

Public Document Pack



To: All Members of the Audit Committee
(and any other Members who may wish to attend)



Clerk to the Authority

Tel: 0151 296 4000
Extn: 4113 Kelly Kellaway

Your ref:

Our ref HP/DM

Date: 27th May 2020

Dear Sir/Madam,

You are invited to attend a meeting of the **AUDIT COMMITTEE** to be held at **1.00 pm** on **THURSDAY, 4TH JUNE, 2020**. This meeting will be held remotely, via Zoom.

To view the proceedings of this meeting, please click on the link below:

<https://youtu.be/ADDXksZ-ULQ>

Yours faithfully,

A handwritten signature in black ink that reads 'K. Kellaway PP.'.

Clerk to the Authority

Encl.

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MERSEYSIDE FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

4 JUNE 2020

AGENDA

Members

Cllr Del Arnall
Cllr Janet Grace
Cllr Andrew Makinson
Cllr Linda Maloney (Chair)
Cllr Lisa Preston
Anthony Boyle, Independent Person

1. Preliminary Matters

Members are requested to consider the identification of:

- a) declarations of interest by individual Members in relation to any item of business on the Agenda
- b) any additional items of business which the Chair has determined should be considered as matters of urgency; and
- c) items of business which may require the exclusion of the press and public during consideration thereof because of the possibility of the disclosure of exempt information.

2. Minutes of Previous Meeting (Pages 5 - 8)

The Minutes of the previous meeting of the Audit Committee, held on 13th February 2020, are submitted for approval as a correct record and for signature by the Chair.

3. EXEMPT Minutes - 18th March 2020

The Minutes of the additional meeting of the Audit Committee, held on 18th March 2020, are submitted for approval and signature by the Chair.

These Minutes contain EXEMPT information, by virtue of Paragraphs 1 and 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

4. External Audit Plan 2019-20 (Pages 9 - 28)

To consider the attached report from the Authority's External Auditors – Grant Thornton, concerning the External Audit Plan 2019-20.

5. **TREASURY MANAGEMENT 2019/20 ANNUAL REPORT** (Pages 29 - 40)

To consider Report CFO/025/20 of the Treasurer, concerning the activities of the Treasury Management operation and actual performance against the agreed Prudential Indicators in 2019/20. This report meets the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Authority is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

6. **2019/20 ANNUAL YEAR-END INTERNAL AUDIT REPORT** (Pages 41 - 54)

To consider Report CFO/027/20 of the Treasurer, concerning the Annual Year End Internal Audit report for 2019/20.

7. **2020/21 INTERNAL AUDIT PLAN** (Pages 55 - 60)

To consider Report CFO/024/20 of the Treasurer, concerning the proposed Internal Audit plan for 2020/21 and to seek comments from Members on the plan.

8. **THE ANNUAL GOVERNANCE STATEMENT 2019/2020** (Pages 61 - 76)

To consider Report CFO/026/20 of the Treasurer, concerning the Authority's Annual Governance Statement. This statement fulfils the Authority's statutory requirement to prepare a statement of internal control in accordance with proper practices, and to present an annual review of the effectiveness of the current system.

If any Members have queries, comments or require additional information relating to any item on the agenda please contact Committee Services and we will endeavour to provide the information you require for the meeting. Of course this does not affect the right of any Member to raise questions in the meeting itself but it may assist Members in their consideration of an item if additional information is available.

Refreshments

Any Members attending on Authority business straight from work or for long periods of time, and require a sandwich, please contact Democratic Services, prior to your arrival, for arrangements to be made.

MERSEYSIDE FIRE AND RESCUE AUTHORITY

MEETING OF THE

AUDIT COMMITTEE

13 FEBRUARY 2020

MINUTES

Present: Cllr Linda Maloney (Chair) Councillors Janet Grace, Andrew Makinson and Lisa Preston

Also Present:

Apologies of absence were received from: Cllr Del Arnall and Anthony Boyle

5. Chair's Announcement

Prior to the start of the meeting, information regarding general housekeeping was provided by the Chair to all in attendance.

The Chair confirmed to all present that the proceedings of the meeting would not be filmed.

The meeting was declared open.

1. Preliminary Matters

Members considered the identification of declarations of interest, any urgent additional items, and any business that may require the exclusion of the press and public.

Members resolved that:

- a) no declarations of interest were made by individual Members in relation to any item of business on the Agenda
- b) no additional items of business to be considered as matters of urgency were determined by the Chair; and
- c) no items of business required the exclusion of the press and public during consideration thereof, due to the possible disclosure of exempt information.

2. Minutes of the previous meeting

The Minutes of the previous meeting of the Audit Committee held on 26th September 2019, were approved as a correct record and signed accordingly by the Chair.

3. GT Annual Audit Letter 2018-2019 FINAL

Members considered the attached report from the Authority's External Auditors – Grant Thornton, concerning the Annual Audit Letter 2018-19.

Auditor, Michael Green, from Grant Thornton advised Members that following the completion of the audit Members were asked to consider the contents of the Audit letter, however the contents of the Annual Audit Letter were consistent with the contents of the Audit Finding Report that went to Policy & Resources on 12th December 2019. .

The Auditor confirmed his opinion on the Authority's Financial Statements, that they remain unqualified, and that he remains satisfied that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources to achieve value for money.

Members were advised that the final audit fee for 2018/19 was £8,000 higher due to the additional work that was required to ascertain the higher levels of assurance required in the updated audit standards for:

- Pension liabilities under IAS 19 and an assessment of the impact of the McColud ruling
- Property valuations

This fee variation is outlined in more detail in the Audit Letter.

Members resolved that:

- a) the content of the External Audit Letter 2018-19, be noted.

4. FINANCIAL REVIEW 2019/20 - APRIL TO DECEMBER

Members considered report number CFO/004/20 of the Director of Finance, concerning the revenue, capital and reserves financial position for the period April to December 2019.

Members were advised that the Revenue net budget requirement of £60.282m remains consistent with the original budget, with any budget movements in the 3rd quarter being self-balancing adjustments from either the inflation provision or reserves. Budget savings are being delivered as expected.

After reviewing the year-end income and expenditure forecasts officers have identified some revenue savings:

- £200,000 saving from the non-firefighter employee budget, which is a result of staff vacancies arising from staff turnover in the year.
- £50,000 saving from the non-employee budget, which has been identified on the supplies and services budget and is a result of savings on professional fees.
- £50,000 saving on the non-employee inflation provision, as price increases can be contained within the base budget in a small number of areas.
- The total identified saving is £300,000.

The current strategy is to use any additional savings identified in the year to pay debt off earlier in an attempt to free-up future Minimum Revenue Provision (MRP) budget for investment in frontline services. It is recommended that the £300k saving be used to fund an additional MRP payment in the year.

In relation to the Capital position, Members were advised that a number of small new schemes funded by reserves and revenue have been added to the programme during quarter 3 totalling £44,000. Also, £9.470m has been re-phased from 2019/20 into future years to reflect the expected actual yearly spend. The report outlines the reasons for this re-phasing and an analysis of the relevant schemes.

As a result of the re-phasing of the new St Helens fire station the planned £1.8m drawdown from the capital reserve in 2019/20 has been reversed, resulting in an increase of £1.8m in the capital reserve balance for 2019/20. The reserve drawdown will now take place in 2020/2021.

Treasury Management activities are consistent with the approved Treasury Management strategy. Members were advised that no new loans have been taken out so far this year and none are planned to be taken out before 31.03.2020. Investments have been made within the limits set for the various institutions, and stood at £31.8m as at the end of December.

Members questioned the increase in borrowing in quarter 1 outlined in Appendix C, the five-year capital programme, and were informed that this was due to the re-phasing of capital schemes at the end of 2018/19.

It was also asked by Members why the Training and Development Academy refurbishment is not now taking place until next year. Members were informed that this scheme is being delayed while officers look at the option of building a new TDA on a different site.

A further question raised by Members was if Merseyside Fire and Rescue Authority (MFRA) compare its reserves with other Fire and Rescue Authorities (FRA). The Director of Finance advised that the National Fire Chiefs Council do produce an analysis of all FRA reserves but each FRA is responsible for determining the level of reserves it requires to meet specific risks. As part of the Medium Term Financial Plan, the reserves section outlines the Authority's

reserve strategy to support and justify the level and different reserves that the Authority requires.

Members resolved that:

- a) an increase in the Minimum Revenue Provision (MRP) payment of £0.300m funded from the forecast revenue savings identified in this report, be approved.
- b) the proposed revenue and capital budget changes outlined in the report, be approved; and
- c) the Director of Finance be instructed to continue to work with budget managers to maximise savings in 2019/20.

Close

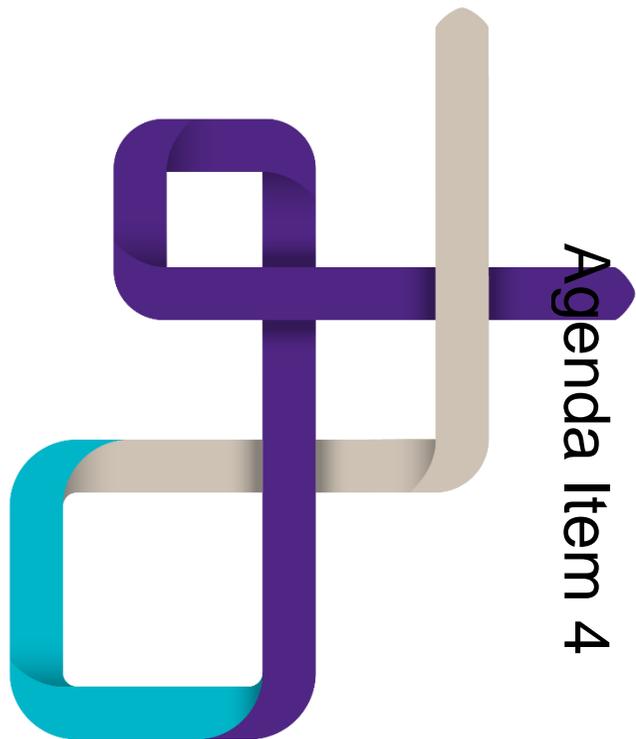
Date of next meeting Wednesday, 19 February 2020



External Audit Plan

Year ending 31 March 2020

Merseyside Fire and Rescue Authority
May 2020
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Agenda Item 4

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Merseyside Fire and Rescue Authority ('the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). The Code summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Authority. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the :

- Authority financial statements that have been prepared by management with the oversight of those charged with governance; and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Authority's business and is risk based.

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Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Revenue – Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue. We have rebutted this risk.
- Management override of controls – Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.
- Valuation of land and buildings – The risk that the valuation of property, plant and equipment is materially misstated.
- Valuation of pension fund net liability – The risk that the valuation of the Authority's pension fund net liability is materially misstated.
- Covid-19 pandemic - The impact of the virus and associated events including the national lockdown on the financial statements of the Authority.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.553m (PY £1.494m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £77,700 (PY £75,000).

