

Public Document Pack



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



R. Groves
Acting Monitoring Officer

Tel: 0151 296 4000
Extn: 4230 Gemma Sung

Your ref:

Our ref GS/RG

Date: 26th May 2021

Dear Sir/Madam,

You are invited to attend a meeting of the **AUDIT COMMITTEE** to be held at **1.00pm** on **THURSDAY, 3RD JUNE, 2021** in the Liverpool Suite - Fire Service Headquarters.

There are 10 socially distanced available seats in the Liverpool Suite for the public to attend the meeting. These seats are available on a first come first serve basis, so please contact DemocraticServices@merseyfire.gov.uk with your details if you require one.

The meeting will be available to watch via YouTube on the following link:

https://youtu.be/kGJ0bGg4B_A

If there are any technical issues with the live stream, the recording of the meeting will be uploaded to Merseyside Fire & Rescue Service's YouTube page after the meeting has ended.

Yours faithfully,

PP – G. Sung

Acting Monitoring Officer

Encl.

This page is intentionally blank

MERSEYSIDE FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

3 JUNE 2021

AGENDA

Members

Anthony Boyle, Independent Person
Janet Grace
Edna Finneran
Linda Maloney (Chair)
Lisa Preston
Allan Brame

1. Preliminary Matters

The Authority is 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, held on 11th February 2021, are submitted for approval as a correct record and for signature by the Chair.

3. Audit Plan 2020/21 (Pages 9 - 30)

To consider the attached report from the Authority's External Auditors – Grant Thornton, concerning the External Audit Plan 2020-21.

4. TREASURY MANAGEMENT 2020/21 ANNUAL REPORT (Pages 31 - 42)

To consider Report CFO/024/21 of the Director of Finance, concerning the activities of the Treasury Management operation and actual performance against the agreed Prudential Indicators in 2020/21. 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.

5. **2020/21 ANNUAL YEAR-END INTERNAL AUDIT REPORT** (Pages 43 - 56)

To consider Report CFO/027/21 of the Director of Finance, concerning the Annual Year End Internal Audit report for 2020/21.

6. **THE ANNUAL GOVERNANCE STATEMENT 2020/2021** (Pages 57 - 72)

To consider Report CFO/025/21 of the Director of Finance, 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.

7. **2021/22 INTERNAL AUDIT PLAN** (Pages 73 - 78)

To consider Report CFO/026/21 of the Director of Finance, concerning the proposed Internal Audit plan for 2021/22 and to seek comments from Members on the plan.

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

11 FEBRUARY 2021

MINUTES

Present: Cllr Linda Maloney (Chair) Councillors Janet Grace, Lisa Preston, Allan Brame and Edna Finneran

Also Present: Anthony Boyle (Independent Person)

Apologies of absence were received from:

8. CHAIR'S ANNOUNCEMENT

At the start of the meeting, the Chair of the Authority thanked everyone for attending and welcomed any members of the press or public who were observing the proceedings.

The Chair of the Authority then introduced the meeting and provided all present with an overview of how this remote meeting would work and some housekeeping.

A roll call was taken of all Members present, to confirm that they could hear and be heard; and that they could see and be seen.

1. Preliminary Matters

Members considered the identification of any declarations of interest, matters of urgency or items that would require the exclusion of the press and public due to the disclosure of exempt information.

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 were determined by the Chair to be considered as matters of urgency; and
- c) no items of business required the exclusion of the press and public during consideration thereof because of the possibility of the disclosure of exempt information.

2. Minutes of the Previous Meeting

The Minutes of the previous meeting of the authority, held on 26th November 2020 were approved as a correct record and for signature by the Chair.

3. FINANCIAL REVIEW 2020/21 – APRIL TO DECEMBER

Members considered Report CFO/005/21 of the Treasurer, concerning the financial position, revenue and capital, for the Authority for 2020/21. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority's finances. This report covers the period April to December 2020.

Members were given an overview of the report informing them that that the net budget in the third quarter of the revenue position remains at £61.961m.

