman)  
N Hennessy (Vice-Chair)  
S Clarke  
F Jackson  
J Singleton

#### Officers

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

#### In attendance

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

#### 1-20/21 APOLOGIES FOR ABSENCE

Apologies for absence were received from County Councillors M Dad and A Kay.

#### 2-20/21 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

#### 3-20/21 MINUTES OF THE PREVIOUS MEETING

RESOLVED: - That the Minutes of the last meeting held on 23 March 2021 be confirmed as a correct record and signed by the Chairman.

#### 4-20/21 RE-SUBMISSION OF INTERNAL AUDIT PLAN

The Chairman, County Councillor Shedwick explained that the report was being re-considered as the live webcast of the previous meeting failed during the consideration of this item. The report was presented by Mrs Judith Taylor, Internal Audit who advised that the Audit Plan for 2021/22 utilised a total of 70 days which was consistent with previous years. The plan included: Governance and business effectiveness; Service delivery and support, Business processes

(accounts payable, accounts receivable, general ledger, HR / Payroll, treasury management and pension administration); Follow up audit activity in relation to safeguarding and GDPR / data protection compliance; and Other components of the Plan (Management activity and support with National Fraud Initiative data matching processes).

RESOLVED: - That the report be noted and endorsed.

## 5-20/21 INTERNAL AUDIT ANNUAL REPORT

The report was presented by Mrs Judith Taylor, Internal Audit. The Internal Audit Annual Report summarised the work that the Internal Audit Service had undertaken during 2020/21 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 work the Internal Audit Service performed during 2020/21 and 2021/22 in relation to the 2020/21 audit plan, as approved by the Audit Committee in July 2020.

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 Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services Inspection and the findings of Grant Thornton as the Authority's external auditor.

In response to a question raised by County Councillor Singleton, Mrs Taylor advised that the detail in relation to the follow-up work referred to under section 3.19 on page 26 of the agenda pack was detailed in the table on page 30 of the agenda pack and confirmed that for the review of:

- Business continuity planning – there were 2 medium and 2 low risk actions (as raised in the Audit Report presented in February 2019); these had now been implemented;
- Home Fire Safety Checks – there were 2 medium and 4 low risk actions (as raised in the Audit Report presented in July 2020) these had also been implemented; and
- Optimising rota management project – of the 15 actions agreed (as raised in Audit Report presented in July 2019) 9 had been implemented and 6 were currently being progressed.

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.

#### 6-20/21 EXTERNAL AUDIT - AUDIT PLAN 2020/21

The Director of Corporate Services introduced Mr Andrew Smith, Key Audit Partner to present the Audit Plan 2020/21.

The external auditors were required to produce an annual audit plan, setting out the areas it intended to review during the year. Mr Smith advised that the areas of focus were forming and expressing an opinion on: i) the Authority's financial statements that had been prepared by management with the oversight of the Audit Committee and ii) value for money arrangements in place for securing economy, efficiency and effectiveness. The plan highlighted the additional work auditors were required to do in terms of: -

- Increased challenge and depth of work;
- Property plant and equipment valuations;
- Pensions;
- New accounting standards;
- Revised Value for Money arrangements.

Having discussed issues with the Engagement Lead the Director of Corporate Services / Treasurer was of the opinion that all of the issues resulted in an increased workload, which was reflected in the proposed fee which took account of the agreed base fee of £23.7k (as set by Public Sector Audit Appointments [PSAA]) plus a further £15.2k to reflect the additional work required, resulting in a total fee of £38.9k. It was noted that the budget allowed for an audit fee of £35k, therefore this would result in a marginal overspend.

Members considered the Audit Plan which included: key matters that impacted on the audit, details of significant risks identified and the key aspects of proposed response to the risk, accounting estimates and related disclosures, other matters, materiality, value for money arrangements, audit logistics and team and audit fees.

In response to Member concerns raised regarding fee increases over the last 2 years and whether the Authority was made aware of planned increases Mr Smith advised that fees charged now were approximately a third of those charged around a decade ago. Although the fees were at an all-time low, the scope of the work had changed, and the workload increased. He confirmed that the contract for external audit (as awarded by PSAA) was in its third year after which it was hoped the fees would be re-based to a sensible level that would enable the delivery of external auditing services with the right resources. Mr Smith also confirmed that as soon as he was able he did highlight scope changes and possible fee increases.

In response to a comment from County Councillor Singleton in relation to the impact on the Authority of the 'Redmond Review on the Effectiveness of Local Audit and Accountability to the Public', Mr Smith confirmed that the Government was allocating £15m in 2021/22 to help local bodies to meet the anticipated rise in fees for 2021/22 audits. The Director of Corporate Services added that notification on the distribution of the additional funding had not yet been received.

