

Lancashire Combined Fire Authority

Audit Committee

Tuesday, 28 November 2023, at 10.00 am in the Main Conference Room,
Service Headquarters, Fulwood.

Minutes

Present:	
Councillors	
J Shedwick (Chair)	
N Hennessy (Vice-Chair)	
S Clarke	
F Jackson	
M Salter	
J Singleton	

Officers
S Brown, Director of Corporate Services (LFRS) J Meadows, Head of Finance (LFRS) A Latham, Financial Accountant (LFRS) E Hardman, Management Accountant (LFRS) L Barr, Member Services Officer (LFRS)

In attendance
G Jones, External Audit, Grant Thornton A Dalecki, Internal Audit, Lancashire County Council L Rix, Internal Audit, Lancashire County Council I Winston, Internal Audit, Lancashire County Council

12/23	Apologies for Absence
	Apologies for absence were received from County Councillor Munsif Dad BEM.
13/23	Disclosure of Pecuniary and Non-Pecuniary Interests
	None received.
14/23	Minutes of the Previous Meeting
	Resolved: - That the Minutes of the last meeting held on 25 July 2023 be confirmed as a correct record and signed by the Chairman.

15/23

External Audit - Addendum to the Annual Audit Plan

The Chair welcomed new County Councillor Matthew Salter to his first Audit Committee meeting.

Jacque Meadows, Head of Finance, introduced new members of the Finance Team Adam Latham, Financial Accountant, and Emma Hardman, Management Accountant, who were in attendance to observe the meeting.

Georgia Jones, Key Audit Partner, Grant Thornton presented the report for the Addendum to the Audit Plan to the meeting.

It was noted that the external auditors had identified an additional risk to the audit plan which had been agreed by the Audit Committee on 25 July 2023. The additional risk related to incomplete or inaccurate information transferred to the new general ledger hosted by Lancashire County Council (LCC) which would require additional work in order to respond to the risk.

In January 2023, Lancashire Fire and Rescue Service moved from using Oracle E-Business Suite (EBS) ledger system to Oracle Fusion, which was a cloud-based system. Lancashire County Council hosted the Oracle Fusion system on behalf of LFRS and processed employee, supplier, and customer personal and financial data.

It was important when implementing a new significant accounting system that sufficient controls were in place to ensure the integrity of the data. There was also a risk over the completeness and accuracy of the data transfer from the previous ledger system and potential challenges in producing robust control account reconciliations and detailed transaction reports.

LCC experienced problems with the data migration from the Oracle EBS to the Fusion system and there were also instances of data breaches. Therefore, it had been identified that the completeness and accuracy of the transfer of financial information to the new general ledger was a significant risk which was one of the most significant assessed risks of material misstatement.

The additional work to respond to the risk included: -

- completing an Information Technology (IT) environment review by IT specialists to document and evaluate the design and implementation of controls within the new general ledger system; and
- map the closing balances from the previous ledger to ensure accuracy and completeness of the financial information.

In response to a query from County Councillor Salter regarding the reason that migration to Oracle Fusion had not been identified as a significant concern at the Audit meeting in July, Georgia Jones explained that external audit were unaware of significant concerns in July and it was only when system controls were investigated that the concerns were found by IT on the control issues on the implementation of the new system. At the July meeting, the planning had been carried out and the reports had been drafted and so the November meeting had been the first

	<p>opportunity for external audit to bring the update.</p> <p>County Councillor Singleton asked if additional costs relating to the addendum were included in the agenda. Georgia Jones advised that the item was related to the following year 2023/24 audit work, therefore once the current audit work had been completed, potential costs could be assessed, discussed with the Director of Corporate Services, and brought to the Committee for approval.</p> <p>Resolved: That the Committee noted and endorsed the report.</p>
16/23	<p>External Audit - Audit Findings Report</p>
	<p>Georgia Jones, Key Audit Partner presented the Audit Findings report to the Committee.</p> <p>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.</p> <p>Georgia Jones advised that at the time of writing the report the audit work was substantially complete and there were two recommendations that were agreed by management listed below: -</p> <ul style="list-style-type: none"> • a review of the fixed asset register to ensure excess depreciation was not charged against fully depreciated assets; and • to consider if the general ledger could be updated to include additional journal details which had now been implemented. <p>The two recommendations and management responses were set out on page 26 of the report (page 46 of the agenda pack): -</p> <ol style="list-style-type: none"> 1. "We recommend the Authority examine the fixed asset register to ensure excess depreciation is not charged against fully depreciated assets and correct this for future years." <p style="margin-left: 40px;">"The assets with a negative net book value will be corrected during 2023/24 and new procedures will be put in place to ensure assets are not depreciated beyond their cost or value in the future."</p> 2. "We recommend the Authority looks into whether the system can be updated to include details of preparer/authoriser." <p style="margin-left: 40px;">"A new process was implemented towards the end of 2022/23 to record the journal preparer and approver. The approval of journals is required by Accountants, or more senior members of the Finance Team, and this is required to be saved within the journal file. A journal register records the unique journal reference, accounting period, preparer, and approver. This is reviewed to minimise the risk of self-authorisation on journal postings".</p> <p>The Value For Money (VFM) work had not yet been completed, however, a draft report had been issued the Auditors Annual Report was expected to be reported by</p>

the end of the calendar year.