The report reviewed the robustness of the approved key budget assumptions and in particular;

- The McCloud remedy assumption that the cost to the employer of allowing FPS members access to their legacy schemes would be considered as part of the 2020 FPS actuarial review and reflected in Employer rates from 2023/24 (or 2024/25).
- The financial impact of COVID-19 on the Authority can be contained within the Government funding received by the Authority.

Members were advised that the current position is that these assumptions remain robust and all costs can be contained within the approved budget.

After reviewing income and expenditure officers have identified the following favourable variances:

- £200,000 savings on the overall employee budget as a result of staff vacancies arising from staff turnover in the year and staff not being at the top of their substantive grade;
- A small £75,000 increase in the section 31 grant to compensate for the loss of income due to the small business rate relief above.

A saving of £75,000 has been identified from the contingency provision for price increases as some inflationary pressures have been contained within the base budget overall, a favourable variance of £350,000 was identified.

Members were informed that the Service has procured a new application to deliver the information needs of Protection, Prevention and Response. A project team has been established to implement and develop the system over the next 12 months and Members were asked to support the use of the identified £350 favourable variance to create a reserve so officers can use it towards the cost of the implementation and development of the new system.

Members were advised of changes to the Capital Programme;

- a small increase of £24,000 due to an increase in ICT hardware and vehicle expenditure, and
- Schemes to the value of £6,124,000 have been re-phased from 2020/21 into future years to reflect the expected actual yearly spend.

The overall change to the capital programme was outlined in Appendix C.

Regarding the use of the Reserves, Members were advised that in quarter 3 a net contribution from the reserves was made for £37,000, to support consultancy costs within the applications development team and to cover planned community risk management projects. Following an ongoing review of the current reserves the report proposes to re-align £0.5m from the recruitment reserve to increase the capital / TDA reserve in light of the proposal for a new TDA.

Members were informed that the Treasury Management Performance was consistent with the approved treasury management strategy for 2020/21. At the end of December, the Authority held £35.4m of investments. All investments are consistent with the approved investment strategy and within the limits and no new loans have been taken out.

Members thanked the Treasurer for the report and asked if Merseyside Fire and Rescue Authority (MFRA) only received 95% of funds to cover fees and charges due to Covid19. Members were advised that MFRA receives from MHCL's Covid-19 fees and charges grant a 95% contribution but the remaining loss is funded from the general Covid-19 grant and therefore 100% of lost income is covered by Covid-19 grant monies.

Members queried why £20m was invested into other Councils/Authorities and were advised that this type of investment was part of the agreed investment strategy approved at the Budget Authority, and reflects the priority given to security and liquidity of any investments within the approved thresholds.

Members asked for the reason that the Council Tax and Business Rates collection fund deficits are to be spread over the 2021-22 to 2023-24 period and were informed that it is because the Government have acknowledged the impact Covid19 will have on the collection fund and have therefore allowed regulations to be changed to allow collection rates to be spread over 3 years.

Members resolved that:

- a) the contents of the report, be noted;
- b) the proposed revenue, capital and reserve budget alignments, be approved;
- c) the use of the £0.350m favourable revenue variance identified within this report to increase the Capital Investment Reserve in order to fund investment in a new Response, Prevention & Protection ICT application, be approved; and
- d) the Director of Finance be instructed to continue to work with budget managers to maximise savings in 2020/21.

CLOSE

Date of next meeting: 3rd June 2021

This page is intentionally left blank

Merseyside Fire & Rescue Authority Audit Plan

Year ending 31 March 2021

3 June 2021



Contents



Your key Grant Thornton team members are:

Georgia Jones

Key Audit Partner

T 0161 214 6383

E Georgia.S.Jones@uk.gt.com

Naomi Povey

Engagement Manager

T 0161 953 6940

E Naomi.J.Povey@uk.gt.com

Ying Li

Assistant Manager

T 0151 224 7215

E Ying.Li@uk.gt.com

Section

Key matters	3
Introduction and headlines	4
Significant risks identified	5
Accounting estimates and related disclosures	7
Other matters	10
Progress against prior year recommendations	11
Materiality	12
Value for Money Arrangements	13
Risks of significant VFM weaknesses	14
Audit logistics and team	15
Audit fees	16
Independence and non-audit services	18
Appendix 1: Revised Auditor Standards and application guidance	19