ISA 320 also requires auditor to determine lower materiality levels where there are "particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users". We have identified the disclosure of senior manager salaries and allowances as an area where a lower materiality level is appropriate. Due to public interest in these disclosures and the statutory requirement for them to be made, we have set a materiality level of £20,000 (PY £20,000) in respect of this disclosure.

1. Introduction & headlines

Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risk: <ul style="list-style-type: none">• Arrangements to secure medium and long term financial sustainability.
Audit logistics	Our interim visit took place in March and April and our final visit will take place from July to September. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £29,966 (PY: £32,966) for the Authority, subject to the Authority meeting our requirements set out on page 13.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

2. Key matters impacting our audit

Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents.

The Authority has set a balanced plan for 2019/20 with reserves levels being maintained. No new long term borrowing is planned in the medium term, with the Authority continuing its policy of reducing investments and only taking short term borrowing to cover cash flow requirements.

The government is continuing to push forward with its Fire reform Agenda, resulting with a number of Fire and Rescue Authorities across the country undergoing service transformations of varying degrees. In addition the outcome of the Grenfell Tower inquiry could lead to changes in practices and working arrangements.

The Authority is working with the Police as part of a Joint Collaboration Board to improve public safety and community resilience.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Covid-19 pandemic

The emergence of the Covid-19 pandemic is an unprecedented global situation of which the significant cannot be underestimated and the implications to individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far as we can.

In April 2020, the government announced that the deadline for local government financial statements audits will be extended to 30th November 2020 from 31st July 2020.

Our response

We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.

We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance and Investment and is subject to PSAA agreement.

As far as we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Following the government's announcement on Monday 16th March, we have closed our offices for the foreseeable future and have asked our people to work from home rather than in the office.

All of our staff are set up to work remotely and we use a variety of tools to communicate and share information such as Microsoft Teams and Inflo.

3. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Merseyside Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Authority values land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. Additionally, whilst we acknowledge that the Authority's whole property portfolio was revalued in 2018/19, management need to ensure the carrying value in the Authority's financial statements is not materially different from the current value at the financial statements date.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • evaluate the competence, capabilities and objectivity of the valuation expert. • write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Authority's asset register. • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Authority's pension fund net liabilities, as reflected in its balance sheet as the pension liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liabilities are considered significant estimates due to the size of the numbers involved and the sensitivity of the estimates to the changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liabilities as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the information provided by the Authority to the actuary to estimate the liability. • Assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability. • Test the consistency of the pension fund asset liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Impact of Covid-19 pandemic	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as recovery of receivable balances • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report for the year ending 31 March 2020.

4. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements
 - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

5. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

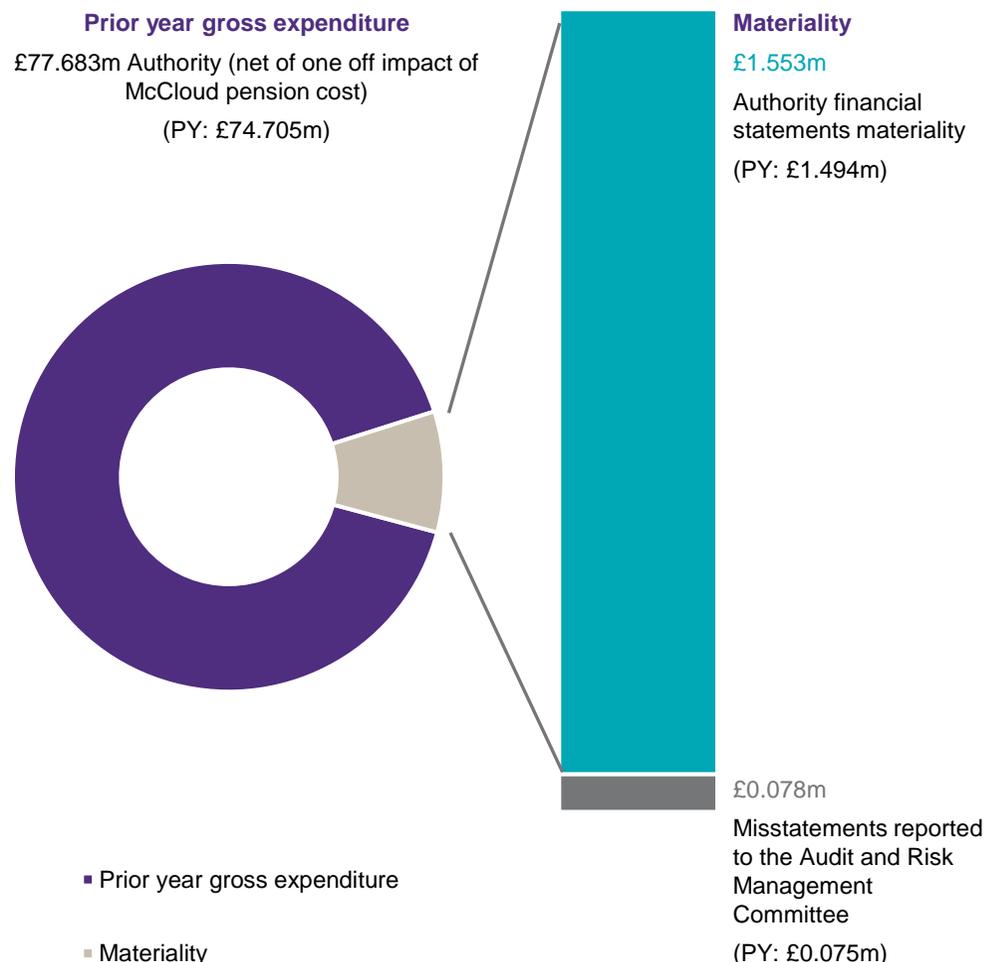
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. (Note that we have reduced the prior year gross expenditure for the one off impact of the McCloud Pension Cost). In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.553m (PY £1.494m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20,000 for individual's Senior Officer remuneration disclosed in the accounts.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to Those Charged with Governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Authority any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.078m (PY £0.075m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Authority to assist it in fulfilling its governance responsibilities.



6. Value for Money arrangements

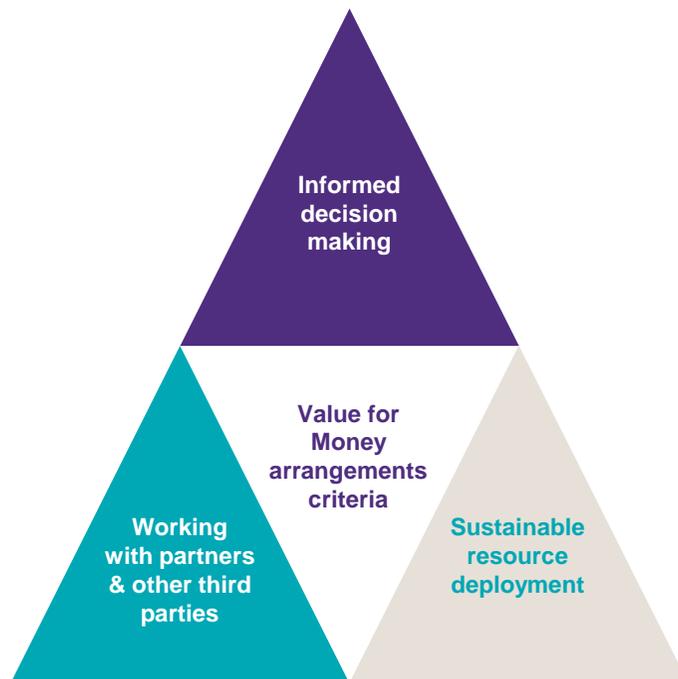
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



Arrangements to secure medium and long term financial sustainability including delivery of the reserves and estates strategies

The Authority is operating under a current climate of funding reductions, changes in legislation and policy requirements, and changes to the regulatory bodies and frameworks.

The Authority has a significant capital programme which plans to spend £43m over five years which is key to its medium and long terms financial sustainability. The longer term plans of the Authority involve maintaining an appropriate level of reserves which are in line with financial prudence and responsible financial planning.

We will review your arrangements for budgeting, monitoring and reporting financial performance. We will review updates to your medium term financial strategy and assess the long term sustainability of your reserves strategy.

We will also consider the impact of the Covid-19 pandemic on the Authority's financial plans. This work is part of the sustainable resource deployment sub-criteria

7. Audit logistics & team



Michael Green, Engagement Lead

Michael leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meaning the highest professional standards and adding value to the Authority

Naomi Povey, Audit Manager

Naomi plans, manages and leads the delivery of the audit, is your key point of contact for your Finance team and is your first point of contact for discussing any issues.

Ying Li, Audit In-charge

Ying's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively and efficiently and supervises and coordinates the on site audit team.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative statement and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

8. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Director of Finance and is subject to PSAA agreement.

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	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Authority audit fee (excluding VAT)	£32,424	£32,966	£29,966

Assumptions

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	24,966	
Increased challenge and depth of work	1,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Property, Plant and equipment	1,750	We have increased the volume and scope of our audit work to ensure an adequate level of audit security and challenge over the assumptions that underpin PPE valuations.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
New accounting standards/developments	500	Implementation of IFRS 16 had been deferred until 2020/21 following the impact of Covid 19. The Authority will however, need to consider disclosures in this area under IAS 8. We also anticipate additional work to be required in response to the significant risk around Covid-19 and associated value for money considerations.
Revised scale fee (to be approved by PSAA)	29,966	

9. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No other services were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees. The firm is committed to improving our audit quality – please see our transparency report - <https://www.granthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

Appendix



A. Audit Quality – national context

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- Page 26
- improve the extent and rigour of challenge of management in areas of judgement
 - improve the consistency of audit teams' application of professional scepticism
 - strengthen the effectiveness of the audit of revenue
 - improve the audit of going concern
 - improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	6TH JUNE 2020	REPORT NO:	CFO/025/20
PRESENTING OFFICER	IAN CUMMINS, DIRECTOR OF FINANCE		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	TREASURY MANAGEMENT 2019/20 ANNUAL REPORT		

APPENDICES:	APPENDIX A: TREASURY MANAGEMENT 2019/20 ANNUAL REPORT
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Purpose of Report

1. To advise Members of the activities of the Treasury Management operation and actual performance against the agreed Prudential Indicators in 2019/20. This report meets the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Authority is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

Recommendation

2. That Members note the Treasury Management Annual Report 2019/20 (attached as Appendix A)

Introduction and Background

3. Treasury management is defined as:

“The management of the organisation’s cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

4. The CIPFA Code of Practice for Treasury Management in Local Authorities has been adopted by the Authority and a Treasury Policy Statement incorporated in Financial Regulations in accordance with the requirements of the Code. The arrangements for reporting Treasury management activities to Members are that a minimum of three reports are presented to members: -
 - An Annual Treasury Strategy Report before the start of a financial year.
 - An interim report during the second half of a financial year. Other interim reports will be prepared if necessary.

- An annual outturn report by 30th September following the financial year to which it relates.

