

# Lancashire Combined Fire Authority

## Audit Committee

Tuesday, 25 July 2023, at 10.00 am in the Main Conference Room,  
Service Headquarters, Fulwood.

### Minutes

<b>Present:</b>	
<b>Councillors</b>	
J Shedwick (Chair)	
N Hennessy (Vice-Chair)	
S Clarke	
M Dad	
F Jackson	
J Singleton	

<b>Officers</b>
S Brown, Director of Corporate Services (LFRS) J Meadows, Head of Finance (LFRS) L Barr, Member Services Officer (LFRS)
<b>In attendance</b>
L Rix, Internal Audit, Lancashire County Council A Dalecki, Internal Audit, Lancashire County Council S Hobson, Internal Audit, Lancashire County Council G Jones, External Audit, Grant Thornton D Shaw, FBU

1/23	<b>Apologies for Absence</b>
	Apologies for absence were received from County Councillor Andrea Kay.
2/23	<b>Disclosure of Pecuniary and Non-Pecuniary Interests</b>
	None received.
3/23	<b>Minutes of the Previous Meeting</b>
	<b>Resolved:</b> That the Minutes of the last meeting held on 28 March 2023 be confirmed as a correct record and signed by the Chairman.

4/23	<p><b>External Audit - Audit Plan 2022/23</b></p>
	<p>The Chair, County Councillor Shedwick welcomed Georgia Jones, Audit Manager, Grant Thornton who presented the Audit Plan 2022/23.</p> <p>It was noted that the external auditors were required to produce an annual audit plan, setting out the areas intended for review during the year.</p> <p>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, other matters, progress against prior year recommendations, Grant Thornton’s approach to materiality, IT audit strategy, value for money arrangements, audit logistics and team, audit fees, independence and non-audit services, and communication of audit matters with those charged with governance.</p> <p>The proposed audit fee took account of the agreed base fee of £29.3k (as set by Public Sector Audit Appointments (PSAA)) plus a further £14.5k to reflect the additional work required reflected in the audit plan as presented. This resulted in a total fee of £43.8k (last year’s agreed fee was £40.8k).</p> <p>Updates on the management over-ride of controls risk, prior year audit recommendations, value for money arrangements, and the IT audit strategy and the implementation of the Oracle Fusion: E Business Suite Finance and Payroll system would be provided later in the year.</p> <p>In response to a statement from County Councillor Clarke in relation to audit fees, The Chair stated that the previous year’s fee was £40,000 which was set by the PSAA and the £3,000 fee increase for the current year resonated across local government and external audit fees. Georgia Jones explained that the original fees by the PSAA were set 5 years prior to the contract for 2023/2024. Each year, they faced increased demand from the regulator around requirements and had to charge the Service for the work undertaken.</p> <p>In response to a question from County Councillor Singleton regarding whether the auditors had received the draft accounts, Georgia Jones replied that the draft account had not yet been received. The Chair added that the draft accounts would be addressed later in the agenda.</p> <p>County Councillor Singleton asked if there was a date for the Audit Findings Report. Georgia Jones explained the timetable for the year was for financial statements to be prepared by the end of May with the target date for audit being 1 September which many organisations were finding difficult to meet. She could not give a date for issuing the Audit Findings Report until they had received the draft statements.</p> <p><b>Resolved:</b> - That the Audit Committee agreed the external audit plan for 2022/23 and the increased fee.</p>
5/23	<p><b>Internal Audit Annual Report 2022/23</b></p>
	<p>The Chair, County Councillor Shedwick introduced Laura Rix, Senior Auditor. Laura</p>

Rix requested, and it was agreed, that agenda item 6 (Internal Audit Annual Report 2022/23) be presented before item 5 (Internal Audit Monitoring Report).

The report was presented by Laura Rix. The Internal Audit Annual Report summarised the work that the Internal Audit Service had undertaken during 2022/23 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 Senior Internal Auditor 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 2022/23 and 2023/24 in relation to the 2022/23 audit plan, as approved by the Audit Committee in March 2022.

### **Internal Audit Work Undertaken**

Laura Rix highlighted that it had been a positive year with 8 (72%) agreed actions being implemented, 2 (18%) in progress and 1(10%) superseded. All budgeted days (70) had been spent in delivering the audit plan. All 2022/23 work had been completed.

### **Overall governance, risk management and control arrangements**

A high-level review was completed in April 2023 and no areas of concern were noted. Although the introduction of Fusion had caused some practical issues, additional controls had been introduced to mitigate any risks.

### **Recruitment – Positive Action**

The audit report was completed in January 2023.

### **Carbon Management Arrangements**

The audit report was completed in April 2023.