Page

3
4
5
7
10
11
12
13
14
15
16
18
19

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Key matters

Factors

Authority developments

We have continued to hold regular meetings with the senior finance team at the Authority. During these meetings we discuss a range of key issues regarding the Authority's general developments, current and projected financial performance, governance issues and regulatory oversight.

At the time of producing this Plan, the Authority is projecting a year-end balanced budget whilst maintaining its level of general fund reserves of £3m. The Authority has also updated its Medium Term Financial Strategy (MTFS), based upon latest funding assumptions from the Local Government Funding Settlement and the approved 2021/22 Budget. The Latest MTFS forecasts a neutral position up to 2022/23 and then a small funding gap for 2023/24 of £0.901m, rising to £2.164m by 2025.26.

Impact of Covid 19 pandemic

The Covid-19 pandemic has impacted upon all of our lives. While there has been some relaxation of 'business as usual' arrangements, public sector bodies are still required to abide by the stewardship requirements of managing public money and have a statutory duty to carry out their functions effectively, efficiently and economically.

The outbreak of the coronavirus (Covid-19) pandemic has had a significant impact on the normal operations of all public sector bodies. The Authority has continued to provide leadership at a national and local level throughout the pandemic, which has involved the Authority's Chief Fire Officer chairing the monthly National Fire Authority Covid-19 Committee meetings to oversee the response phase of the pandemic and meeting regularly with the Home Office and the Fire Minister to update on the pandemic and the role of the Fire and Rescue Service. This has enabled the Authority to be in a position to influence nationally and locally the role of Fire Authorities in the response to the pandemic and it has been able to provide a wide range of support to partner organisations, whilst maintaining core operational functions throughout.

The government has provided a range of financial support packages throughout the COVID-19 pandemic. This has included additional funding to support the deficit on the collection fund, the cost of services or offset other income losses.

Our assessment is that the Authority has developed a good understanding of its financial and wider governance risks during the pandemic and, despite future financial uncertainty about medium term government funding, is well placed to address post Covid 19 challenges.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Director of Finance and Procurement.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- As part of our 2019-20 Audit Findings Report, we identified one recommendation for management. An update on the implementation of the recommendations can be found on page 12.
- We will continue to provide you with sector updates via our Audit Committee updates.
- The Authority's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic and we expect some uncertainty will continue in 2020/21. We identified a significant risk in regards to the valuation of properties – refer to page 6.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Merseyside Fire & 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'). This 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 Merseyside Fire & Rescue Authority. We draw your attention to both of these documents.

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's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); 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.

Significant risks

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

- Management override of controls
- Valuation of Land & Buildings
- Valuation of the Pension Fund Net Liability

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 £1.767m (PY £1.794m) 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 £0.088m (PY £0.09m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weaknesses. Pages 14 and 15 outline the revised approach for 2020-21 and the additional work which we are required to perform and report upon.

Audit logistics

Our interim visit took place in March 2021 and our final visit will take place in July -September. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £39,966 (PY: £33,766) for the Authority, subject to the Authority delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Authority's Ethical Standard (revised 2019) 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.

