

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Tuesday, 28 September 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
M Dad
A Kay
J Singleton

Officers

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

In attendance

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

14-20/21 ANNOUNCEMENT

The reports were not available to the public within the necessary strict statutory timeframe governed by the Local Government Act 1972, section 100B(4) as amended by the Local Government (Access to Information) Act 1985, however as the Authority's accounts needed to be signed off quickly and efficiently the Chairman had agreed the items should be considered at the meeting given the public had notice of the agenda and were at liberty to attend for comment.

15-20/21 APOLOGIES FOR ABSENCE

An apology was received from Councillor Fred Jackson.

16-20/21 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

17-20/21 MINUTES OF THE PREVIOUS MEETING

RESOLVED: - That the Minutes of the last meeting held on 20 July 2021 be confirmed as a correct record and signed by the Chairman.

18-20/21 REVISIONS TO STATEMENT OF ACCOUNTS

The Director of Corporate Services presented the report.

The draft Statement of Accounts for the financial year ended 31 March 2021 presented to Resources Committee and Audit Committee in July 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 2021; 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 September, 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. 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

There were no adjusted misstatements impacting the key statements.

Misclassifications and disclosure changes

A number of misclassifications and disclosure changes which had been adjusted in the accounts were noted as follows: -

- Accounting policies – in the draft financial statements i) the accounting policy for provisions was very brief; ii) there was no accounting policy for joint control; and iii) there was an accounting policy for non-current assets held for sale, even though the Authority did not have any – auditor recommendations were: - i) to include more detail in the accounting policy for provisions; ii) include a policy for how joint control was accounted for; and iii) to remove the policy for non-current assets held for sale.
- Assumptions made about the future and other major sources of estimation and uncertainty – disclosure was made that Local Government Pension Scheme property related assets were subject to material valuation uncertainty at the LCPF which was not the case – auditor recommendation was therefore to remove this disclosure.
- Critical judgements – i) additional reliefs S31 grant 2020/21 were disclosed as a critical judgement. These did not appear to be critical judgements and should be disclosed elsewhere; and ii) disclosure of the judgements around the Authority's assessment that North West Fire Control Limited was a joint

operation and that group accounts were not required were not included in the note, but would be useful for users of the accounts to understand these judgements - auditor recommendations were: i) remove the going concern as a critical judgement disclosure; and ii) consider whether business rates additional reliefs s31 grant 2020/21 would be better disclosed as an estimation uncertainty if there was a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and iii) include a discloser of judgements around the accounting for North West Fire Control Limited.

- Narrative report – in the draft financial statements, the narrative report said the reserves policy had a minimum level of £3.2m. According to the reserves polity this was actually £3.5m – auditor recommendation was to update the disclosure of the minimum level of reserves in line with the policy.
- Private Finance Initiative – the wrong retail price index figure was used in the model for the calculation for the future payments of services for the Balfour Beatty Fire and Rescue NW Limited scheme. The assumed 2.5% should have been replaced by 4.489% which led to a total difference of £78k over the payables within 1-20 years – auditor recommendation was to update the disclosure based on the correct retail price index figure used in the PFI model.
- Financial Instruments – in note 8 of the draft financial statements i) current investment of 2019/20 was wrongly disclosed as £15,000k instead of £5,000k; ii) £3,387k of Other trade receivables was erroneously excluded from financial instruments; and iii) trade payable of 2019/20 was wrongly disclosed as £6,086k instead of £4,255k – auditor recommendation was to update the disclosure for the issues noted.

As all changes requested by Grant Thornton had been made to the accounts the Treasurer to the Fire Authority and the Chair of the Audit Committee were therefore required to approve the revised accounts by signing off the Statement of Responsibilities and the Balance Sheet.

As the audit was not completed it was agreed that if there were any further changes required to the accounts, authority was delegated to the Audit Committee Chairman and the Treasurer to consider and agree any amendments to the Statement of Accounts on behalf of the Committee.

In response to a question raised by County Councillor Singleton regarding the classification of 'other income' referred to on page 19 of the agenda pack, the Director of Corporate Services confirmed that the vast majority of it came from colleges for the Service to deliver the Prince's Trust programme.

In response to a further question raised by County Councillor Singleton regarding long-term borrowing, the Director of Corporate Services advised that the Authority had 3 long-term loans which valued £2.0m. These were taken out in 2007/08 and ran to 2035/36. All were with the Public Works Loan Board and all were fixed term. He advised that the Resources Committee discussed the loans and considered any potential for debt restructure.