Annual Treasury Management Strategy

5. The Authority determines before the start of each financial year an agreed treasury management strategy to set certain parameters and guidelines around which the treasury management function will operate. The 2019/2020 – 2023/2024 Budget and Financial Plan report, CFO/004/18, considered by Members at the Authority meeting on 22nd February 2019, set the Authority's treasury management strategy for 2019/20:

The strategy sets limits for the next three years on:-

- overall Level of External Debt
- operational Boundary for Debt
- upper limits on fixed interest rate exposure
- upper limits on variable rate exposure
- limits on the maturity structure of debt
- limits on investments for more than 364 days

The strategy covers:

- prospects for interest rates;
- capital borrowing and the portfolio strategy;
- annual investment strategy;
- debt rescheduling;
- external debt prudential indicators;

6. As short term interest rates were expected to be lower than long term borrowing rates the Authority, as part of its approved treasury management strategy, agreed to reduce investments and borrow for short periods when necessary. The interest rate market was monitored throughout the year for any changing circumstances requiring a review of the current strategy.

Interim Treasury Management report

7. The interim treasury management report, CFO/078/19, was considered by Members at the Policy and Resources Committee on 13th December, 2019. The report confirmed that to date treasury management activity in 2019/20 had been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.

Annual Outturn Treasury Management report

8. The Treasury Management Annual Report 2019/20 is attached as Appendix A to this report and demonstrates that treasury management activity has been carried out in-line with the approved Treasury Management Strategy and therefore within the borrowing and treasury management limits set by the Authority throughout the year. Treasury Management practices have maintained full compliance with the relevant Codes and Statutes.

9. The Authority's Treasury Management function is carried out by Liverpool City Council via a service level agreement.

Equality and Diversity Implications

10. None arising from this report.

Staff Implications

11. None arising from this report.

Legal Implications

12. This report meets the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Authority is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

Financial Implications & Value for Money

13. The cost of Treasury Management Services was £22,400 in 2019/20 and was provided by Liverpool City Council.
14. The Authority's overall debt outstanding during the year reduced from £37.6m to £37.3m:-

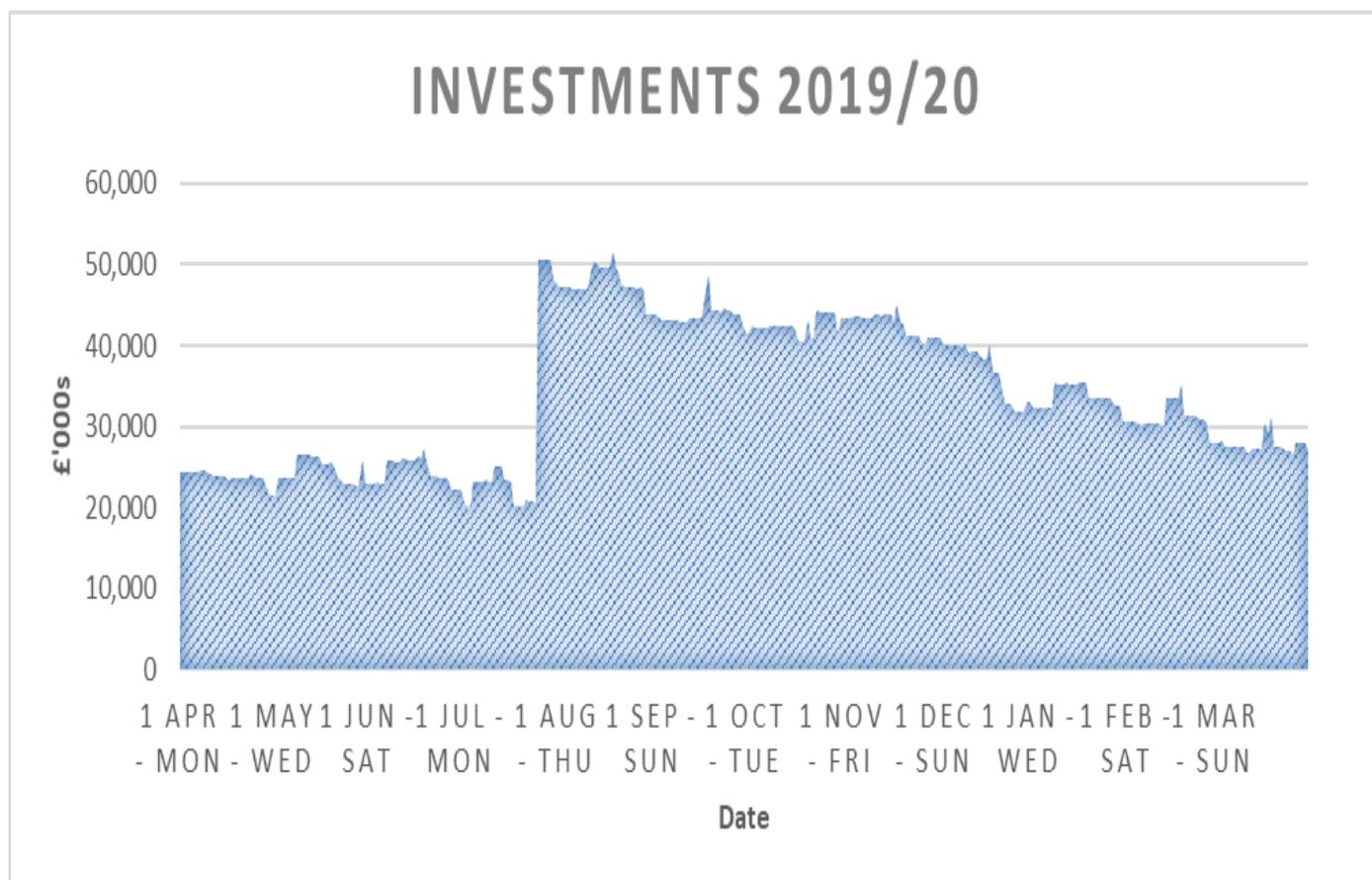
		For Periods ending (2019/20)												
	Opening Position	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Closing Position
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
PWLB	37,600		0	0	(300)	0	0	0	0	0	-0	0	0	37,300
	37,600	0	0	0	(300)	0	0	0	0	0	-0	0	0	37,300

15. The reduction in debt of £0.3m was due to the repayment of a £0.3m loan that matured in the year.
16. The Authority paid total interest of £1.9m on all the debt during the year which was consistent with the budget. The reason for no new loans being taken out in the year (and as a consequence lower interest payments) is due to the current strategy of using available cash to fund capital investment rather than seek new loans while investment interest rates are so low.

17. The movement on the level of opening and closing investments is summarised below:

	£'m
01/04/19	22.1
31/03/20	27.0

Total investment levels moved during the year as outlined in the graph below:



18. The reason why the level of investments increased in the year is that the Authority receives significant grant income in advance of actual expenditure. For example the firefighter pension grant of £30.1m was paid in July but actual pension payments are spread throughout the year.
19. A combination of the grants received in advance of expenditure and the cash available as a consequence of the current reserve strategy meant the Authority had £27.0m of investments at the year-end.
20. The investments are held in institutions that reflect the approved investment strategy. The table overleaf outlines the £27.0m of investments held as at 31st March 2020;

ANALYSIS OF INVESTMENTS END OF QUARTER 4 2019/20

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society	Local Authority	Average Interest
		£	£	£	£	%
Aberdeen Global	AAA	2,000,000				0.77
Bank of Scotland (HBOS)	A		2,000,000			1.25
Close Brothers	A		2,000,000			1.25
Goldman Sachs	A		1,000,000			0.66
HSBC (MFRS Deposit Account)	A		2,000,000			0.50
Santander	A		2,000,000			0.75
Coventry BS				2,000,000		0.91
Cumberland BS				1,000,000		1.00
Leeds BS				2,000,000		0.69
Newcastle BS				1,000,000		1.25
Nottingham BS				1,000,000		1.15
Principality BS				1,000,000		0.96
Skipton BS				1,000,000		0.92
West Bromwich BS				1,000,000		1.10
North Lanarkshire BS					2,000,000	1.00
Surrey Heath BC					2,000,000	0.85
Lancashire CC					2,000,000	1.05
						0.94
Totals		2,000,000	9,000,000	10,000,000	6,000,000	
Total Current Investments					27,000,000	

**MM Fund - Money Market Funds -these are funds that spread the risk associated with investments over a wide range of credit worthy institutions.*

21. Income earned on investments was £0.301m which was £0.129m above the amount budgeted for, reflecting the increase in the value of investments held in the year.

Risk Management, Health & Safety, and Environmental Implications

22. Robust management of the Authority's cash, investments and loans reduces the risk of poor security of investments, the lack of availability of funds when required, and a poor return on investments.

23. A good Treasury Management Strategy ensures that funds are available to meet the approved financial plan and therefore the delivery of services required to achieve the Authority's mission.

BACKGROUND PAPERS

CFO/004/18 2019/2020-2023/2024 Budget and Financial Plan report, Authority 22nd February, 2019

CFO/078/18 Interim Treasury Management report, Policy and Resources Committee 13^h December, 2019.

GLOSSARY OF TERMS

TREASURY MANAGEMENT ANNUAL REPORT 2019/20

INTRODUCTION

1. The CIPFA Code of Practice for Treasury Management in Local Authorities has been adopted by the Authority. The Code requires that Treasury Management activities are subject to regular reports to Members. This report represents the final report on Treasury Management for 2019/20.
2. The strategy for the year was identified in the Treasury Management Strategy Statement 2019/20. The strategy covers the following areas:
 - (a) prospects for interest rates;
 - (b) capital borrowing and debt rescheduling;
 - (c) annual investment strategy;
 - (d) external debt prudential indicators;
 - (e) treasury management prudential indicators.
 - (f) performance indicators;
 - (g) treasury management advisors

PROSPECTS FOR INTEREST RATES

3. Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that the Bank Rate would remain at 0.75%. A recurring theme throughout 2019/20 in the UK was the uncertainty regarding the withdrawal process from the European Union, acting as a dampener on growth and inflation expectations. The initial departure deadline of 29th March 2019 was initially extended to 12th April, then to 31st October and finally 31st January 2020. The General election in December 2019 provided a working majority to the conservative party and in January 2020 the Government was able to pass the withdrawal agreement legislation, taking the UK into a transition period that is due to run until 31st December 2020. Any hopes that the move to the transition period might lead to an increase in growth, were quickly dashed as the full effects of the coronavirus pandemic began to emerge. Following the initial outbreak and subsequent lockdown in China, the virus has spread globally with hotspots in Europe and the United States of America. In the UK a lockdown was implemented in late March with the closure of schools and all non-essential retail outlets.
4. In response to the emerging crisis central banks globally have cut interest rates and sought to provide liquidity through the purchase of financial assets. In the UK the Bank of England cut rates to 0.25% from 0.75% and subsequently cut again to a record low level of 0.1%. The Government has introduced a number of measures to help businesses survive the current crisis, these measures include loan guarantees for bank lending, payment of business grants and the expansion of retail relief reducing the business rates liability for many businesses.
5. Given the uncertainty throughout 2019/20 a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

6. PWLB rates and gilt yields have continued to experience levels of volatility linked to geo-political, sovereign debt crisis and emerging market developments. Following a decline in gilt yields over the summer months, on the 9th October 2019 HM Treasury suddenly announced that with immediate effect the PWLB margin above UK gilts would be increased from 80 bps to 180 bps. This announcement increased the borrowing costs on newly arranged loans from PWLB by 1%. At the same time the Treasury increased the lending limit of the PWLB from £85B to £95B. There has been speculation that the increase in rate was designed to halt the pace at which the new limit would be reached following record levels of new loan issuance by the PWLB in the months of August and September.
7. The overall structure of interest rates has for some time meant that short term rates have remained lower than long term rates. In this scenario, the strategy has continued to be to reduce investments and borrow for short periods and possibly at variable rates when required. However, this needs careful review to avoid incurring higher borrowing costs in the future when the authority may not be able to avoid new borrowing to finance capital expenditure and/or refinance maturing debt.

