

Lancashire Combined Fire Authority Audit Committee

Thursday, 28 March 2024, 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) L Barr, Member Services Officer (LFRS)
In attendance
G Jones, External Audit, Grant Thornton Y Li, External Audit, Grant Thornton L Rix, Internal Audit, Lancashire County Council E Harrison, Student K Wilkie, Fire Brigades Union

21/23	Apologies for Absence
	Apologies for absence were received from County Councillor Munsif Dad.
22/23	Disclosure of Pecuniary and Non-Pecuniary Interests
	None received.
23/23	Minutes of the Previous Meeting
	Resolved: - That the Minutes of the last meeting held on 28 November 2023 be confirmed as a correct record and signed by the Chairman.
24/23	Statement of Accounts 2022/23

The Chair welcomed Ellie Harrison, a student, to the meeting who was present to observe.

The Director of Corporate Services gave thanks to the External Auditors, Internal Auditors, and the Finance Team for all their work on the arduous process of the Statement of Accounts.

The Director of Corporate Services presented the report to the meeting. The report presented the Statement of Accounts for the financial year ended 31 March 2023 which included the Authority's 25% share of the North West Fire Control accounts. Its purpose was to give electors, local taxpayers, Fire Authority Member, employees, and other interested parties clear information about the Fire Authority's finances.

The Committee considered the Statement of Accounts as presented.

The aim was to provide information on:

- The cost of providing Fire Authority services in the financial year 2022/23.
- How these services were paid for.
- What assets the Fire Authority owned at the end of the financial year.
- What was owed, to and by, the Fire Authority at the end of the financial year.

The narrative report provided a guide to the most important matters which were included in the Statement of Accounts. The Statement of Accounts had been prepared in accordance with the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021 and the Code of Practice on Local Authority Accounting in the United Kingdom.

The Statement of Accounts contained: -

Statement on Annual Governance Arrangements – Set out the Authority's responsibilities regarding the system of internal control on corporate governance.

Independent Auditor's Report to Members of Lancashire Combined Fire Authority – The Auditor's report to the CFA on the accounts for 2022/23, which were set out in the agenda pack.

Statement of Responsibilities for the Statement of Accounts – Set out the responsibilities of the Authority and the Treasurer regarding the statement of accounts.

Comprehensive Income & Expenditure Statement – The Statement showed the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Fire Authority raised taxation to cover expenditure in accordance with regulations; this could be different from the accounting cost. The taxation position was shown in the Movement in Reserves Statement.

Movement in Reserves Statement – This statement showed the movement in year on the different reserves held by the Fire Authority analysed between usable

and other reserves. The surplus or deficit on the Provision of Services line showed the true economic cost of providing the Fire Authority's services, more details of which were shown in the Comprehensive Income and Expenditure Statement.

Balance Sheet – This showed information on the financial position of the Fire Authority as at the 31 March 2023, which included the level of balances and reserves at the Fire Authority's disposal, its long-term indebtedness and the value of the assets held by the Fire Authority.

Cash Flow Statement – This showed the cash and cash equivalent movements in and out of the Fire Authority due to transactions with third parties for revenue and capital purposes.

Fire Fighters Pension Fund Account and Net Assets Statement – This presented the financial position of the fire fighters pension fund account, which showed whether the Authority owed, or was owed, money by the Government in order to balance the account, together with details of its net assets.

The Director of Corporate Services drew the Members attention to Page 17 of the agenda pack for the review of the year which included that, the Service had invested in equipment in response to climate change and operational crews had begun to deliver Business Fire Safety Checks (BFSC).

In the 2022/23 Financial Overview on Page 18 of the agenda pack, it was noted by Members that a £5 increase in Council Tax had been agreed in line with the Council Tax referendum limit which allowed for an affordable, prudent, and sustainable budget that ensured that the Authority was able to deliver against its corporate priorities. The Director of Corporate Services highlighted that the 2022/23 firefighter pay award agreed for the proceeding and subsequent year of 7% and 5% respectively, had been more than anticipated and budgeted for which added to financial pressures. The Authority had a good level of general reserves, however consequently, it had resulted in an overspend of £1.7m.

The chart on page 19 of the agenda pack illustrated that employee costs accounted for approximately 70% of the budget funding and the majority of the income came from Council Tax.