### **Accounts payable, Accounts receivable and General ledger**

Audit work across each of these three key financial systems was completed in March 2023.

### **HR and Payroll**

The review was completed in November 2022.

### **Pensions administration**

Assurance over the operation of the Pension Fund had been obtained from work conducted directly by Lancashire County Council's Internal Audit Service, work undertaken by the Local Pensions Partnership (Administration) Ltd, (LPPA) Internal Audit, and by KPMG for the Local Pension Partnership (Investments) Ltd (LPPI).

### **Treasury Management**

The review was completed in October 2022. No areas for improvement were

identified.

### **Follow up audit activity**

#### **Training, Learning and Development**

Follow up work was completed during February 2022. Six actions had been implemented.

#### **Management of On Call provision**

Follow up work was completed in June 2023. Two actions had been implemented and two were progressing.

Laura Rix highlighted that, since the last meeting in March, 2 audits had been finalised: Carbon Management and follow-up work on the On-Call Provision.

Overall, the audit provided substantial assurance regarding the adequacy of design and effectiveness in operation of the Authority's frameworks of governance, risk management and control. No significant areas of weakness in overall governance, risk management or control had been identified.

It was acknowledged that the introduction of Fusion had caused some practical issues within LFRS and Internal Audit were satisfied that additional controls had been introduced to mitigate any risks.

### **Other components of the audit plan**

#### **National Fraud Initiative**

Following the submission of data in October and November 2022, the resulting matches were released by the Cabinet Office in January and February 2023. The table in the report detailed the total number of matches identified. Limited action had been taken to process the matches due to the timing of the release and LFRS operational pressures such as Fusion. Action would progress later in the year.

County Councillor Singleton asked why there was no assurance opinion on the work completed on overall governance, risk management and control arrangements (page 44 of the agenda). Laura Rix explained that the work was continuous and linked to the overall opinion of the Authority's frameworks of governance, risk management and internal control through resources reports, committee reports and external assurance received throughout the year.

County Councillor Singleton noted that the follow up work had been implemented and asked if completion dates were in place for the non-conformities. Laura Rix confirmed that there were timeframes for non-conformities to be applied but policies were being embedded and therefore, they were still progressing.

The Chair commented that he was pleased with the number of substantial assurances in the annual report.

**Resolved:** - That the Audit Committee noted and endorsed the report.

6/23	<p><b>Internal Audit Monitoring Report</b></p>
	<p>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 12 June 2023 was presented by Laura Rix, Senior Auditor.</p> <p>To date, 1 day had been spent this financial year on completion of the 2023/24 plan and work to progress the internal audit plan would begin in October. The table in the report provided a summary of the assignments that comprised the 2022/23 audit plan.</p> <p>Since the 2022/23 audit plan was agreed, an additional Audit had been requested by the Director of Corporate Services on District Planning. The proposed additional resources that would be required was approximately 10 days which had been provisionally added to the plan.</p> <p>The Director of Corporate Services explained that, in regard to district planning, HMICFRS required information from Lancashire Fire and Rescue Service relating to planning activity and how the Service plan was being delivered throughout the organisation. Each district in Lancashire had a number of fire stations, through which, the Service plan was delivered with a targeted approach to that area. Each district had its own plan which would be assessed on how it was delivered, monitored, and reported through governance arrangements. It was considered valuable to have an independent assessment to discuss with the Inspectorate and take learning from.</p> <p>County Councillor Dad stated that, in relation to district planning, it was good practice to learn from other sources to improve an already excellent Service and asked that Members were kept updated so they too could be educated.</p> <p><b>Resolved:</b> That the Committee noted and endorsed the report.</p>
7/23	<p><b>Annual Governance Statement</b></p>
	<p>The Director of Corporate Services presented the report. The Authority was required to publish an Annual Governance Statement along with the Authority's financial statements, following a review of the effectiveness of the internal controls in place. The report and the statements 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.</p> <p>The Audit Committee had previously approved a 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.</p> <p>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</p>

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 HMICFRS Inspection which rated the Service as Good.

The assessment also considered recommendations made as part of last year's Annual Governance Statement i) a project to replace the existing Performance Management System would commence; ii) an upgraded Finance system would be implemented in April 2022 and the Service would review and implement improvements to the monthly budget monitoring process which made greater use of additional functionality provided; iii) the Core Code of Ethics would be embedded into the corporate policy, and recruitment and promotion process.

It was noted that as a result of various reviews the following area had been identified for further improvement: -

- Identify a mechanism to report to Members of the CFA our response to national recommendations made by the HMICFRS during the year.

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.

In response to a question from County Councillor Singleton in relation to completion dates for 2 areas for improvement that were listed as 'on-going' in Last Year's Annual Governance Statement, the Director of Corporate Services informed that they would be completed within the financial year and a date for completion would be added before the Chair signed the statement.