CAPITAL BORROWINGS AND DEBT RESCHEDULING

8. The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority did not envisage that any new long term borrowing would be required in 2019/20 and no new borrowing was arranged. Market conditions continued to be unfavourable for any debt rescheduling.

ANNUAL INVESTMENT STRATEGY

9. The investment strategy for 2019/20 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with central government regulations and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and for a maximum of one-year duration.
10. Extreme caution was taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with high rated or nationalised banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. The credit ratings and individual limits for each institution to be used by the Authority in 2019/20 are outlined below:

UK Government (including gilts and the DMADF)	Unlimited
UK Local Authorities (each)	Unlimited
Part Nationalised UK banks	£4m
Money Market Funds (AAA rated)	£3m
Enhanced Money Market (Cash) Funds (AAA rated)	£3m
UK Banks and Building Societies (A- or higher rated)	£2m
Foreign banks registered in the UK (A or higher rated)	£2m

The average rate of return achieved on average principal available in 2019/20 was 0.88%. This compares with an average seven day deposit (7 day libid) rate of 0.54%.

11. The Investment Strategy specified that investments are only made with banks with a high credit rating. UK banks must have at least an "A" long term rating for inclusion on

the Authority's counterparty list. The money markets are continually monitored for information regarding the creditworthiness of financial institutions and notifications are received of any changes to credit ratings made by any of the rating agencies. An institution is immediately suspended from the Authority's list of institutions should any doubt arise about its financial standing regardless of whether its credit rating is downgraded.

EXTERNAL DEBT PRUDENTIAL INDICATORS

12. The external debt indicators of prudence for 2019/20 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£70 million
Operational boundary for external debt:	£59 million

Against these limits, the maximum amount of debt reached at any time in the financial year 2019/20 was £37.6 million.

13. **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2018/19) plus the estimates of any additional capital financing requirement for the current (2019/20) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allows the Authority some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Authority's gross borrowing position against the CFR. Although the level of debt exceeds the borrowing CFR this can be explained by the current policy of using any one-off savings to make additional MRP payments that result in a £ for £ reduction in the CFR figure but actual borrowing remains unchanged (in 2019/2020 the additional MRP payment was £2.5m). All long term borrowing has been incurred to fund capital investment.

	31 March 2019	31 March 2020	31 March 2021
	Actual	Actual	Estimate
	£'m	£'m	£'m
Capital Financing Requirement	58.4	50.7	63.0
Less: PFI	(18.1)	(17.8)	(17.3)
Less:MRD	(0.3)	(0.2)	(0.2)
Borrowing CFR	40.0	32.7	45.5
Existing Debt Portfolio	37.6	37.3	36.9
Over(-)/Under borrowing	2.3	(4.6)	8.6
Borrowing as a % of CFR	94.0%	114.1%	81.1%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

14. The treasury management indicators of prudence for 2019/20 required by the Prudential Code were set in the strategy as follows:

a) Interest Rate Exposures

Upper limit on fixed interest rate exposures: 100%

Upper limit on variable interest rate exposures: 50%

The maximum that was reached in the financial year 2019/20 was as follows:

Upper limit on fixed interest rate exposures: 100%

Upper limit on variable interest rate exposures: 0%

b) Maturity Structure of Borrowing

Upper and lower limits for the maturity structure of borrowing were set and the maximum and minimum that was reached for each limit at any time in the financial year 2019/20 was as follows:

Maturity Period	Upper Limit	Lower Limit	Maximum Actual	Minimum Actual
Under 12 months	50%	0%	1%	1%
12 months and within 24 months	50%	0%	1%	0%
24 months and within 5 years	50%	0%	9%	8%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	90%	0%	90%	90%

c) Total principal sums invested for periods longer than 365 days

The limit for investments of longer than 364 days was set at £2 million for 2019/20. One investment of £2m was placed for 366 days during 2019/20.

PERFORMANCE INDICATORS

15. The Code of Practice on Treasury Management requires the Authority to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking.
16. The indicators for the treasury function are:

Borrowing - Average rate of long term borrowing for the year compared to average available. No new long term borrowing was arranged in 2019/20.

Investments – Internal returns compared to the 7 day LIBID rate. The return in the financial year 2019/20 was 0.34% above the benchmark.

TREASURY MANAGEMENT ADVISORS

17. The treasury management service is provided to the Authority by Liverpool City Council. The terms of the service are set out in an agreed Service Level Agreement. The Council employs treasury management advisers appointed under a competitive procurement exercise who provide a range of services which include: -
 - Technical support on treasury matters, capital finance issues.
 - Economic and interest rate analysis.
 - Debt services which includes advice on the timing of borrowing.
 - Debt rescheduling advice surrounding the existing portfolio.
 - Generic investment advice on interest rates, timing and investment instruments.
 - Credit ratings/market information service comprising the three main credit rating agencies.
18. Whilst Liverpool City Council and its advisers provide the treasury function, ultimate responsibility for any decision on treasury matters remains with the Authority.

CONCLUSION

19. Treasury Management activity in 2019/20 has been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	04 JUNE 2020	REPORT NO:	CFO/027/20
PRESENTING OFFICER	IAN CUMMINS, DIRECTOR OF FINANCE		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	2019/20 ANNUAL YEAR-END INTERNAL AUDIT REPORT		
APPENDICES:	APPENDIX A: ANNUAL INTERNAL AUDIT REPORT AND OPINION		

Purpose of Report

1. To present to Members the Annual Year End Internal Audit report for 2019/20.

Recommendation

2. That Members note the contents of the report.

Introduction and Background

1. Internal Audit is an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources (Source: Code of Practice for Internal Audit in Local Government).
2. The Authority has a statutory duty to ensure that it maintains an adequate and effective system of Internal Audit of its accounting records and control systems (Accounts and Audit Regulations 2015).
3. In order to fulfil these functions the Authority buy-in Internal Audit service's from Liverpool City Council. Each year Internal Audit submit a plan for their work following consultation with the Director of Finance and other key officers. This plan is set based upon an assessment of risks, previous findings and the relationship with External Audit work. The 2019/20 plan was considered by the Audit Committee on 6th June, 2019 (CFO/020/19).
4. The Internal Audit outturn report for 2019/20 is attached as Appendix A. On the basis of the reviews undertaken Internal Audit have concluded that *"it is our opinion that we can provide Substantial Assurance that the system of internal control in place at Merseyside Fire & Rescue accords with proper practice. This*

opinion is based on the individual assurance levels we have provided for each of the audit reviews undertaken during the year, and includes consideration of the wider sources of assurance provided to the Authority. The 2019/20 fundamental systems audits completed to date have shown a substantial level of compliance and none of the audits have identified weaknesses that have required a corporate impact assessment of major or moderate. Based on the audit work carried out in 2019/20 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement”

5. Appendix A provides a brief overview of the key findings of each audit carried out in 2019/20. During 2019/20 Internal Audit have completed ten audits of major systems and an additional two are at the reporting stage. All of the completed audit reviews found a high level of assurance in the current system of control and governance and that any potential corporate risk to the Authority was negligible.

6. The table below summaries the audit review and findings:

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Creditors			
Debtors			
Medium Term Financial Plan*			
Budgetary Control*			
Treasury Management*	Good	Good	Minor
Payroll*			
Payroll	Fieldwork	Fieldwork	Fieldwork
Review of data protection processes	Good	Good	Minor
Review of firefighters pensioners administration control	Substantial	Substantial	Minor
Review of new debit card payment process			
Lease / Provided ESV car controls	In review	In review	In review

** Old year carry forward completed in 2019/20*

7. The following audits were not undertaken but they have been considered as part of the 2020/21 Audit Plan:

Audit Title
HMICFRS Inspection outcome – review of action plan progress
Cyber Security
Special Services charging process
Workshops – Controls/Process around work for 3rd parties

8. Audit recommendations are graded as medium, high or essential/strategic with the latter being the most critical and indicating. Internal Audit aims to follow up all essential / strategic recommendations within a month of their target implementation date, and all high recommendations within three months. It has recently been agreed, that to allow a more complete assurance to be obtained on the implementation of recommendations, medium recommendations will also be followed up. The overall position at the end of the period is that of the 39 recommendations actively followed up, 16 recommendations have been closed and the implementation of 23 is ongoing. The majority of these outstanding recommendations relate to audits reported in the last 18 months. The Director of Finance is currently working with officers to ensure the remaining recommendations are implemented and closed off within the next 3 months.
9. Copies of any audit report can be made available to any member of the committee should they wish to review the contents and recommendations in greater detail.

Equality and Diversity Implications

10. There are no Equality or Diversity Implications contained within this report.

Staff Implications

11. There are no staff implications contained within this report.

Legal Implications

12. The Authority has a statutory duty to ensure that it maintains an adequate and effective system of Internal Audit of its accounting records and control systems. (Accounts and Audit Regulations 2015 s.5(1)).

Financial Implications & Value for Money

13. The cost of the Internal Audit Service from Liverpool City Council in 2019/20 was £35,500. The Authority had made adequate budget provision in 2019/20 to pay for these audit services.

Risk Management, Health & Safety, and Environmental Implications

14. None contained within this report.

Contribution to Our Mission: *Safer Stronger Communities – Safe Effective Firefighters*

15. The Authority is committed to ensuring strong internal control processes are in place to ensure all information and services delivered are transparent and fair and all audit requirements are adhered to. The Authority continues to strive to maintain the highest level of standards and commitment to the community it serves.

BACKGROUND PAPERS

CFO/020/19 Annual Internal Audit Plan 2019/20” Audit Committee 6th June 2019.