RESOLVED:- That the Audit Committee agreed the external audit plan for 2021/22 and the increased fee.

7-20/21      COMPLIANCE WITH CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA) FINANCIAL MANAGEMENT CODE

The Director of Corporate Services presented the report. The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management (FM) Code was designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. It set the standard of financial management for local authorities, and applied to all local authorities, including police, fire, combined and other authorities. The Code set out a series of financial management standards needed if a local authority was to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Based on this, a self-assessment against these standards had been undertaken as now considered by Members and which demonstrated strong compliance against the Code.

RESOLVED: - That the self-assessment be noted and endorsed.

8-20/21      ANNUAL GOVERNANCE STATEMENT

The Director of Corporate Services presented the report. The Authority was required to produce an Annual Governance Statement as part of the year end process for 2020/21 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; ii) to performance manage the completion of the appraisals and introduce new tools to improve the appraisal conversation; and iii) develop 360-degree assessments for leaders to inform personal development. An update on the position in respect of these was considered by Members.

It was noted that as a result of various reviews a number of areas for further improvements had been identified: -

- An updated IRMP covering the period 2022/27 would be produced;
- The outcome of the Staff Survey would be published and, where relevant, acted upon;
- A project to replace the existing Performance Management System would commence;
- An upgraded Finance system would be implemented in April 2022, as part of that we would review and implement improvements to the monthly budget monitoring process, making greater use of additional functionality provided;
- Develop business cases where required to ensure that value for money was evidenced.

As part of the review, the Service was required to identify and disclose any significant internal control issues, of which there have been none, hence the overall conclusion was that the system of internal controls was adequate.

RESOLVED: - That the Committee noted and endorsed the self-assessment and the Annual Governance Statement based on this and recommended that the Chairman of the Authority sign the Statement.

9-20/21 EXTERNAL AUDIT - UNDERSTANDING HOW THE COMMITTEE GAINS ASSURANCE FROM MANAGEMENT

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 March 2021, 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.

10-20/21 ACCOUNTING ESTIMATES 2020/21

The Director of Corporate Services presented the report. It was noted that the International Standard on Auditing (ISA) 540: Auditing Accounting Estimates and Related Disclosures was revised in December 2018 by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body

that serves the public interest by setting high-quality international standards for auditing, quality control, and review. The auditing standard was revised because Statement of Accounts were increasingly subject to judgements and estimations performed by management and experts on a range of items within them, as required by current accounting standards. These changes required that auditors should understand and evaluate: “the nature and extent of oversight and governance that the entity has in place over management’s financial reporting process relevant to the accounting estimates.” ISA 540 applied to any financial statements beginning on or after 15 December 2019 – for the Authority this meant the 2020/21 financial statements onwards.

The Audit Committee needed to understand what significant estimates would be included within the Statement of Accounts which were those that:

- Required significant judgement by management to address subjectivity;
- Had high estimation uncertainty;
- Were complex to make;
- Had, or ought to have had, a change in method, assumptions or data compared to previous periods; or
- Involved significant assumptions.

The Statement of Accounts contained estimated figures that were based on assumptions about the future or that were otherwise uncertain. Estimates considered historical experience, current trends or other relevant factors. However, because balances could not be determined with certainty, actual results could be materially different from the assumptions and estimates.

It was noted that the Statement of Accounts were prepared with the underlying significant assumption of Going Concern, which meant that the Authority considers its financial position to be stable for the foreseeable future, as assessed at the most recent budget setting exercise finalised in February 2021. Accounting standards required that management made an annual assessment of going concern, although the Code recognised that Local Authorities could not be created or dissolved without statutory prescription, the accounts must therefore be prepared on a Going Concern basis. Management had prepared the assessment in line with requirements.

Members considered the significant Accounting Estimates for 2020/21 including the: estimated value, degree of uncertainty and methodology used for the: i) valuation of land and buildings; ii) depreciation of property and equipment; iii) valuation of both Firefighter and Local Government Pension Scheme (LGPS) liability; iv) valuation of LGPS pension asset; v) fair value measurement – private finance initiative schemes; vi) expenditure accruals – pensionability of allowances; vii) revenue accrual – s31 grant re: business rates additional reliefs in 2020/21; and vii) holiday pay expenditure accrual.

It was noted that in addition, each year Executive Board was asked to consider whether there were any transactions, events, or conditions (or changes in these) that might trigger the recognition of an additional significant accounting estimate, or the potential recognition, known as a contingent liability. Based on the returns received from Executive Board, the contingent liabilities note had been updated to reflect the current position, but there were no further significant events or

transactions identified by this process.