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

Accounts and authorised the Audit Committee Chairman and Treasurer to consider and agree any further amendments to the Statement of Accounts.

19-20/21 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 Treasurer confirmed he would sign the letter, as there were no issues which he felt required disclosure.

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

20-20/21 EXTERNAL AUDIT - AUDIT FINDINGS REPORT

Mr Smith, Key Audit Partner attended the meeting remotely to answer any questions. He introduced the report and confirmed that many areas of the audit had been completed which included processing samples of debtors, creditors, income and expenditure which had been identified as an outstanding matter on page 97 of the agenda pack. Other items outstanding included completing work on journals, PPE valuations and pension valuations, a response from Lancashire County Pension Fund auditor to a request for assurance over IAS 19 was awaited and clearance of issues from the audit quality review process. Mr Smith advised that it was more difficult to deliver the audits remotely but there was a lot of hard work being done to meet the deadline of Thursday, 30 September 2021. Mr Smith then introduced Mr Ayre, Audit Manager to present the report.

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 summarising the conclusions from their audit work.

Mr Ayre advised that at the time of writing the report the audit work was substantially complete and there were no matters of which they were aware that would require modification of the audit opinion or material change to the financial statements, subject to outstanding matters, as mentioned previously.

There was one recommendation relating to self-authorisation of journals as set out on page 20 of the report (page 114 of the agenda pack): -

"Our risk assessment of journal controls noted that there are no automated controls on the finance system to prevent members of finance staff approving their own journals. Whilst our audit work on journals so far has not identified any significant issues as a result of this weakness in internal controls, we recommend that the authority establishes an authorisation control to reduce the risk of financial reporting fraud and/or error in future."

The response to this was “We have considered the recommendation. We believe our financial monitoring processes are sufficient to identify if such an instance occurred. Neither ourselves, nor internal and external audit, have discovered any instances of error or reporting fraud that the implementation of this would have prevented. Hence, given the size of our finance team (3.5 FTE including the Head of Finance), we don’t feel that introducing further controls is practical or proportionate to the risk.”

There were no adjusted misstatements impacting the key statements. There were several minor disclosure omissions in the draft accounts which had all been rectified.

The Director of Corporate Services advised that the deadline to publish the audit findings report was Thursday that week. If this was not possible it would be necessary to publish an explanation as to why there was a delay and then publish the report when able. He advised that it was expected there would be many authorities unable to publish on time. Mr Smith advised that incomplete audits was a current issue across the public sector with less than 25% audits signed off. This was due to the challenges set out in the Redmond Review and the recruitment of qualified and experienced auditors. He apologised for the delay and advised that they were making every effort to meet as many deadlines as possible.

In response to a question from County Councillor Singleton, the Director of Corporate Services advised that the £15m that the Government had put aside for councils following the Redmond Review had yet to be allocated. The Chairman requested a report to a future meeting on the allocation of the £15m.

In response to questions from the Chairman, Mr Smith advised that a response from Lancashire County Pension Fund auditor was expected before the deadline however, time would be needed to consider it. In relation to the valuation of buildings, he advised that this should be cleared in good time before the deadline. He confirmed the audit would not be completed before Thursday and was subject to no major issues arising.

In response to a question raised by County Councillor Clarke, the Director of Corporate Services advised that the information was awaited from the Lancashire Pension Fund, which was for support staff not firefighter pensions.

The Chairman and Vice-Chairman were concerned that all the information was not available for the meeting. The Vice-Chairman stated that the audit fee was £38.9k which was a lot of money to pay for something that was not available on time. The Chairman advised that the provision of external auditing services would be re-tendered and re-considered in the near future.

RESOLVED: - That the Committee: -

- i) Noted and endorsed the matters raised in the report;
- ii) Noted the anticipated “unmodified” audit opinion on the financial statements;
- iii) Noted that the auditors had not yet completed all of their value for money

work and so were not in a position to issue a report on that;
iv) It was agreed that in the event the External Auditors found anything significant from the matters outstanding the Chairman and Vice-Chairman of the Committee would consider and note relevant action or determine whether to convene an urgent meeting.

21-20/21 DATE OF NEXT MEETING

The next meeting of the Committee would be held on 30 November 2021 at 10:00 hours in Washington Hall, Service Training Centre, Euxton.

Further meeting dates were noted for 29 March 2022 and agreed for 26 July 2022 and 27 September 2022.

M NOLAN
Clerk to CFA

LFRS HQ
Fulwood