Account & Audit Regulations 2015

Code of Practice for Internal Audit in Local Government, CIPFA 2003

GLOSSARY OF TERMS

APPENDIX A



Liverpool
City Council

Internal Audit Service

**Merseyside Fire & Rescue Service -
Annual Internal Audit Report and Opinion
2019/20**

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Reporting Officer:	Melanie Dexter – Audit Manager
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1 Introduction

- 1.1 This report summarises the work that Internal Audit has undertaken across Merseyside Fire & Rescue Service during the 2019/20 financial year, the service for which is provided by Liverpool City Council, Internal Audit.
- 1.2 The purpose of the Annual Internal Audit Report is to meet the Chief Audit Executive's (CAE) annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS). It sets out the requirement for the CAE (for the service this is the Head of Internal Audit) to report to senior officers and the 'Board' (for the service this is the Audit Committee) to help inform their opinions on the effectiveness of the framework of governance, risk and control in operation within the Authority. The PSIAS requirements are that the report must incorporate:
- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (the control environment);
 - a summary of the audit work that supports the opinion; and
 - a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme (QAIP).
- 1.3 The audit work has been carried out in accordance with the 2019/20 risk-based audit plan. The plan is designed to give reasonable assurance that controls are in place and working effectively. Opinions are formed in respect of each individual audit and the audit opinion is separated between control environment (the controls in place) and compliance (whether or not the controls have been adhered to) so it is easier to identify where corrective action is needed.
- 1.4 We have liaised with senior management throughout the year to ensure that internal audit work undertaken continues to focus on the high-risk areas and in the light of new and ongoing developments in the service, to help ensure the most appropriate use of our resources.
- 1.5 The Annual Internal Audit Report is an important source of evidence for the Annual Governance Statement, and this report is timed to support the preparation of this Statement for the 2019/20 year.
- 1.6 We would like to thank those officers throughout the Authority who provided their assistance and cooperation in the course of our work throughout the year.

2 Internal Audit Opinion 2019/20

- 2.1 Internal Audit works to a risk based audit plan. The plan is designed to give reasonable assurance that controls are in place and working effectively. From the Internal Audit work undertaken in compliance with the PSIAS in 2019/20, it is our opinion that we can provide **Substantial** Assurance that the system of internal control in place at Merseyside Fire & Rescue accords with proper practice. This opinion is based on the individual assurance levels we have provided for each of the audit reviews undertaken during the year, and includes consideration of the wider sources of assurance provided to the Authority.
- 2.2 The 2019/20 fundamental systems audits completed to date have shown a substantial level of compliance and none of the audits have identified weaknesses that have required a corporate impact assessment of major or moderate. Based on the audit work carried out in 2019/20 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement.
- 2.3 We undertake individual internal audits with the overall objective of providing members, the Chief Fire Officer, the Director of Finance and other officers with reasonable, but not absolute, assurance against material misstatement or loss and, accordingly, this opinion does not provide such an absolute assurance.
- 2.4 Internal Audit uses an overall opinion grading for audits and certain responsive work which is based on the ratings of the audit recommendations being made and is explained in more detail in section 8. The table below summarises the opinions given on internal audit work in 2019/20.

Fig 1 Summary of Opinions provided in 2019/20

Assurance Level	Control Environment	Compliance
Substantial	8	8
Good	2	2
Acceptable / Limited / None	-	-
Total Audits Completed	10	10

Limitations on our opinion arising from Covid-19

- 2.5 The delivery of the internal audit work for 2019/20 has not been impacted by the global Covid-19 pandemic. However, the consequences of this unprecedented event are expected to continue in the new financial year and will continue to pose significant risks to all organisations. The potential impact on Merseyside Fire & Rescue Service’s control systems has not been assessed and our opinion takes no account of this. This opinion is based solely on the matters that came to our attention during the course of our internal audit reviews and is not an opinion on all elements of the risk management, control and governance processes of the Service.

3 Summary of Audit Work Completed

- 3.1 The opinion of the Head of Internal Audit is informed significantly by the results of audits of the Authority’s fundamental systems. These are the major systems which underpin the system of internal control and financial reporting.
- 3.2 No significant issues were identified in the course of the fundamental systems audits. The audit coverage during the year has provided sufficient evidence that controls in place to govern the core financial systems are sound and that they are

substantially adhered to. A summary of the outcomes of the audits for these systems for the year is set out below in Fig 2.

Fig 2 Completed fundamental systems audits in 2019/20

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Creditors			
Debtors			
Medium Term Financial Plan*			
Budgetary Control*			
Treasury Management*	Good	Good	Minor
Payroll*	Fieldwork	Fieldwork	Fieldwork

Definition

*Old year carry fwd, completed in 19/20

General Ledger, Creditors, Debtors

3.3 Our audit of each of these key financials was finalised in May 2020, and we were able to provide positive opinions for all of these reviews. No significant control weaknesses were identified and a strong control environment continues to be maintained.

3.4 As standard practice, we made use of Computer Assisted Audit Techniques (CAATs) when performing these audit reviews to confirm the accuracy and completeness of the information held on the systems. The controls within these systems contribute significantly to mitigating risks and reducing errors.

Medium Term Financial Plan/Budgetary Control

3.5 These reviews have examined whether the Authority’s medium term financial position reflects savings requirements and that appropriate proposals have been developed to achieve them. We have also considered the budget monitoring arrangements to provide an overall opinion as to whether the controls in place are adequate and effective in order to underpin an effective budgetary control process. A positive opinion was also identified for these reviews and no recommendations were identified.

Treasury Management

3.6 A service level agreement exists between MFRA and Liverpool City Council covering the provision of treasury management services. We therefore place assurance on the audit work undertaken of the LCC Treasury Management system where the systems overlap. The audit’s aim was to provide assurance on the following key risk areas: governance of investments, investment in appropriate institutions as per the Treasury Management strategy, monitoring of the Authority’s cash flow, maintenance of investment/loan records, investment/loan authorisation controls; and documentation of processes. The audit found that the Treasury Management

team has an appropriate control environment in place and identified high and consistent levels of monitoring and compliance

Payroll

3.7 In addition to reviewing payroll key controls, additional substantive testing was performed to ensure that honoraria, sickness and maternity leave are reflected accurately in payments/deductions made to employees. An appropriate control environment is in place; however, recommendations were made in relation to the documenting of policies in relation to honorarium and discretionary sickness payments.

Fig 3 Other Strategic/Client directed audits completed in 2019/20

Audit Title	Control Environment	Compliance	Corporate Impact
Review of data protection processes	Good	Good	Minor
Review of firefighters pensioners administration control	Substantial	Substantial	Minor
Review of new debit card payment process	Substantial	Substantial	Minor
Lease / Provided ESV car controls	<i>In review</i>	<i>In review</i>	<i>In review</i>

Data Protection Processes

3.8 The General Data Protection Regulation (GDPR) was first published on April 2016 and has been enforceable from 25th May 2018. GDPR applies to all organisations that collect, use, store and transfer personal data in the EU or about individuals in the EU. As the Data Controller, MFRS can be liable for substantial fines and penalties for non-compliance with the regulation. The objective of this audit review was to provide an opinion as to whether the key controls that are in place to ensure the Authority is compliant with GDPR requirements are effective. Based on the findings of this review we can provide good assurance that the controls in place to ensure compliance with GDPR are operating effectively.

Firefighters Pensioners Payroll

3.9 The administration of the firefighter pension scheme is performed by Your Pension Service (Lancashire County Council) The objective of this audit was to obtain assurance on the arrangements in place to ensure that new recruits are entered on the correct pension scheme, contributions are allocated correctly, variances are investigated, overtime is correctly classified and payments to leavers are correct. Based upon the overall findings of the testing performed we can provide substantial assurance that the risks examined are being effectively managed and substantial assurance that the controls in place are being complied with.

Debit Card Payment Process introduced in SHQ Canteen

3.10 The audit reviewed the key controls including ensuring all income received is accurately recorded and that access rights are appropriate, a separation of duties exists and cost savings highlighted in the business case are measurable and are being measured. Based upon the scope of this review and the results of our testing

we can provide a substantial level of assurance on the effectiveness of the control environment. There were no recommendations arising from this audit.

Leases / Provided ESV car controls

3.11 The scope of this audit was to ensure the robustness of Flexi Duty Managers’ mileage records for provided and leased vehicles. The review examined the vehicle records to ensure they adequately demonstrate accurate and appropriate mileage ie business only for provided vehicles apart from the limited personal mileage allowed for home/office/home use. The audit is currently in review so it would be inappropriate to provide an overall opinion at this time.

Contingency/Responsive/Advice and Assistance

3.12 No contingency/responsive work was identified this financial year; however the majority of audits performed required more time than initially envisaged and the contingency budget was used to complete this programmed work. The following audits were not undertaken but they may be carried forward to the 2020/21 audit plan.

Fig 4 Audits deleted/deferred from the 2019/20 audit plan

Audit Title
HMICFRS Inspection outcome – review of action plan progress
Cyber Security
Special Services charging process
Workshops – Controls/Process around work for 3rd parties

4 Recommendation Implementation

4.1 Where applicable, Internal Audit reports will include action plans detailing recommendations for improvement supported by agreed management actions. An officer is nominated with responsibility for each recommendation and an implementation date agreed.

4.2 Audit recommendations are graded as medium, high or essential/strategic with the latter being the most critical and indicating, for example, an absence or failure of a fundamental control where there is no compensating control. Internal Audit aims to follow up all essential / strategic recommendations within a month of their target implementation date, and all high recommendations within three months. It has recently been agreed, that to allow a more complete assurance to be obtained on the implementation of recommendations, medium recommendations will also be followed up.

4.3 During the period June 2019 to May 2020, Internal Audit followed up 39 recommendations. The overall position at the end of the period is that of the 39 recommendations actively followed up, 16 recommendations have been closed and the implementation of 23 is ongoing. The majority of these outstanding recommendations relate to audits reported in the last 18 months. Table 5 below details the recommendations that are still ongoing.

Figure 5: Analysis of recommendations followed up between June 2019 and May 2020. The table identifies the number of Essential/ Strategic (E/S) and High (H) audit recommendations issued that have yet to be implemented.

Audit Area	Ongoing Recommendations			Total
	E/S	H	M	
Payroll	2	1	-	3
Data Protection Regulations	2	1	-	3
Procurement	1	-	2	3
Ancillary Fleet	-	4	5	9
Governance	-	-	1	1
Older Audits				
Devolved Arrangements	-	3	-	3
Income Generation	-	1	-	1
Total	5	10	8	23

- 4.4 There are also a few recommendations outstanding relating to two former audits; where the implementation dates were extended. If there are sound operational reasons for extending the time required to complete actions, implementation dates are extended.
- 4.5 Of the 16 recommendations that were closed, 11 had been fully implemented, with the remaining 5 mitigated. These five were all closed with agreement between Internal Audit and the relevant service areas and justification given ie where processes have been changed or superseded and the recommendations were therefore no longer appropriate.

5 Quality Assurance and Improvement Programme

- 5.1 It is a requirement of PSIAS for the Chief Audit Executive to develop and maintain a QAIP that covers all aspects of internal audit activity.
- 5.2 The Internal Audit Service has had long-standing governance arrangements in place for quality assurance and improvement that pre-date the introduction of the PSIAS and the QAIP. In the main, the development of the QAIP involved bringing together the existing arrangements in a formalised framework.
- 5.3 The QAIP is made up of internal and external assessments. It is a requirement of the PSIAS for the results of assessments against the QAIP to be reported in the Annual Report.
- 5.4 Based on the results of the internal assessments we can conclude that Internal Audit complied with the main requirements of the standards. Areas for improvement were identified and actions have been put in place against these. The annual review of both the Charter and the QAIP is scheduled to take place in July 2020.
- 5.5 External assessments are required to be undertaken at least every five years. During 2016/17 Internal Audit were subject to an external assessment by Glasgow City Council. The assessment concluded that Internal Audit complies with the main requirements of the standards. The next external assessment is due in 2021.
- 5.6 During the year, the Internal Audit Service also retained its ISO accreditation following an audit of the quality system arrangements. This was based on an external assessment.