It was stated on Page 20 of the agenda pack that the Authority's general fund balance at start of the year was £6.04m and the overspend of £1.67m from the Authority's expenditure had been transferred to the reserve which reduced the balance to £4.37m. The Authority also held an additional £9.3m of earmarked revenue reserves and £22m of capital reserves and receipts. The Capital reserves and receipts were fully utilised within the medium-term financial strategy which would reduce to zero in 2027. Over half of the earmarked reserves related to the Authority's two Private Finance Initiative (PFI) schemes, whereby monies were set aside in the early years of the scheme to meet future costs, thus easing the impact of inflationary pressures.

Page 21 of the agenda pack explained that the Authority's Total net liabilities had reduced from £753.7m to £502.5m which reflected the Authority's compliance with International Accounting Standards and in particular, the requirement to show the

full pensions liability in the accounts. Whilst the liability on the Local Government Pension Scheme was partly funded, the Fire-fighters Pension Scheme was unfunded, i.e. there were no assets from which future liabilities would be paid, and hence the Authority's overall Fire-fighters pension liability of (£651.5m) was extremely large. If this liability was excluded, the Authority's Total Net Assets would be £149.0m. There was a significant reduction in the Firefighter Pension Scheme liability of £224.4m; a reduction of over a quarter. The change was due to several changes in actuarial assumptions, the most significant impact was a higher discount rate which was used to calculate the present value of future pension liabilities. As the discount rate increased, the pension liability decreased. The pension liability included estimated costs in relation to the McCloud judgement.

In relation to a question from County Councillor Salter, the Director of Corporate Finance explained that the overspend on premises (as listed in the table of page 20 of the agenda pack), was due to inflationary pressures and the significant increase in the cost of utilities.

County Councillor Singleton queried the meaning of intangible assets as mentioned on page 36 of the agenda pack. Adam Latham, Financial Accountant advised that intangible assets were not physical assets but consisted of the utilisation of software. The Director of Corporate Services added that where the Service spent money on implementing IT systems, it could be capitalised and depreciated over the life of the software.

In response to a question from County Councillor Clarke in relation to the sizable loss of Pensions Reserve from the previous year on page 65 of the agenda pack, the Director of Corporate Services explained that the reserve related to the unfunded firefighter pension scheme which meant that there were no assets to match the liability of £600m. The liability was reviewed every year by an Actuary relating to factors such as life expectancy, salary changes, and economic considerations. Regarding the reduction in liability, a substantial change had been the discount rate (the rate used to value the current cost of future pension obligations), which had largely been affected by inflation. Georgia Jones, Key Audit Partner, informed that the pension reserve matched the pension liability and so had reduced accordingly. It was noted by Members that it was an unusable reserve.

County Councillor Singleton queried whether the investments the Service had, were credible (page 49 of the agenda pack). The Director of Corporate Services confirmed that the investments were secure, and the Treasury Management Strategy set permitted establishments for investment. Laura Rix, Senior Auditor, advised that the Treasury Management Audit would provide more assurance and it was confirmed that the Audit concurred with the Treasury Management Audit at Lancashire County Council.

In response to a question raised by County Councillor Singleton regarding council tax debt collection (page 51 of the agenda pack), and whether LFRS had any involvement of recovery of the debt, the Director of Corporate Services confirmed that recovery of the debt was the responsibility of district councils, and the Service had no involvement.

Resolved: - That the Committee approved the Statement of Accounts and

	authorised the Audit Committee Chair to sign them.
25/23	External Audit - Letter of Representation
	<p>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.</p> <p>It was noted by Members that there had been additional representation included this year in relation to Reinforced Autoclaved Aerated Concrete (RAAC); that had been identified in one building which had been highlighted to the Auditor, and it was confirmed that the Service was not aware of any other property in the Authority's portfolio that was impacted by the issue.</p> <p>The Treasurer confirmed that he would sign the letter, as there were no issues which he felt required disclosure.</p> <p>Resolved: - That the Audit Committee authorised the signing of the letter by the Chair of the Committee.</p>
26/23	External Audit - Audit Findings Report
	<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 that summarised the conclusions from their audit work.</p> <p>The audit was substantially complete, and the auditors expected to issue an unqualified audit opinion following the Audit Committee meeting subject to receipt of the management letter of representation and final quality procedures. The Value For Money (VFM) work had been completed.</p> <p>Since the last report to the Audit Committee, the following areas of work had been completed:-</p> <ul style="list-style-type: none"> • Verified the responses from the pension fund auditor to gain assurances on underpinning controls and supporting data for the pension fund net liability. • Checked the International Financial Reporting Interpretation Committee (IFRIC 14) assessment from the actuary on the amount pension fund asset (surplus) in the Local Government Pension Scheme (LGPS) and tested the amendments to the financial statements. • Tested the updated Government Actuary Department (GAD) report which reflected part year inflation for the valuation of the Firefighters pension fund and agreed the revised entries in the financial statements. • Completed testing on areas of land and buildings valuations, which included the examination of the assessment of the impact of reinforced autoclaved aerated concrete (RAAC).