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
ISA 240 improper revenue recognition risk	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. Practice Note 10 (PN10), issued by the FRC, states auditors should also consider that material misstatements may occur by the manipulation of expenditure recognition</p> <p>Having considered the risk factors set out in ISA240 and PN10 and the nature of the revenue and expenditure streams at the Authority, we have determined that the risk of fraud arising from revenue recognition and expenditure manipulation can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition or expenditure • opportunities to manipulate revenue recognition and expenditure are very limited • the culture and ethical frameworks of local authorities, including Merseyside Fire & Rescue Authority, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Merseyside Fire & Rescue Authority.</p>	We have rebutted this risk
Management over-ride of controls	<p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override 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 for the Authority, 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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Land & Buildings	<p>The Authority revalues its land and buildings on a rolling five yearly basis with 20% of assets valued each year. In the intervening years, such as 2020/21, the Authority requests a confirmation from its engaged valuation expert (Hardie Brack) to ensure that there is no material difference. This valuation (£70.629m in 2019/20) represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally for land and buildings, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where annual valuations are not carried out.</p> <p>We therefore identified valuation of land and buildings 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"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's valuation of land and buildings are not materially misstated and evaluate the design of the associated controls • 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 • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year including investment properties, 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.
Valuation of the Pension Fund Net Liability	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability (£1094m in 2019/20) is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability 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"> • 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 actuary who carried out the Authority's pension fund valuation; • 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 and 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; and • obtain assurances from the auditor of Merseyside Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Accounting estimates and related disclosures

The Financial Reporting Authority issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Page 15

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Authority we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

The Authority's Information systems

In respect of the Authority's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Authority uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Authority (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have issued management with a set of questions to be completed and discussed with members of the Audit Committee. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Authority's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

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 our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set 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 legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Authority under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - 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 regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Authority as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).


PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate.

Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies.

We will review the Authority's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 13).

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the Authority's financial statements, which resulted in one recommendation being reported in our 2019/20 Audit Findings Report. We are pleased to report that management have implemented our recommendation

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
 Medium	✓	<p>Accounting for the Authority's Fixed Assets</p> <p>Our audit has identified that the Authority has not followed Code requirements in respect of processing transactions to reflect the revaluation of land and buildings. This has impacted how revaluation movements have been reported in the financial statements along with the treatment of depreciation charges.</p> <p>The Authority should ensure that the requirements of the Code are followed when performing adjustments to reflect the impact of asset revaluations within the asset register, general ledger and financial statements.</p> <p>Management response</p> <p>We accept the code must be adhered to when making such adjustments.</p>	<p>Management have confirmed that appropriate steps have been taken to ensure that the Code requirements are being followed in respect of the accounting for the Authority's fixed assets.</p> <p>We will review and confirm this as part of our audit work on the 2020/21 financial statements.</p>

Materiality

The concept of materiality

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. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.767m (PY £1.794m) for the Authority, which equates to 2% of your prior year gross expenditure for the year (our calculation of gross expenditure includes an adjustment to add back the one off pension credit in relation to McCloud). We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be 2% of total senior officers' remuneration for the senior officers' remuneration disclosures.

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.

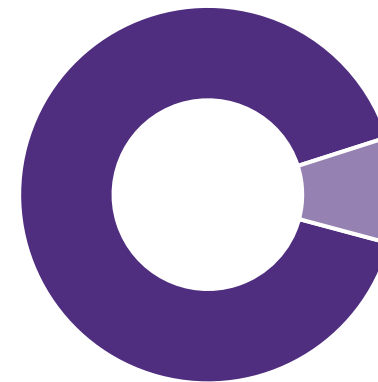
Matters we will report to the Audit Committee

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 Audit Committee 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 £0.088m (PY £0.09m).

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

Prior year gross operating costs

£85.194m Authority
(PY: £89.684m)



■ Prior year gross operating costs

Materiality

£1.767m
Authority financial statements materiality
(PY: £1.794m)



£0.088m
Misstatements reported to the Audit Committee
(PY: £0.09m)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out to the right:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

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

At this stage of our audit work we have not identified any significant weaknesses. However under the new VFM arrangement we will be considering the Authority's arrangements in place across the three criteria areas of finance, governance and performance. To be clear, this represents a more detailed level of audit work required under the new VFM Code than previously. We will be commenting on the Authority's arrangements across the three criteria in our Auditor's Annual Report which again is a new requirement for this year.

We will continue to monitor the Authority's finances from its outturn for 2020/21 to its planned position for 2021/22 and beyond.

We will keep under review the possibility of a significant weakness arising as part of our ongoing 2020/21 VFM review.