5.7 Based on the results of the QAIP for 2019/20 the Head of Internal Audit can confirm that internal audit activity conforms to the International Standards for the Professional Practice of Internal Auditing and with the requirements of PSIAS and the Code of Ethics.

6 Organisational Independence

6.1 PSIAS require the Head of Internal Audit to confirm to the Audit Committee the organisational independence of the internal audit activity.

6.2 The arrangements in place to ensure organisational independence of the Internal Audit Service are outlined in the Internal Audit Charter. The Charter establishes the framework within which Liverpool City Council's Internal Audit Service operates to best serve MFRA and to meet its professional obligations under applicable professional standards.

6.3 Underpinning the Internal Audit Charter, operational procedures are in place to govern day-to-day audit activity and this includes arrangements to ensure independence and objectivity.

7 Statement of Conformance with PSIAS

7.1 Internal Audit has been assessed internally by the Chief Audit Executive, and through and external peer review, as conforming to PSIAS.

7.2 The table below summarises actual audit days based on an agreed 112 days' work.

Fig 5 Actual v Budgeted Days

Audit Title	Planned	Actual
Fundamentals	40	60
Strategic reviews/client directed/ad-hoc reviews	45	47
Contingency	14	0
Follow Up	5	5
Audit management	8	7
Total	112	119

8 Definitions of audit assurance

8.1 Internal Audit uses an overall opinion grading for audits and some responsive work. Where no issues surrounding the control environment are found, a substantial level of assurance will be given on the controls tested. However, where weaknesses with controls have been identified, depending on the potential impact of those weaknesses, a lower graded assurance level will be given.

8.2 The grades, which are summarised in the table below, are based on the ratings of the audit recommendations being made. The corporate impact rating sets the audit findings in context based on the overall risk to the Service.

Control Environment Assurance – Opinion on the design and suitability of the current internal controls.	
Level	Definition
Substantial	There are minimal control weaknesses that present very low risk to the control environment
Good	There are minor control weaknesses that present low risk to the control environment
Acceptable	There are some control weaknesses that present a medium risk to the control environment
Limited	There are significant control weaknesses that present a high risk to the control environment
None	There are fundamental control weaknesses that present unacceptable level of risk to the control environment
Compliance Assurance – Opinion on the level of compliance with current internal controls.	
Level	Definition
Substantial	The control environment has substantially operated as intended.
Good	The control environment has largely operated as intended although some minor errors have been detected
Acceptable	The control environment has mainly operated as intended although errors have been detected
Limited	The control environment has not operated as intended. Significant errors have been detected
None	The control environment has fundamentally broken down and is open to significant error or abuse
Organisational impact – The potential impact on the organisation if the recommendations are not implemented.	
Level	Definition
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	The weaknesses identified during the review have left the Council open to moderate risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	The weaknesses identified during the review have left the Council open to a low level of risk. If the risk materialises it would have a minor impact on the organisation as a whole.

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	4 JUNE 2020	REPORT NO:	CFO/024/20
PRESENTING OFFICER	IAN CUMMINS, TREASURER		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	SLT		
TITLE OF REPORT:	2020/21 INTERNAL AUDIT PLAN		

APPENDICES:	APPENDIX A: 2020/21 AUDIT PLAN
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Purpose of Report

1. To notify Members of the proposed Internal Audit plan for 2020/21 and to seek comments from Members on the plan.

Recommendation

2. That Members;
 - a. consider any comments or opinions they might have on the proposed audit plan, and
 - b. approve the 2020/21 Internal Audit Plan

Introduction and Background

3. Internal Audit – Definition;

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”(Source: Public Sector Internal Audit Standards).
4. The Authority has a statutory duty to ensure that it maintains an adequate and effective system of Internal Audit of its accounting records and control systems, (Accounts and Audit Regulations 2015). In order to fulfil this statutory requirement the Authority has entered into a contract with Liverpool City Council’s Internal Audit Service. The Authority has utilised Liverpool City Council’s Internal Audit Service (LCC IAS) since 1986. LCC IAS has established an Internal Audit Charter (IAC) and Quality Assurance & Improvement Programme (QAIP) to ensure compliance with the Public Sector Internal Audit Standards (PSIAS) and that LCC IAS delivers to the Authority an effective high quality service.

5. Each year Internal Audit submit a work plan following consultation with the Strategic Leadership Team, Director of Finance, Head of Finance and other key officers. This plan is set based upon an assessment of risks, previous findings and the relationship with External Audit work. The two main strategic areas of work are:
 - a. A review of fundamental financial systems and processes, and
 - b. Specific project reviews requested by the Service.
6. The proposed 2020/21 audit plan is attached as Appendix A to this report and Members are asked to consider the plan and provide any comments or opinions they might have on the proposed plan, and subject to any proposed amendments approve the 2020/21 Internal Audit Plan
7. Arrangements have been set in place for monitoring progress against the plan on an ongoing basis and for closely managing any ad hoc work requirements during the year.

Equality and Diversity Implications

8. There are no Equality or Diversity implications contained within this report.

Staff Implications

9. There are no direct staffing implications contained within this report.

Legal Implications

10. The Authority has a statutory duty to ensure that it maintains an adequate and effective system of Internal Audit of its accounting records and control systems. (Accounts and Audit Regulations 2015).

Financial Implications & Value for Money

11. The annual cost of the audit is £35,500 and is contained within the approved budget for audit services.

Risk Management, Health & Safety, and Environmental Implications

12. The work undertaken by Internal Audit helps to reduce any proposed risk to the Authority. .

Contribution to Our Mission: *Safer Stronger Communities – Safe Effective Firefighters*

13. Internal Audit assists in the evaluation and enhancement of sound internal control arrangements that contribute towards ensuring the Authority's mission and approved policies and plans continue to drive decision making within the service.

BACKGROUND PAPERS

GLOSSARY OF TERMS

LCC IAS	Liverpool City Council's Internal Audit Service
QAIP	Quality Assurance & Improvement Programme
IAC	Internal Audit Charter
PSIAS	Public Sector Internal Audit Standards

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APPENDIX A**STRATEGIC AUDIT PLAN 2020/2021**

		20/21	20/21
		Audit Days	Audit Days
	<u>Fundamental Systems</u>		47
	<u>Strategic Reviews / Client directed / Ad hoc reviews</u>		
1	HMICFRS Inspection outcome – review of action plan progress	5	
2	Review Special Services charging process and charging policy	8	
3	Review asset and inventory processes for the management of department assets. Consider how purchases and disposals are recorded and annual audits carried out	12	
4	Cyber Security	6	
	Strategic Reviews / Client directed / Ad hoc reviews		31
	Contingency - Investigations/Responsive / Advice & Assistance		14
	Follow up		5
	Audit Management		8
	Fire fighter safety		
	Additional days 19-20		7
	Total Planned Days		<u>112</u>

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	4TH JUNE 2020	REPORT NO:	CFO/026/20
PRESENTING OFFICER	IAN CUMMINS, DIRECTOR OF FINANCE		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	THE ANNUAL GOVERNANCE STATEMENT 2019/2020		

APPENDICES:	APPENDIX A: 2019/2020 ANNUAL GOVERNANCE STATEMENT
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Purpose of Report

1. The purpose of this report is to present to Members the Authority's Annual Governance Statement. This statement fulfils the Authority's statutory requirement to prepare a statement of internal control in accordance with proper practices, and to present an annual review of the effectiveness of the current system.

Recommendation

2. That Members approve the 2019/2020 Annual Governance Statement.

Introduction and Background

3. The Annual Governance Statement (AGS) is the formal statement that recognises, records and publishes a Council or Authority's governance arrangements. Attached as Appendix A to this report is the 2019/2020 AGS for MFRA which explains the processes and procedures in place to enable the Authority to carry out its functions effectively. The AGS also links into the Annual Statement of Assurance by providing assurance about the Authority's governance framework.
4. The CIPFA/SOLACE – Delivering Good Governance in Local Government Framework is deemed to represent best practice in relation to internal control. This framework recommends that the review of the effectiveness of the system of internal control should be reported as part of the AGS. The annual review of the effectiveness of the Authority's internal control system has been undertaken and, in accordance with the CIPFA guidance, incorporated in the attached AGS. The AGS identifies the ways in which the Authority has ensured that its control mechanisms are adequate during the year, including internal and external audit. The overall conclusion of the AGS is that the system of internal control is adequate (any control system can provide only reasonable assurance and not absolute assurance).

Equality and Diversity Implications

5. Good governance and sound internal control includes having effective practices to manage equality and diversity issues.

Staff Implications

6. There are no staff implications arising from this report.

Legal Implications

7. Regulation 6(1) of the Accounts and Audit (England) Regulations 2015 requires that the relevant body must conduct a review at least once a year of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices. Regulation 6(2) require that the findings of a review of an organisation's system of internal control is to be considered by a Committee of the relevant body, or by members of the body meeting as a whole, once a year. The AGS fulfils that obligation.

Financial Implications & Value for Money

8. A sound system of internal control is essential for the overall control of the Authority's finances. There are, however, no direct financial implications arising from the Statement.

Risk Management, Health & Safety, and Environmental Implications

9. Good governance and sound internal control arrangements will ensure the Authority's policies, procedures and objectives are being fulfilled.

Contribution to Our Mission: *Safer Stronger Communities – Safe Effective Firefighters*

10. Good governance and sound internal control arrangements will ensure the Authority's mission is known by all and drives and directs the Service outcomes.
11. Merseyside communities are safer, stronger and the firefighters who serve the County are safer and more effective because the Authority has effective leadership and makes decisions that deliver strong financial management and efficient and effective service delivery. Robust and comprehensive governance arrangements are integral to this performance.

BACKGROUND PAPERS

CFO/020/17 Code of Corporate Governance, Policy and Resources Committee 23rd March, 2017.

"Delivering Good Governance in Local Government – Guidance Notes for English Authorities, C.I.P.F.A. (2016)

GLOSSARY OF TERMS

SOLACE	Society of Local Authority Chief Executives and Senior Managers
CIPFA	Chartered Institute of Public Finance and Accountancy
AGS	Annual Governance Statement

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2019-2020 MERSEYSIDE FIRE AND RESCUE AUTHORITY **ANNUAL GOVERNANCE STATEMENT**

1.0 SCOPE OF RESPONSIBILITY

- 1.1** Merseyside Fire and Rescue Authority (the Authority) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty to make arrangements to secure continuous improvements in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2** In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, delivering its functions, and arrangements for the management of risk.
- 1.3** Corporate Governance is a phrase used to describe how organisations direct and control what they do. For Fire and Rescue Authorities this also includes how an Authority relates to the communities that it serves. The Authority has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE framework “*Delivering Good Governance in Local Government*” (2016). A copy of the code is available on our website at www.merseyfire.gov.uk. The key principles of the Authority’s Code of Corporate Governance are outlined below, ;
1. Three high level principles underpin Corporate Governance:-
 - Openness and inclusivity
 - Accountability
 - Integrity
 2. These high level principles are supported by seven detailed principles of good governance which are:
 - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
 - Ensuring openness and comprehensive stakeholder engagement
 - Defining outcomes in terms of sustainable economic, social, and environmental benefits
 - Determining the interventions necessary to optimise the achievement of the intended outcomes
 - Developing MFRA capacity, including the capability of its leadership and the individuals within it
 - Managing risks and performance through robust internal control and strong public financial management
 - Implementing good practices in transparency, reporting, and audit to deliver effective accountability
- 1.4** This statement fulfils the Authority’s statutory requirement to prepare a statement of internal control in accordance with proper practices, and to present an annual review of the effectiveness of the current system.