- Completed testing on the fair value of financial instruments.
- Examined the Information Technology (IT) assessment on the data migration controls to the new Oracle Fusion system and completed additional work in that area.
- Checked the final set of financial statements.

Georgia Jones highlighted that the Lancashire Pension Fund auditor had provided assurances on the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The Authority obtained an IFRIC 14 assessment from its actuary which concluded the asset ceiling as £nil. The Authority had now updated the financial statements to reduce the Local Government pension fund net asset from £19.877m to £nil. Discussions were held with the Government Actuary's Department (GAD) on the level of inflationary increases within their assessment of the year end liability. GAD had not included part year inflation in their original calculations. As a result, the Authority received a revised assessment which increased the year end liability by £12,040k (from £639,496k to £651,536k). The Authority had updated the financial statements to reflect this.

Regarding the issue of incomplete or inaccurate financial information being transferred to the new general ledger, Georgia Jones informed that, to gain assurance over the completeness and accuracy of the data migration from Oracle EBS to Oracle Fusion for the preparation of the 2022/23 financial statements, Grant Thornton carried out a full substantive test on the balance transfer. It was found that they had all been correctly entered in the new Oracle Fusion system. In addition, additional work had been completed to check user access controls as part of the work on journals and no issues had arisen.

County Councillor Singleton queried whether the significant weakness identified on page 113 of the agenda pack would be classed as 'red' or 'high priority'. Georgia Jones explained that, as part of Value For Money work, a significant weakness had been identified and it would be classed as 'red' or 'high priority'. Further information was contained in the Auditors Annual Report 2022/23 in the agenda pack.

Resolved: - That the Committee:-

- i) Noted and endorsed the matters raised in the report;
- ii) Noted and endorsed the Action Plan set out in Appendix 1 within the Audit Findings Report.

27/23

External Audit - Auditors Annual Report 2022/23

Georgia Jones, Key Audit Partner, presented the report.

Under the National Audit Office Code of Audit Practice, the external auditors were required to consider whether the Service had in place, proper arrangements to secure economy, efficiency, and effectiveness in its use of resources.

As reported, the audit was substantially complete, and the auditors expected to

issue an unqualified audit opinion following the Audit Committee meeting subject to receipt of the management letter of representation and final quality procedures.

The auditors had made some improvement recommendations and had identified a significant weakness which had resulted in a key recommendation arising from their work on the Authority's value for money arrangements to secure economy, efficiency, and effectiveness in its use of resources. This key recommendation and management response was set out on Page 144 and 145 of the agenda pack as follows:

- Recommendation – The Authority needed to ensure it maintained a robust framework of financial governance to ensure risks to financial resilience and sustainability were adequately monitored and controlled. The Authority should: Develop a plan to address its general reserves position and its current use of reserves to balance its financial position. It needs to set out how its General Fund will be brought to a level that mitigates the risk to future financial sustainability; and Continue to take steps to contain expenditure and deliver sustainable savings.
- Management Comments – The Authority set its 2023/24 budget during a period of extreme financial uncertainty: at the time facing potential industrial action and an unsettled pay award dating back to the previous July. Having one of the highest levels of usable earmarked reserves and general reserves across all fire authorities, the Authority was in a strong financial position and the budget was set with the high expectation that the general reserve would be able to absorb the financial impact of the pay award, which it ultimately was able to. Other funding options were available such as reducing the capital programme commitments that would not have reduced reserves, but this strategy ensured there was no impact on services or the capital ambitions of the Authority. It was accepted that in setting the 2023/24 budget, a longer-term budget gap was forecast which would result in further reductions in the general reserve without additional funding or cost reductions. The Authority now had greater certainty on its capital programme costs and, at the time the report was written, expected the Authority to set its 2024/25 budget that planned to address the long-term general reserve forecast position.