Our Findings will be summarised in the Auditor's Annual Report, to be agreed with management later this year.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team



Georgia Jones, Key Audit Partner

Georgia leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained and a commitment to add value to the Audit Committee and 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 Incharge

Ying assists in planning, managing and delivering the audit fieldwork, ensuring that the audit is delivered effectively and efficiently. She supervises and co-ordinates the on-site audit team.

Audited body responsibilities

Where audited bodies 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 audits. 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 timetable you have agreed with us, including all notes, the Narrative Report 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 for testing
- 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.

Audit fees

In 2018, PSAA awarded a contract of audit for Merseyside Fire & Rescue Authority to begin with effect from 2018/19. The fee agreed in the contract was £24,966. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 13, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £5,500. This is in line with increases we are proposing at all our local audits.

Additionally, 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, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Director of Finance.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Merseyside Fire & Rescue Authority Audit (excluding VAT)	£32,966	£33,766	£39,966

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 \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£24,966
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£1,000
Enhanced audit procedures for Property, Plant and Equipment	£1,750
Enhanced audit procedures for Pensions	£1,750
<i>New areas for 2020-21 where additional work is required:</i>	
Additional work on Value for Money (VfM) under new NAO Code	£5,500
Increased audit requirements of revised ISAs	£5,000
Total audit fees (excluding VAT)	£39,966

Independence and 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 Authority's Ethical Standard (Revised 2019) 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority.








Other services

No other services provided by Grant Thornton were identified.









Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance




The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



© 2021 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	3RD JUNE 2021	REPORT NO:	CFO/024/21
PRESENTING OFFICER	IAN CUMMINS, DIRECTOR OF FINANCE AND PROCUREMENT		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	SLT		
TITLE OF REPORT:	TREASURY MANAGEMENT 2020/21 ANNUAL REPORT		

APPENDICES:	APPENDIX A: TREASURY MANAGEMENT 2020/21 ANNUAL REPORT
--------------------	--

Purpose of Report

1. To advise Members of the activities of the Treasury Management operation and actual performance against the agreed Prudential Indicators in 2020/21. 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 2020/21 (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 2020/2021 – 2024/2025 Budget and Financial Plan report, CFO/008/20, considered by Members at the Authority meeting on 27th February 2020, set the Authority's treasury management strategy for 2020/21:

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/065/20, was considered by Members at the Policy and Resources Committee on 10th December, 2020. The report confirmed that to date treasury management activity in 2020/21 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 2020/21 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