2.0 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems and processes, culture and values, for the direction and control of the Authority and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at the Authority for a number of years and in particular for the year ended 31st March 2020.

3.0 THE GOVERNANCE FRAMEWORK

- 3.1 Summarised below are some of the key elements of the systems and processes that underpin the Authority's governance arrangements:
- 3.2 **Identifying and Communicating the Authority's Mission and outcomes for citizens and service users:**
- 3.2.1 After consulting with the citizens of Merseyside and service users, assessing current risks and service priorities, the Authority prepares an Integrated Risk Management Plan (IRMP) that sets out the mission, aims and service objectives for the organisation. The Authority approved a new IRMP, 2017/20, on 23rd February 2017. The IRMP established the service priorities for 2017/20. The Authority published a supplement to the 2017/20 IRMP (following public consultation) on 3rd July 2019. The alternative proposals contained within the supplement have extended the current plan to 2021, aligning it to our medium term financial plans.
- 3.2.2 The Authority's Mission reflects a clear focus on the core duties and functions in relation to Operational Preparedness, Operational Response and Prevention and Protection. The Authority's mission is to **achieve; Safer Stronger Communities – Safe Effective Firefighters**. To deliver this the Authority has established four key corporate aims:
- **Excellent Operational Preparedness**
We will provide our firefighters with the training, information, procedures and equipment to ensure they can safely and effectively resolve all emergency incidents.

- **Excellent Operational Response**

To maintain an excellent emergency response to meet risk across Merseyside with safety and effectiveness at its core.

- **Excellent Prevention and Protection**

We will work with partners and our community to protect the most vulnerable.

- **Excellent People**

We will develop and value all our employees, respecting diversity, promoting opportunity and equality for all.

3.2.3 The Mission statement is focused upon outcomes around operational preparedness, response and prevention and protection. It is very important that the organisation's priorities are unambiguous and easily understood by members, staff, communities and other stakeholders. In particular, it is essential that the safety and effectiveness of firefighters is seen as a fundamental factor in the achievement of safer, stronger communities.

3.3 **Monitoring the achievement of the Authority's objectives through a comprehensive performance management framework:**

3.3.1 IRMP and other service projects are incorporated into one document – the Service Delivery Plan. There is an ongoing system of monitoring and reporting on the achievement of projects in the Service Delivery Plan via regular reports to the Community Safety and Protection Committee (or any other committee if applicable) and the Strategic Leadership Team. Station Community Safety Plans have also been developed to give details of the activities taking place throughout Merseyside. The reporting process applies traffic light status for each performance indicator in the Service Delivery Plan and attention is drawn to progress achieved and matters to be addressed. Copies of the Service Delivery Plan can be found on the Authority's website.

3.4 **The Internal Control Environment:**

3.4.1 The Authority's internal control mechanism comprise many systems, policies, procedures and operations, however the system cannot eliminate all risks of failure to achieve the Authority's aims and objectives. Once a risk has been identified the Authority where possible eliminates the risk. If this is not possible then procedures are established to manage the risk effectively, efficiently and economically. Some of the significant control processes are outlined below:

3.4.2 Policy and decision making process

The Authority has meaningful democratic control over its activities via an **approved committee structure** with agreed Terms of Reference that are reviewed once a year by the Authority at its Annual General Meeting. The Authority has a **written Constitution** that was reviewed in 2019/20 and approved by the Authority at its meeting on 13th June 2019 (CFO/034/19), which is published and sets out how the Authority operates, how decisions are made, and the procedures which are followed to ensure these are efficient, transparent and accountable to local citizens. The Constitution is reviewed every year by the Authority at its AGM.

The Authority meet with Strategic Managers and other stakeholders as required to consider the strategic vision and instigate future plans/targets for the Authority.

The Authority also runs member away-days and “learning lunches” to help Members discuss issues in more detail and in an informal environment.

3.4.3 Management Structure

Management Structure - The Authority has a **clear management structure** with defined roles and responsibilities. A Strategic Leadership Team (SLT), meet on a fortnightly basis to review and agree on issues that arise during the year. SLT have established five strategic boards to feed into SLT, the role of each board is to consider any issues associated with that board’s remit and if necessary make a recommendation on the matter for SLT to consider. The Authority has an **approved scheme of delegation within its Constitution** that is reviewed by members on an annual basis.

3.4.4 Established Policies, Procedures & Regulations

The Authority ensures compliance with established policies, procedures, laws and regulations. Information regarding policies and procedures is held on the intranet, and these are continually enhanced and developed through the introduction of new policies and procedures as and when required. The Authority has established policies on anti-fraud, fraud response and confidential reporting. The Authority carries out an annual review of standing orders, financial instructions and the scheme of delegation which clearly define how decisions are taken and the processes and controls required to manage risks. The list below outlines some of the **key policies and process in place to enhance the internal control system** that are reviewed as and when required:

- Treasury Management Strategy
- Procurement Strategy
- Financial Regulations, Procedural & Contract Standing Orders, Scheme of Delegation
- Anti-Fraud & Corruption Policy & Strategy
- Fraud Response Plan
- Confidential Reporting Policy
- Complaints procedure
- Code of Corporate Governance
- Constitution
- Code of Conduct
- Full range of Equality and Diversity Policies and Procedures
- Staffing Model
- Full range of robust policies and procedures to underpin the conduct of staff from operational procedure, discipline process, through to performance development reviews
- Information Governance and Security – Policies and Service Instructions to protect the Authority’s information, data, and assets

3.4.5 SLT carries out a continuous assessment of the implementation of policies and procedures throughout the organisation, including following up on progress against the action plans.

3.4.6 Internal Audit function

The Authority has a strong Internal Audit function arrangement with Liverpool City Council, and has well-established protocols for working with External Audit.

3.4.7 Risk Management Strategy

The Authority has a well established and embedded risk management strategy. The Audit Committee has corporate governance of the risk management and receive regular updates on any new risks or changes to risks. As all Authority and service reports to SLT have a standing section on risk this allows SLT an opportunity to regularly consider new and updated risks facing the Service at their fortnightly meetings.

3.4.8 Financial Management

The Authority produces a five year financial plan that takes into account Revenue, Capital, Reserves and Prudential Borrowing forecasts. The Authority has a history of strong and effective financial management, as confirmed in the Grant Thornton 2018/19 Annual Audit Letter and Audit Findings Report;

“We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources”

Financial management in the Authority and the reporting of financial standing is undertaken through a comprehensive Finance system including a general ledger, accountancy and budgeting. Monthly budget statements are sent out to all cost centre managers and the Authority receives regular comprehensive financial review reports to update members on the current and anticipated year-end financial performance.

4 REVIEW OF EFFECTIVENESS

4.2 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the SLT and other senior managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.3 Maintaining and reviewing the effectiveness of the governance framework throughout the financial year has been carried out by the following:

- The Authority and its Committees
- Management Review
- Internal audit
- External bodies

4.4 The Authority and Its Committees

4.4.1 The Authority

The Authority considered at its Annual General meeting on 13th June 2019 the format and structure of its democratic decision process by approving the powers and make-up of the approved committees. The full and detailed list of committee responsibilities can be found in the Constitution document on the Authority's web site, but are summarised as follows;

- The Authority – approves the Authority's budget and precept, considers variations to standing orders & financial regulations; the revenue budget and capital plan; issuing of a precept; adopting a members' allowance scheme; appointment to committees; scheme of delegation to officers; any matters which by law must be reserved to the Authority itself; maintain a Constitution.
- The Policy and Resources Committee – to determine new strategies, policies or changes in strategy relating to the development and delivery of services. Exercise financial control over expenditure within the approved revenue budgets and capital programme of the Authority. Establish and direct procedures for the implementation, monitoring and amendment of the revenue budget and capital programme and all other financial matters that impact on the Authority's financial position. Consider all matters related to the management of the Authority's assets including buildings, land, ICT and other assets.
- The Community Safety and Protection Committee – Consider all matters related to the development and delivery of services appropriate to this Committee. This includes matters relating to: Operational Preparedness; Operational Response; and Prevention and Protection. Considers all matters related to the delivery of services to the diverse communities of Merseyside, and the development, promotion and delivery of a coordinated strategy for developing and maintaining safer communities.
- The Scrutiny Committee – To view and/or scrutinise the objectives of the Authority's Integrated Risk Management Plan (IRMP) and performance against these objectives. To carry out joint member/officer pre and post-implementation scrutiny of any major project, scheme, or key decision taken by the Authority or its standing committees. To appoint Rapid Reviews to undertake detailed work, involving relevant Scrutiny Members, key reference holders and relevant officers
- The Joint Police & Fire Collaboration Committee – to act as a Strategic Board to oversee collaboration between Merseyside Police (MP) and the Authority. To consider any reports on proposals for collaboration and potential budget savings or working arrangements.
- The Audit Committee – To consider the internal audit's annual report and opinion, and a summary of internal audit activity and the level of assurance it can give the Authority's corporate governance arrangements. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance. To monitor the effective development and operation of risk management. To determine allegations

made under the Members Code of Conduct Procedure and refer sanctions proposed and any complaint allegation requiring further investigation to the full Authority. To act as Investigating and Disciplinary Committee where an allegation which could constitute misconduct or gross misconduct is made against the Chief Fire Officer, Deputy Chief Fire Officer, Assistant Chief Fire Officer, Director of Finance or the Monitoring Officer.

Receive reports on the effectiveness of internal control processes, including probity and to receive Internal Audit reports in this respect. Liaise with the external audit function over the appointment of the external auditor. Comment on the scope and depth of external audit work and consider in detail the recommendations of the external auditor's annual audit's letter. Consider all matters relating to internal and external audit activity and all matters relating to the regulatory framework.

- The Appeals Committee – to consider appeals and determine on any other matters as appropriate referred from any other Committee having full regard to its duties under the relevant legislation.
- The Appointments Committee - To consider and determine for appointment to the posts and offices of the Chief Fire Officer, Deputy Chief Fire Officer, Treasurer, Monitoring Officer and any other posts referred to the committee for consideration.
- Member Development & Engagement Group - To promote the continuous development of Members of the Authority and consider proposals and options for arrangements in respect of Members' training and development
- Local Pension Board (Firefighters' Pension Scheme(s)) - to assist the Authority in its role as 'Scheme Manager' for the Firefighters' Pension Scheme(s), as required by the Pension Scheme (Amendment) (Governance) Regulations 2015 Regulation 4A.