County Councillor Shedwick invited Mr Smith to comment on how external audit verified estimates for the valuation of land and buildings and the valuation of the pension fund. Mr Smith advised that in terms of the valuation of land and buildings a set of indices was broadly used by chartered surveyors and these were used to compare assumptions made by obtaining valuation calculations from a sample of assets re-valued in year, and calculations and data input were checked to ensure accuracy. He confirmed that in relation to pensions, external audit used their own expert to provide a set of data to compare assumptions and to check these were within a reasonable range.

RESOLVED: - That the report be noted and the accounting estimates as reported be endorsed.

#### 11-20/21 ACCOUNTS CORE STATEMENTS

The report presented the Core Financial Statements, which formed part of the Statement of Accounts, for the Combined Fire Authority for the financial year ended 31 March 2021.

The Statement of Accounts contained estimated figures based on assumptions about the future or that were otherwise uncertain, relating to areas such as pension liabilities, property asset valuations etc, as reported earlier on the agenda.

Members noted that the 2020/21 core statements presented did not include the adjustments required for recognising the Authority's share of the collection fund income position for both Council Tax and Business Rates, as the information was not received from all billing authorities in time for inclusion in the report however, this would be updated for the final version of the accounts. It was also noted that the Authority's 25% share of the North West Fire Control accounts ending 31 March 2021 had been included.

In response to Member questions regarding income, the Director of Corporate Services advised that the Authority did receive funding from colleges for the Prince's Trust programme and from Government towards private finance initiative schemes and fire protection.

RESOLVED: - that the Committee noted and endorsed the draft Core Financial Statements.

#### 12-20/21 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 identified 1 new risk which warranted inclusion on the corporate risk register:

##### Increase in costs associated with major Property projects due to changes in Building Regulations

It was noted that a proposed upgrade of the Building Regulations was published as draft legislation in January 2021 which was subject to an on-going

consultation. The construction industry was expecting a significant increase in the environmental standards for new buildings with a zero-carbon requirement anticipated, this had been confirmed in the draft legislation. However, the draft legislation also applied to existing buildings, whereby there would be a requirement to substantially upgrade the environmental credentials of existing buildings when a major refurbishment was undertaken.

This would potentially see a significant increase in upfront costs with more energy efficient heating/insulation being required, such as air-source heat pumps, PV panels, triple glazing etc, all of which were dearer than current standards. In order to mitigate this, it was necessary to account for this in cost estimates for all major property projects and increase the contingency on projects to provide scope to meet potential cost increases.

Given the scale of the Authority's Capital programme over the next 5 years this was considered a high risk at the present time, as if the legislation was implemented it would increase costs significantly on all projects commencing after June 2022, and this was not allowed for in the initial budget estimates.

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

Risk no. 26 – Increase in costs of and/or lack of availability of goods and services, following Brexit

This risk had been expanded to include the pandemic. An increase in the price of construction materials had been seen in the last few months as well as delays in obtaining them. With the contractor on the Workshop/BA school project awaiting some metal stud partitioning to finish one section of the building internally, this was indicative of the supply market at the present time.

Furthermore, the cost of some raw materials was anticipated to increase further in the coming months: i) steel/copper up 30%; ii) sealants up 30%; and, iii) glass up 15%. In order for this to be addressed, the contingency on construction projects would need to be increased to provide scope to meet potential cost increases.

County Councillor Shedwick queried whether Balfour Beatty selling 16 North West Fire Stations would be considered a risk. The Director of Corporate Services advised that the Authority had 2 private finance initiative projects: i) Morecambe and Hyndburn which had been in operation for 18 years and was run by PFF Lancashire Ltd; and ii) together with Cumbria and Merseyside Fire and Rescue Authorities the 16 North West fire stations had been in operation for 8 years, of which 4 (Burnley, Blackburn, Chorley and Fleetwood) were in Lancashire. It was noted that Balfour Beatty had sold that project to a third party who were already operating private finance initiative schemes in the UK, including fire stations. Therefore, it was anticipated there would be minimal impact from the change of ownership. He confirmed that this could be reviewed in due course to determine whether it warranted inclusion on the corporate risk register.

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



13-20/21 DATE OF NEXT MEETING

The next meeting of the Committee would be held on 28 September 2021 at 10:00 hours in Washington Hall, Lancashire Fire and Rescue Service Training Centre, Euxton.

Further meeting dates were noted for 30 November 2021 and agreed for 29 March 2022.

M NOLAN  
Clerk to CFA

LFRS HQ  
Fulwood