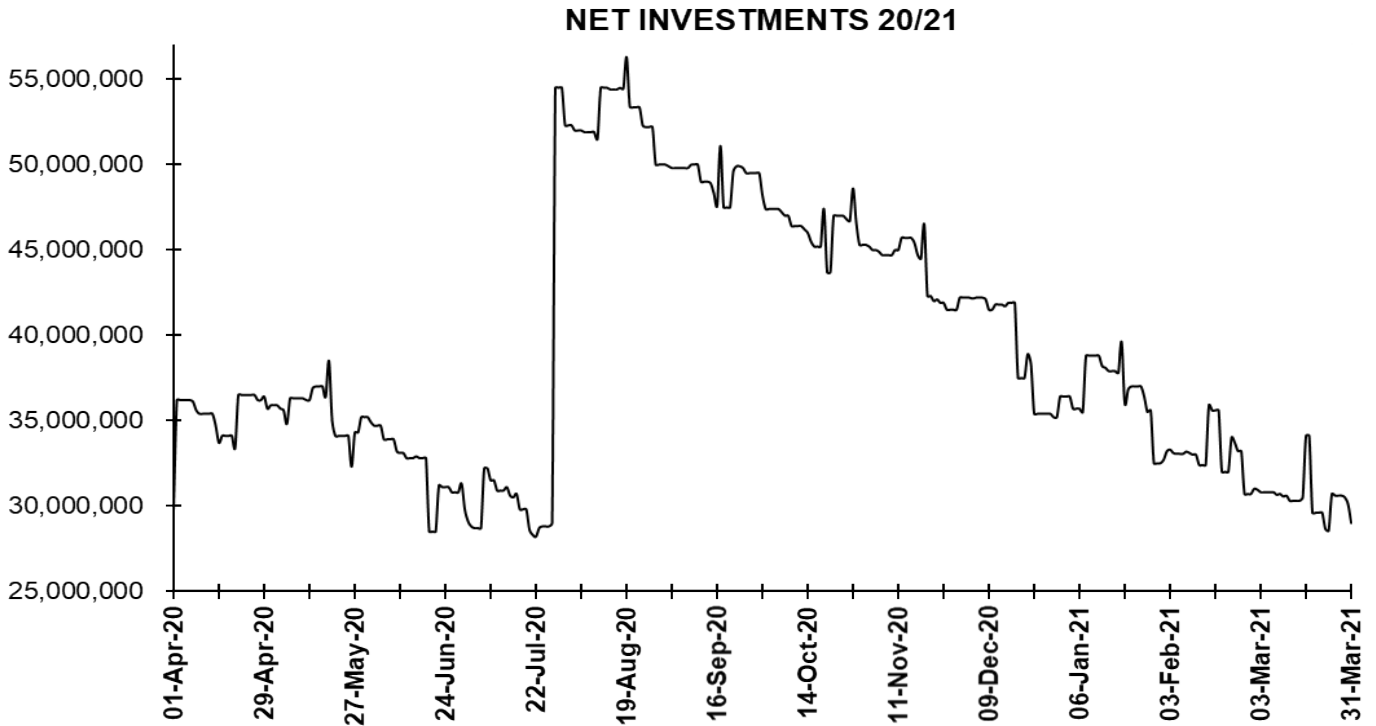
13. The cost of Treasury Management Services was £22,982 in 2020/21 and was provided by Liverpool City Council.
14. The Authority's overall debt outstanding during the year reduced from £37.335m to £36.885m:-

	For Periods ending (2020/21)													Closing Position	
	Opening Position	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000
PWLB	37,335	0	0	0	0	0	0	0	0	0	-250	0	-200	0	36,885

15. The reduction in debt of £0.450m was due to the repayment of two loans totalling £0.4m that matured in the year. Note that the closing debt figure of £36.885m excludes £0.2m of short-term borrowing provided by Liverpool City Council as this was just overnight funding made available to the Authority as part of the arrangement we have agreed with the Council.
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
01/04/20	27.0
31/03/21	29.0

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 £25.8m 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 £29.0m of investments at the year-end.
20. The investments are held in institutions that reflect the approved investment strategy. The table overleaf outlines the £29.0m of investments held as at 31st March 2021;

ANALYSIS OF INVESTMENTS END OF QUARTER 4 2020/21

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society	Local Authority	Average Interest	
		£	£	£	£	%	
Close Brothers	A		2,000,000			0.76	
Santander	A		2,000,000			0.58	
Cumberland B Soc				1,000,000		0.75	
Principality B Soc				1,000,000		0.68	
Aberdeen Council					2,000,000	0.58	
Blackburn Council					2,000,000	0.63	
Blackpool Council					2,000,000	0.61	
Broxbourne DC					2,000,000	0.53	
Broxtowe BC					2,000,000	0.86	
Eastleigh BC					1,000,000	0.43	
Guildford BC					2,000,000	0.55	
Myrthyr Tydfil CBC					2,000,000	0.43	
PCC Lancashire					2,000,000	0.80	
Slough BC					2,000,000	0.79	
Tameside MBC					2,000,000	0.71	
Thurrock Council					2,000,000	0.86	
	Totals		0	4,000,000	2,000,000	23,000,000	0.66
Total Current Investments					29,000,000		

*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 £0.199m, which was £0.027m 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.

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

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/008/20 2020/2021-2024/2025 Budget and Financial Plan report, Authority 27th February, 2020

CFO/065/20 Interim Treasury Management report, Policy and Resources Committee
10th December, 2020.