**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 once the added dates for completion of the 2 areas for improvement had been added.

8/23

### **Accounting Estimates**

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 served 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."

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 past and current trends and/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 considered its financial position to be stable for the foreseeable future, as assessed at the most recent budget setting exercise finalised in February 2023. 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 2022/23 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; and vi) holiday pay expenditure accrual.

It was noted that 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.

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

9/23

**Financial Statements Update**

The Director of Corporate Services provided the committee with an update on the preparation of the Authority's 2022/23 unaudited financial statements and included the draft core financial statements for information; the Comprehensive Income and Expenditure Account, Movement in Reserves Statement and Balance Sheet.

The Accounts and Audit (amendment) Regulations 2022 came into force on 22 July 2022 and revised the statutory deadline for publishing the audited financial statements to 30 September for 2022/23 accounts and the subsequent 5 years. The deadline for the Authority to produce and publish draft accounts had reverted back to 31 May 2022/23 as per the Accounts and Audit Regulations 2015.

At the previous meeting, the Committee was advised that due to changes in the finance teams and delays implementing the new financial system, the Authority sought to produce their draft set of financial statements for 2022/23 by 31 July 2023. At the time the report was written, the Authority had produced a first draft of the financial statements and its quality assurance processes had now commenced.

There was a requirement to obtain certification of the accounts by the Responsible Financial Officer (RFO); for the Authority, this was the Director of Corporate Services. It would be completed by the end of July and the draft statements published on the Authority's website.

The Accounts and Audit (England) Regulations 2015 applied to the preparation, approval and audit of the Statement of Accounts and other financial statements. The regulations were based on International Financial Reporting Standards (IFRS) which attempted to standardise accounts in a consistent format across both the public and private sectors with the aim of achieving greater transparency. The table in the report summarised the adjustments required to the revenue outturn to reach the Total Comprehensive Income and Expenditure and reported in the financial statements.

The draft Comprehensive Income and Expenditure Account, Movement in Reserves Statement and Balance Sheet were set out Appendix 1. Subject to changes as part of the Quality Assurance Processes, they would form part of the accounts for audit.

It was noted that the Authority now had a reserve balance of £4.5m and in that figure was the quarter share in North West Fire Control. The balance sheet showed the pension reserve left an underlying deficit position, but once that was stripped away, the Service was in a positive position.

The Director of Corporate Services highlighted that all members of the finance team were fairly new to the Service and had carried out an incredible amount of work to make sure the Authority was in a promising position.

Georgia Jones, Audit manager, explained that, to manage expectations, if they received the draft accounts in the upcoming weeks, they would be unable to start work immediately as they would have to manage resources and capacity within the team but assured that the work would be completed as soon as possible.

County Councillor Clarke commented that it had become clear that the unusable reserves on the balance sheet were mainly due to pensions.

County Councillor Singleton asked how confident the finance team were that they could produce the draft financial statements by 31 July and the Director of Corporate service confirmed that they were very confident.



	<p>County Councillor Hennessy invited the new officers from the finance team to future meetings of the Audit Committee for the experience, which the Director of Corporate Services agreed.</p> <p><b>Resolved:</b> - That the committee noted the update with progress in preparing the unaudited Financial Statements; and noted the Authority's draft core financial statements that would form part of the 2022/23 unaudited Financial Statements.</p>
10/23	<p><b>External Audit - Understanding How the Audit Committee Gains Assurance from Management</b></p>
	<p>It was noted that in order to comply with Auditing Standards, the External Auditors, Grant Thornton needed to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with laws and regulations. They were also required to make enquiries of both management and those charged with governance as to their knowledge of any actual, suspected or alleged fraud.</p> <p>International auditing standards placed certain obligations on auditors to document managements' view on some key areas that affected the financial statements. In addition to the request to management, they also needed to gain an understanding of how those charged with governance maintained oversight of the above processes as set out in letters to management (Executive Board) and the Chair of the Audit Committee as now considered alongside separate responses.</p> <p><b>Resolved:</b> That the Committee noted and endorsed the response submitted by the Executive Board and approved the response by the Chair of the Audit Committee for submission.</p>
11/23	<p><b>Date of Next Meeting</b></p>
	<p>The next meeting of the Committee would be held on <b>26 September 2023</b> at 10:00 hours in the Main Conference Room at Lancashire Fire and Rescue Service Headquarters, Fulwood.</p> <p>Further meeting dates were noted for 28 November 2023 and 28 March 2024 and agreed for 25 July 2024.</p>

**M Nolan**  
**Clerk to CFA**

**LFRS HQ**  
**Fulwood**