Georgia Jones informed that there were no matters of which they were aware that that required would require modification of the audit opinion or material change to the financial statements, subject to outstanding matters listed below: -

- responses from the pension fund auditor to gain assurance on underpinning controls and supporting data for the pension fund net liability;
- an international Financial Reporting Interpretation Committee (IFRIC 14) assessment from the actuary on the amount of pension fund asset (surplus) in the LGPS scheme;
- an update Government Actuary Department (GAD) report to reflect part year inflation for the valuation of the Firefighters pension fund (currently in discussion);
- completing testing on areas of land and buildings valuations, including an assessment of the impact of reinforced autoclaved aerated concrete (RAAC);
- completion of testing on the fair value of financial instruments;
- our Information Technology (IT) assessment on the data migration controls to the new Oracle Fusion system;
- receipt of management representation letter;
- review of the final set of financial statements; and
- final quality procedures.

Georgia Jones drew the Members attention to pages 8 (page 28 of the agenda pack) to 11 (page 31 of the agenda pack) which detailed significant risk which required special audit consideration, which were management override of controls (which was a mandatory risk for all audit and journal testing had been completed with nothing to report), improper revenue recognition, valuation of land and buildings, and valuation of pension fund net liability.

The Chair confirmed that the security of Oracle Fusion had now been enhanced by increasing the length of user passwords to a minimum of 16 characters.

County Councillor Salter asked if there had been a known issue with passwords in relation to password security for the Oracle Fusion database referenced on page 27 (page 47 of the agenda pack), Georgia Jones stated, last year, it had been identified that the password configuration was weak, and the strength could be improved which was then amended when the new ledger was implemented. The Chair added that, as the external auditors worked closely with LCC, it had led to early detection of the issues with the security of passwords.

County Councillor Salter inquired how the Committee would be updated when the VFM work had been completed. Georgia Jones explained that there would be a comprehensive report with more detail included in the External Auditors Annual Report with the potential for a meeting to be held before the March Committee to present the report.

County Councillor Singleton commented that, as referenced on Page 5 (Page 25 of the agenda pack), some local authorities had taken excessive risks by borrowing more than their revenue budgets whereas no areas of risk had been identified in

	<p>the Service's Treasury Management activities.</p> <p>The Chair thanked Georgia Jones for her report.</p> <p>Resolved: - That the Committee: -</p> <p>i) Noted and endorsed the matters raised in the report;</p> <p>ii) Noted and endorsed the two recommendations and management responses on page 26 of the report.</p>
17/23	<p>External Audit - Letter of Representation</p> <p>As part of the year-end process the Authority was required to sign a letter of representation on completion of the audit. 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.</p> <p>It was noted that an additional representation had been included this year in relation to Reinforced Autoclaved Aerated Concrete (RAAC); that was identified in one building which had been highlighted to the auditor and the Service was not aware of any other property in its portfolio that was impacted by this issue.</p> <p>The Director of Corporate Services informed that he was requesting that the authorisation for the signing of the letter be agreed in principle. He proposed that a meeting of the Audit Committee be held before the planned meeting in March to receive the financial statements once adjustments had been made following the external audit, along with the Letter of Representation.</p> <p>The Committee agreed to defer the signing of the letter and the Treasurer confirmed he would sign the letter when there were no issues which he felt required disclosure following any further matters determined from the work by the auditors.</p> <p>In response to a query from County Councillor Singleton regarding a full breakdown of additional costs, Georgia Jones advised that the Final Audit Findings Report 2022/23 as well as the Letter of Representation would contain a full breakdown of the original agreed fee and any additional costs.</p> <p>Resolved: - That the Audit Committee authorised the signing of the letter by the Chair of the Audit Committee on completion of the audit.</p>
18/23	<p>External Audit Fees</p> <p>The Director of Corporate Services presented the External Audit Fees to Members which provided an update on the proposed audit fees from 2023/24 advised by Public Sector Audit Appointments Ltd (PSAA) following the appointment process reported to the CFA in December 2021.</p> <p>The CFA accepted the Public Sector Audit Appointments invitation to opt-in to the national scheme in December 2021. Following a process, the auditors Grant Thornton, were appointed for a further five years from 2023/24. The procurement</p>

took place against the challenging backcloth of a troubled audit profession, a turbulent market and a local audit system facing unprecedented difficulties including large volumes of delayed audit opinions.

