

Lancashire Combined Fire Authority Audit Committee

Monday, 8 July 2024, at 10.00 am in the Main Conference Room, Service Headquarters, Fulwood.

Minutes

Present:	
Councillors	
M Clifford (Chair)	
J Shedwick (Vice-Chair)	
S Clarke	
J Hugo	
F Jackson	
M Salter	

Officers
S Brown, Director of Corporate Services (LFRS) J Meadows, Head of Finance (LFRS) A Latham, Financial Accountant (LFRS) S Hunter, Member Services Manager (LFRS)
In attendance
Y Li, External Audit, Grant Thornton L Rix, Internal Audit, Lancashire County Council K Wilkie, Fire Brigades Union

1/24	Apologies for Absence
	Apologies were received from County Councillor John Singleton.
2/24	Disclosure of Pecuniary and Non-Pecuniary Interests
	None received.
3/24	Minutes of the Previous Meeting
	Resolved: That the Minutes of the last meeting held on 28 March 2024 be confirmed as a correct record and signed by the Chair.
4/24	Internal Audit Annual Report

The report was presented by Laura Rix, Senior Auditor. The Internal Audit Annual Report summarised the work that the Internal Audit Service had undertaken during 2023/24 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 Auditor provided substantial assurance over the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.

Internal Audit Work Undertaken

All the budgeted days (80) had been used to deliver the internal audit plan and all 2023/24 work had been completed.

Overall governance, risk management and control arrangements

Substantial assurances were provided regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control. Systems and processes were generally working effectively and ensured staff were aware of correct processes. Action plans were agreed with Senior Managers for issues raised during the year.

Accounts payable, Accounts receivable and General ledger

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

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. No areas for improvement were identified.

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.

In response to questions from County Councillor Salter in relation to Oracle Fusion, the Head of Finance gave assurances that an approval hierarchy was in place with regular dip sampling which hadn't identified any issues.

In response to a question from the Chair in relation to how District planning activity was managed, the Director of Corporate Services confirmed activity was managed consistently through an annual risk plan.

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

5/24

External Audit - Audit Plan

Ying Li, External Audit Manager presented the Audit Plan 2023/24.

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.

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.

The proposed audit fee was £92.6k (last year's fee was £52.1k).

The report identified significant risk areas were i) Management of override of controls, ii) Valuation of land and buildings and iii) valuation of the pension fund net liability/ surplus. This was consistent with the standard risks seen in all government organisations.

Ying Li confirmed that the audit was ongoing and findings would be reported to the September Audit Committee Meeting.

In response to a statement from County Councillor Clarke in relation to audit fees, the Chair stated that the fees were combined into one rather than being billed separately. The Director of Corporate Services added that there had been an increase in audit fees across the whole sector as many local authorities were in financial difficulty which required more scrutiny on Audit, consequently meaning fees had risen.

In response to questions from County Councillor Salter in relation to the national context of the report being more relevant to Local Authorities than the Fire Service, the Director of Corporate Services confirmed that the annual audit identified financial stability risks which were similar across the sector for both Local Authorities and Fire Services.

Resolved: That the Audit Committee agreed the external audit plan for 2023/24.

6/24

Annual Governance Statement

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.

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.

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 A. 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) a mechanism to report to Members of the CFA the services response to national recommendations made by the HMICFRS during the year would be identified.

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.

Resolved: That the Committee noted and endorsed

- I. The self-assessment and the Annual Governance Statement based on this and recommended that the Chair of the Authority sign the Statement.
- II. The updated Local Code of Governance

7/24

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 2024. 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 2023/24 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.

8/24

External Audit - Understanding how the Audit Committee Gains Assurance from Management

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.

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

	<p>the Audit Committee as now considered alongside separate responses.</p> <p>In response to questions from County Councilor Shedwick in relation to solicitors used for property matters, the Director of Corporate Services confirmed that any specialist matters would be reviewed by experts.</p> <p>Resolved: 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>
9/24	<p>Financial Statements Update</p>
	<p>The Director of Corporate Services provided the committee with an update on the preparation of the Authority's 2023/24 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.</p> <p>The Director of Corporate Services explained that for the financial year 2023/24, the draft accounts should have been published by the statutory deadline; 31 May 2024, and the audited accounts should have been made available by 31 July 2024. Unfortunately, this timeline would not be met due to reasons outside the organisations control, but the draft accounts were subsequently published on 5 July 2024.</p> <p>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.</p> <p>The draft Comprehensive Income and Expenditure Account, Movement in Reserves Statement and Balance Sheet were set out in Appendix 1. Subject to changes as part of the Quality Assurance Processes, they would form part of the accounts for audit.</p> <p>In response to questions from County Councilor Salter in relation to the missed statutory deadline, the Director of Corporate Services confirmed that the deadline was Statutory and due to the deadline being brought forward this would always be a challenge to achieve. He confirmed that the Finance Team was now established, however a vacancy earlier in the year had impacted the small team. The Director of Corporate Services further advised that a number of Local Authorities had failed to meet the deadline. Ying Li confirmed that this was a National issue.</p> <p>In response to a question from the Chair in relation to penalties of missing the statutory deadline, the Director of Corporate Services confirmed there were no penalties and external audit had not been delayed.</p> <p>Resolved: That the committee noted the update with progress in preparing the</p>

	unaudited Financial Statements; and noted the Authority's draft core financial statements that would form part of the 2023/24 unaudited Financial Statements.
10/24	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 06 June 2024 was presented by Laura Rix, Senior Auditor.</p> <p>To date, 1 day had been spent this financial year on completion of the 2024/25 plan. Laura advised that a more detailed report would be brought to the next Resources Committee Meeting. The table in the report provided a summary of the assignments that comprised the 2023/24 audit plan.</p> <p>Resolved: That the Committee noted and endorsed the report.</p>
11/24	Date of Next Meeting
	<p>The next meeting of the Committee would be held on 26 September 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 28 November 2024 and agreed for 27 March 2025.</p>

M Nolan
Clerk to CFA

LFRS HQ
Fulwood