Members noted that from the management comments that the external auditors were satisfied this key recommendation had been addressed in setting the budget for 2024/25. The Director of Corporate Services confirmed that the budget gap identified in the Medium Term Financial Strategy (MTFS) had been addressed as part of setting the 2024/25 and the general reserve remained at £1m above the minimum level of reserves for the five-year period of the MTFS.

Resolved: - That the Committee noted the management comments and endorsed the report.

28/23

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

	<p>findings. The report for the period up to 01 March 2024 was presented by Laura Rix, Senior Auditor.</p> <p>To date, 58.50 days had been spent this financial year on completion of the 2023/24 plan, equating to 73% of the total planned audit activity of 80 days. The table in the report showed the current status of all audit work.</p> <p>Since the last Committee meeting, three audits had been completed: Equality Impact Assessments; District Planning Activity; and Human Resources/Payroll. District Planning Activity had an assurance rating of 'Limited', however, agreed actions had begun and Internal Audit were satisfied that the actions would resolve the issues identified in the report. No areas of concern had come to the attention of the auditors which needed to be brought to the attention of the Committee.</p> <p>Resolved: - That the Committee noted the report.</p>												
29/23	<p>Internal Audit Plan 2024/25</p>												
	<p>The Internal Auditors were required to produce an Annual Audit Plan, which set out areas they intended to review during the year. The plan amounted to a total resource of 70 audit days in 2024/25 which equated to an overall cost of £28,280 (the daily rate for auditors would be £380 and audit managers £450), which was consistent with previous years. The previous year had a total resource of 80 audit days due to additional work.</p> <p>A proposed plan was presented by Laura Rix, Senior Auditor.</p> <p>The internal audit plan was designed to provide the evidence necessary to support an opinion of governance, risk management and control as well as sufficient coverage over operations as a whole either on an annual or periodic basis to enable production of a robust annual audit opinion.</p> <p>Individual items were proposed for inclusion in the annual audit programme based on known changes to operational activity, systems or processes and information obtained from the annual governance review, from the review of the corporate risk register and by liaising with the Director of Corporate Services to establish his view of those areas where independent assurance would be welcomed.</p> <p>Where it was known that assurance would be provided from another body, the Internal Audit Service would not duplicate work but would take into account if it was relevant to the overall opinion on governance, risk management and control.</p> <p>The deployment of audit resources was proposed as follows: -</p> <table data-bbox="274 1787 1161 2040"> <tr> <td>Governance and business effectiveness</td> <td>3 days</td> </tr> <tr> <td>Service delivery and support</td> <td>30 days</td> </tr> <tr> <td>Business Processes</td> <td>24 days</td> </tr> <tr> <td>Follow up audit activity</td> <td>2 days</td> </tr> <tr> <td>Other components of the audit plan</td> <td>11 days</td> </tr> <tr> <td>Total</td> <td>70 days</td> </tr> </table>	Governance and business effectiveness	3 days	Service delivery and support	30 days	Business Processes	24 days	Follow up audit activity	2 days	Other components of the audit plan	11 days	Total	70 days
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	<p>Resolved: - That the Audit Committee agreed the Internal Audit Plan for 2024/25.</p>
30/23	<p>Risk Management</p>
	<p>The Director of Corporate Services presented the report to Members. Members were provided with a copy of the Corporate Risk Matrix as a supplement to the report.</p> <p>Improvements to Lancashire Fire and Rescue’s (LFRS) organisational risk management were identified to bolster its robustness. A proposal was presented to the Corporate Programme Board (CPB) in August 2023 which outlined a new LFRS risk management policy and procedure aligned with ISO 31000:2018 standards. This introduced a tiered approach to organisational risk and enhanced monitoring and management, as well as the adoption of a new corporate risk register, in line with the National Fire Chiefs Council (NFCC) template. Upon adoption, effective risk management practices were now integrated into quarterly CPB meeting agendas, strategic oversight was provided, legislative compliance was ensured, resource allocation was optimised, and risk reporting to the Combined Fire Authority was facilitated.</p> <p>The Audit Committee was a cornerstone of the Authority’s governance framework, tasked with providing independent assurance to governance stakeholders regarding the adequacy of LFRS’s risk management framework, annual governance processes, and internal control environment. Its primary function included evaluating the effectiveness of the Authority’s risk management arrangements. Accordingly, the report outlined recent enhancements to the LFRS risk management framework for consideration.</p> <p>The Civil Contingencies Act (CCA 2004) set out the legal framework for contingency arrangements to assess, plan and advise against LFRS organisational risks, be it departmental or corporate, however, there was no prescriptive way within the framework of doing that. Therefore, the Service had the freedom to manage risk using a method that ensured a clear governance structure that best met the needs of the business.</p> <p>This moral and statutory duty not only required LFRS to take all reasonable actions to safeguard its employees, assets, and the public, but also ensured that it was not financially or operationally disrupted. It could meet this duty by ensuring that risk management played an integral part in the governance of the Service at a strategic, tactical, and operational level.</p> <p>A comprehensive review of the corporate risk profile revealed adherence to fundamental aspects of risk management at LFRS. However, to ensure compliance with legislative requirements and bolster the robustness of the risk management framework, several proposed changes were identified. In parallel, the NFCC’s Business Continuity group broadened its scope to include risk within its Terms of Reference (ToR) and developed a corporate risk register template to be used across the fire sector.</p>