4.5 Management Review

4.5.1 Included in the day to day management of the organisation are a number of key officers, systems and procedures designed to provide core elements of the internal control mechanism, with a nominated lead officer responsible for reviewing the effectiveness of these systems.

4.5.2 There is a comprehensive system of performance management and review embedded within the Authority management structure and processes. The 2019/20 Service Delivery Plan broke down the Authority's key objectives for the year and identified a lead officer for each project. A "traffic light" system identified the actual progress against performance indicators throughout the year and any areas of concern with options to bring the project back on track were reported to management and the Community Safety and Protection Committee. SLT received regular updates from managers on the delivery of services against targets throughout the year and this allowed senior management an opportunity to scrutinise progress. Performance against

Local Performance Indicators is considered in depth each month by the Performance Management Group.

4.5.3 The Risk Register was updated for new risks and the status of existing risks was re-assessed during the year. The Register considers the Authority's tolerance for risk and any mitigating actions that can reduce the likelihood/severity of the perceived risk. Risk management continued to be an integral part of the project management process and was a fundamental aspect of the business of the Authority.

4.5.4 The Authority employed appropriate professional staff:

- A Statutory Monitoring Officer (Section 5 LGHA) responsible for ensuring the legality of Authority actions and supporting the Committee decision making process. The Director of Legal Services fulfils this role, is a qualified and experienced lawyer, and is supported by a legal team. No actions of the Authority were deemed ultra vires in the year and all relevant laws and regulations have been complied with so far as is known by the Monitoring Officer.
- A Responsible Finance Officer (Section 73 LGA 1985) to ensure the proper and effective administration of the financial affairs of the Authority. The Director of Finance fulfils this role and is a qualified and experienced accountant. The Director of Finance is supported in this role by a Head of Finance and finance team that includes a number of professionally qualified and experienced finance staff. The Director of Finance ensures the Authority has an approved, realistic and affordable five year financial plan for revenue and capital expenditure which links to the IRMP and the Service Delivery Plan. The financial planning process is well embedded and understood across the Authority by staff and members. Details of the approved budget are available to all stakeholders in a simple and summarised statement on the Authority's website.

The above statutory posts are key members of SLT

4.5.5 Budget monitoring remained robust at strategic and service levels via the production of monthly financial monitors for cost centre managers. The "funds management" system prevents orders being raised against accounts with insufficient budget and provides an affective enhancement to the budget control process.

4.5.6 Grant Thornton approved an unqualified Statement of Accounts for 2018/19 and it is anticipated this will be repeated in 2019/20. A detailed year-end report is presented to the Authority in a clear and understandable format. A simplified summary statement of accounts is available on the Authority's Website to ensure the outturn position is communicated effectively to all stakeholders.

4.6 Internal Audit

4.6.1 The Authority procured its internal audit service under a service level agreement from Liverpool City Council and the arrangement and service was in accordance with the CIPFA Code of Practice for Internal Audit in Local

Government 2006. The internal audit plan for 2019/20, prioritised by a combination of the key internal controls, assessment and review on the basis of risk, was approved by the Authority during the year. All internal audit reports included an assessment of the internal controls and prioritised action plans, if relevant, to address any areas needing improvement. These reports were submitted to the relevant managers as appropriate and the Director of Finance. An interim and year-end Internal Audit Plan reports are submitted to the Audit sub Committee that included summary findings of all completed audit reports and implementation of any agreed recommendations. The Annual Review of Internal Audit Report concluded that:

“Internal Audit works to a risk based audit plan. The plan is designed to give reasonable assurance that controls are in place and working effectively. From the Internal Audit work undertaken in compliance with the PSIAS in 2019/20, it is our opinion that we can provide Substantial Assurance that the system of internal control in place at Merseyside Fire & Rescue accords with proper practice. This opinion is based on the individual assurance levels we have provided for each of the audit reviews undertaken during the year, and includes consideration of the wider sources of assurance provided to the Authority. The 2019/20 fundamental systems audits completed to date have shown a substantial level of compliance and none of the audits have identified weaknesses that have required a corporate impact assessment of major or moderate. Based on the audit work carried out in 2019/20 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement.

The service has in place a system of policies, procedures and processes to enable it to support the seven core CIPFA/SOLACE Principles of good governance.

4.7 External Review

4.7.1 External audit services are carried out by Grant Thornton. The scope of the work undertaken by External Audit is;

- The audit of the financial statements
- To reach a conclusion on the economy, efficiency and effectiveness in the use of resources (the value for money (VFM) conclusion
- To work on the whole of government accounts return.

4.7.2 External Audit will comment upon the Authority’s 2019/20 statutory financial statements and make a VFM conclusion during the 2020/21 financial year in the Annual Audit Findings report and Annual Audit and Inspection Letter. These documents reflect the Auditor’s findings and conclusions from auditing the Statement of Accounts. During 2019/20 the Auditor’s Annual Audit Findings Report and Audit Annual Letter covering 2018/19 confirmed the Authority’s overall performance continues to be strong and the Authority received an unqualified opinion on the 2018/19 financial statements.

4.8 Year-end Review

4.8.1 The current governance and internal control arrangements continue to be reviewed and refined on an ongoing basis and that they continue to be regarded as fit for purpose in accordance with the governance framework. This review provides an acceptable overall assurance of the effectiveness of the Authority's system of internal control.

SIGNIFICANT GOVERNANCE ISSUES

4.9 The CIPFA guidance suggests that the following criteria should be applied when judging what may constitute a significant control issue:

- The issue has seriously prejudiced or prevented achievement of a principal objective.
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business.
- The issue has led to a material impact on the accounts.
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
- The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

4.10 Following the announcement of the 2016/17 - 2019/20 Local Government Finance Settlement the Authority faced a significant reduction in the level of government grant support over this period. The reduction in Government support over this period has meant the Authority faced at least an £11m financial challenge, assuming all budget assumptions remain valid. The Authority approved a financial plan to meet this challenge at the 2016/17, Budget Authority meeting, and updated and ratified the plan at the 2017/18, 2018/19 & 2019/20 Budget Authority meetings.

4.11 In light of increased operational and protection risks (following a number of national and international incidents), and findings from Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS), the Authority approved a £1m investment back into frontline service in the 2019/20 five year medium term financial plan. As the £1m investment was made permanent as part of the 2020/21 budget plan.

4.12 Whilst no significant weaknesses have been identified in control systems at present, the following have been identified as critical internal control issues for the forthcoming year which the Authority will continue to monitor and action as appropriate:

- The assumptions made in the medium term financial plan, particularly around inflation, pay awards, and future government grants (whilst based on the best information available) are subject to potential change in such volatile times.
- The recruitment of sufficient firefighters to maintain the required response staffing levels in light of the fact the Authority may lose approximately half of its current firefighters through natural retirements

over the next five years of so. The Authority has established a recruitment reserve so it can fund the required recruitment in advance of the expected retirements over the period.

- The impact of any permanent remedy to the McCloud pension case and the impact this may have on earlier than planned retirements for firefighters being reinstated in the 1992 FPS with a potential retirement age of 50 compared to 60 in the 2015 FPS.

Taken together these factors result in a significant potential risk to the Authority's medium term financial plan. Reliable monitoring and forecasting processes are in place and the Director of Finance will ensure any variation to assumptions made in the medium term financial plan are identified at the earliest possible time. The Financial Review reports will keep Members informed on the impact of any variation to the assumptions in the financial plan and recommended corrective action.

4.13 The 2017 Policing and Crime Act places a statutory duty on the three emergency services (Ambulance, Fire and Police) to keep collaboration opportunities under review and to collaborate where this would improve efficiency and effectiveness. The Authority continues to maintain ongoing discussions with Merseyside Police and North West Ambulance Service on developing opportunities for greater collaboration.

4.14 Under the Cities and Local Government Devolution Act (2016), in November 2015, the Government agreed to devolve a range of powers and responsibility to the Liverpool City Region Combined Authority. The model includes a directly elected City Region Mayor over the Combined Authority Area, who was elected in May 2017. The Mayor may seek to take over the future governance of the Merseyside OPCC and Merseyside Fire and Rescue Authority at some future point, subject to the relevant support from the Government. The Authority will work with the Merseyside Police, the Office of the Police and Crime Commissioner and the Liverpool City Region Mayor, if asked, to establish the future governance arrangement for Merseyside Fire and Rescue Service.

4.15 COVID 19 Impact (2020/2021 onwards)–

4.15.1 **Authority governance / committee meetings:** whilst the COVID19 had no impact on the committee governance arrangements in 2019/2020, the Authority has made the decision to conduct committee meetings via “zoom” rather than hold physical meeting until the risk of the virus is reduced.

4.15.2 **The impact of social distancing on the Service:** Operational response has continued to operate as normal and the Service has procured the required PPE (based on NFCC guidance) to ensure firefighters attending operational incidents are protected. Staff who can work from home have been encouraged to do so until it is possible to return to their normal place of work. Unfortunately some services have been deferred if social distancing can't be maintained, this has particularly impacted on Prevention and Youth work, however managers are looking to provide these services in the near future by reviewing ways of working.

4.15.3 **Volunteering:** the Service has looked to support other emergency services, councils, care homes and the vulnerable in the community by

such providing support in the form of: face mask fitting tests; assisting the coroners service; delivering food and medicines; and delivering COVID19 test kits to the social care homes.

4.15.4 **Additional Costs & Loss of Income:** the Service has incurred additional expenditure to meet the challenges of COVID19 in the form of additional PPE; increased cleaning regimes; additional ICT; and increase in some planned projects costs (such as the new St Helens fire station as the construction phase has been slightly extended to reflect new work patterns). The Service has also lost expected income from commercial training; Prince's Trust; and the canteen. Up to May 2020 the Government awarded the authority £1.419m in grants to cover these costs, and more funding may be released in the near future. The current assumption is that the Government will cover the full cost of COVID19, at least in 2020/2021.

4.15.5 **Longer term financial impact:** The Government has announced it will defer the fair funding review and retained business rates funding adjustments for another year, so the earliest year these changes will impact is 2022/23. The full impact of COVID19 on the UK economy is not known yet including at a local level in respect of council tax and business rates income which may be lower than that expected in the current MTFP if collection rates fall. The **2021/2022 MTFP** will consider any new financial challenges during January – February 2021.

CERTIFICATION

- 5 **To the best of our knowledge, the governance arrangements, as defined above, have been operating during the year and up to the date of the approval of the Annual Accounts, providing an effective framework for identifying governance issues and taking mitigating action. Over the coming year the Authority will continue the operation of its governance framework and take steps to carry out the actions for managing any governance issues identified above or that materialise in the year.**

Signed.....
L. MALONEY
CHAIR of Policy and Resources Committee

Signed.....
P. GARRIGAN
CHIEF FIRE OFFICER

Signed
I. CUMMINS
DIRECTOR OF FINANCE