The Committee was advised that in Autumn 2023, the PSAA would consult on the proposed scale of audit fees payable by bodies in respect of the audit of 2023/24 accounts and to expect increases of the order of 150% on the total fees for 2022/23.

Audit requirements had increased in recent years as a result of increased regulatory challenge, changes to the audit work required under the Code of Audit Practice and updated auditing and financial reporting standards. On the 19 September, the Chief Executive of the PSAA advised the Authority of the proposed fee for 2023/24 of £92,606; representing a 151% increase. Alongside this, the PSAA launched a consultation on the fee scales which the Service responded to.

The consultation on the 2023/24 fee scale was taking place at a time of change in the local audit system. The audit profession had been subject to high levels of scrutiny in recent years following several widely reported financial failures in the private sector and increase in reported Section 114 notices across the sector. It was noted that the 2023/24 auditor appointments and fee scale was due to be published on 30 November 2023.

The financial pressure would be included in the 2024/25 budget report to the Authority in February 2024.

The Director of Corporate Services thanked the External Audit Team for their work.

Georgia Jones, Key Audit Partner, Grant Thornton explained that the PSAA set the Audit fees which were also affected by an annual increase, changes in the regulatory environment, work for the valuation of land and buildings, and work around pension figures. New audit standards had been introduced such as ISA 315 regarding IT controls and ISA 240 concerning fraud which created additional work. Additionally, there were recruitment difficulties due to the specialist nature of the work and a limited number of accredited individuals who were able to sign-off accounts.

The Chair stated that external audit fees was something well-rehearsed in all councils and County Councillor Singleton who was present was the Vice-Chair for Audit Risk and Governance at Lancashire County Council.

County Councillor Singleton commented that discussions had taken place at Lancashire County Council regarding audit risk and governance in relation to increased fees. He acknowledged that audit specialism was becoming a scarce skill.

County Councillor Hennessy advised that she understood the background and history of audit and how the process had changed, affecting fees. Georgia Jones commented that Audit fees were currently lower than they were in 2011 when the Audit Commission ended.

	Resolved: That the Committee noted the proposed 2023/24 audit fees and response to the consultation.
19/23	Internal Audit - Monitoring Report
	<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 11 November 2023 was presented by Laura Rix, Senior Auditor.</p> <p>Laura Rix introduced Ian Winston, Senior Auditor who had assisted with the work and would become more involved.</p> <p>To date, 22 days had been spent this financial year on completion of the 2023/24 plan, equating to 28% of the total planned audit activity of 80 days. The table in the report provided the current status of all audit work.</p> <p>One audit, Management of Change within LFRS, had been completed with substantial assurance. Since the report was written, the Equality Impact Assessment audit had been completed with substantial assurance which would show in the next report. District planning activity had also been completed and would be reported back to the Committee, and HR/payroll was currently in progress. Going forward, work was being progressed with Heads of Service with all work being completed by the end of the financial year. The audit plan would be proposed at the March Audit Committee.</p> <p>No areas of concern came to attention in conducting the assurance work to date that required bringing to the attention of committee members.</p> <p>In response to a request from County Councillor Hennessy for more detail on the Management of Change within LFRS audit, Laura Rix explained that the change was with how projects were managed across the Service, how the process was managed, if projects were being signed off, if benefits were realised and if Project Managers were trained. It was found to be positive, and projects were managed well.</p> <p>County Councillor Singleton queried if the remaining work would be completed by the end of the financial year given the number of days spent and the number remaining and asked for improved visibility. Laura Rix assured that the work would be completed and informed that going forward, she would add an extra column to the report for the quarter in which work would be completed. Andrew Dalecki, Head of Internal Audit added that with work of a financial nature, it was necessary to leave a period to allow transactions to go through.</p> <p>The Chair thanked the Internal Audit Team for their report.</p> <p>Resolved: That the Committee noted and endorsed the report.</p>
20/23	Date of Next Meeting
	The next meeting of the Committee would be held on a date to be confirmed at

10:00 hours in the Main Conference Room at Lancashire Fire and Rescue Service Headquarters, Fulwood.

Further meeting dates were noted for 28 March 2024, 25 July 2024 and 26 September 2024 and agreed for 28 November 2024.

**LFRS HQ
Fulwood**

**M Nolan
Clerk to CFA**