A proposal was presented to the Corporate Programme Board in August 2023, which outlined a new risk management policy, procedure, and alignment of the LFRS Corporate Risk Register with the NFCC template. This policy and procedure aligned with ISO 31000:2018, which ensured an accurate description and appropriate monitoring and management of LFRS risks. Additionally, a tiered approach to risk was introduced, which allowed for escalation or de-escalation as needed.

Effective risk management practices aligned with ISO 31000:2018 yielded numerous benefits for LFRS that included proactive risk mitigation, enhanced decision-making, clear accountability, and improved financial control. By integrating risk management into quarterly CPB meetings as a standing agenda item, LFRS aimed to provide strategic oversight of the risk management process. Overall, these measures enabled LFRS to fulfil its legislative duties and optimise resource allocation while providing a structured mechanism for reporting on risk to the Audit Committee.

A recent external audit, conducted by Grant Thornton, assessed the changes introduced to the LFRS organisational risk management framework and concluded that significant progress had been achieved. Since its establishment, the new Corporate Risk Register had undergone quarterly review and updates by all pertinent risk managers and owners.

In conclusion, recent enhancements to the LFRS risk management framework, aimed to ensure compliance with legislative requirements, bolster the robustness of risk management practices, and provide a structured mechanism for reporting to the Audit Committee, which further optimised resource allocation and strategic oversight.

Members noted that the top three risks identified in the risk register were:

- Loss of Funding (the Service had not received a long-term settlement over the last few years, however, the Service was working with the NFCC to lobby the government for a multiyear financial settlement that ensured financial sustainability);
- Cyber Security (actions were noted on page 233 of the agenda pack); and
- Retention and Recruitment of on-call Staff (actions were noted on page 239 of the agenda pack).

The Chair commented that the Service was transparent with information relating to any risks.

County Councillor Salter highlighted that on page 231 of the agenda pack, for the Risk of 'Inability to recruit or retain key staff', the current controls/mitigations were incorrect as they related to the risk of 'water' on page 233. The Director of Corporate Service confirmed that it would be amended.

In response to a question from County Councillor Singleton regarding the audit of Cyber Security, Laura Rix, Senior Auditor, explained that the Internal Auditors audited Resilience Contingences as it was administrative, however, once that was completed, it would then be decided whether external IT auditors would be required for the technical aspect of the audit.

	<p>In response to a question from County Councillor Hennessy in relation to the key recommendation of financial resilience and sustainability, the Director of Corporate Services advised that it was covered and cross referenced in the risk register under 'Loss of Funding' which impacted on the Service's financial sustainability.</p> <p>Resolved: - That the Committee: -</p> <ul style="list-style-type: none"> i) Approved the new risk management policy, procedure, and the associated organisational risk register layout; ii) Endorsed the up-to-date Corporate Risk Register and its content.
31/23	Date of Next Meeting
	<p>The next meeting of the Committee would be held on 25 July 2024 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 26 September 2024 and agreed for 28 November 2024.</p>

M Nolan
Clerk to CFA

LFRS HQ
Fulwood