GLOSSARY OF TERMS

CIPFA Chartered Institute of Public Finance and Accountancy (CIPFA)

TREASURY MANAGEMENT ANNUAL REPORT 2020/21

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 2020/21.
2. The strategy for the year was identified in the Treasury Management Strategy Statement 2020/21. 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 2020/21 as the coronavirus pandemic continued to dominate the year. The Bank of England (BoE) held Bank Rate at 0.10% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn. The Bank Rate is unlikely to change despite developing market expectation.
4. Given the uncertainty throughout 2020/21 a cautious approach has been maintained, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
5. In November 2020 the Public Works Loan Board (PWLB) published its response to the consultation on 'Future Lending Terms'. From 26th November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with

confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.

6. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that Authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.
7. Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.
8. The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.
9. 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

10. 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 2020/21 and no new long-term borrowing was arranged. Market conditions continued to be unfavourable for any debt rescheduling.

ANNUAL INVESTMENT STRATEGY

11. The investment strategy for 2020/21 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.
12. 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 2020/21 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 2020/21 was 0.42%. This compares with an average seven-day deposit (7-day libid) rate of minus 0.07%.

13. 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

14. The external debt indicators of prudence for 2020/21 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£64 million
Operational boundary for external debt:	£58 million

Against these limits, the maximum amount of debt reached at any time in the financial year 2020/21 was £37.3 million.

15. **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 (2019/20) plus the estimates of any additional capital financing requirement for the current (2020/21) 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. The Authority has complied with this prudential indicator.

	31 March 2020	31 March 2021	31 March 2022
	Actual	Actual	Estimate
	£’m	£’m	£’m
Capital Financing Requirement	50.7	52.2	61.8

Less: PFI	(17.8)	(17.3)	(16.9)
Less:MRD	(0.2)	(0.2)	(0.2)
Borrowing CFR	32.7	34.7	44.7
Existing Debt Portfolio	37.3	37.1	33.9
Over(-)/Under borrowing	(4.6)	(2.4)	10.8
Borrowing as a % of CFR	114.1%	106.9%	75.8%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

16. The treasury management indicators of prudence for 2020/21 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 2020/21 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 2020/21 was as follows:

Maturity Period	Upper Limit	Lower Limit	Maximum Actual	Minimum Actual
Under 12 months	50%	0%	9%	1%
12 months and within 24 months	50%	0%	9%	1%
24 months and within 5 years	50%	0%	1%	0%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	95%	0%	91%	90%

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

The limit for investments of longer than 365 days was set at £2 million for 2020/21. No investments longer than 365 days have been placed during 2020/21.

PERFORMANCE INDICATORS

17. 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.

18. 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 2020/21.

Investments – Internal returns compared to the 7 day LIBID rate. The return in the financial year 2020/21 was 0.49% above the benchmark.

TREASURY MANAGEMENT ADVISORS

19. 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.
20. Whilst Liverpool City Council and its advisers provide the treasury function, ultimate responsibility for any decision on treasury matters remains with the Authority.

CIPFA CONSULTATIONS

21. In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These follow the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. These are principles-based consultations and will be followed by more specific proposals later in the year.
22. In the Prudential Code the key area being addressed is the statement that "local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Other proposed changes include the sustainability of capital expenditure in accordance with an authority's corporate objectives, i.e. recognising climate, diversity and innovation, commercial investment being proportionate to budgets, expanding the capital strategy section on commercial activities, replacing the "gross debt and the CFR" with the liability benchmark as a graphical prudential indicator.
23. Proposed changes to the Treasury Management Code include requiring job specifications and "knowledge and skills" schedules for treasury management roles to be included in the Treasury Management Practices (TMP) document and formally reviewed, a specific treasury management committee for Markets in

Financial Instruments Directive regulations (MiFID II) professional clients and a new TMP 13 on Environmental, Social and Governance Risk Management.

IFRS 16

24. The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022/23.

CONCLUSION

25. Treasury Management activity in 2020/21 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.

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	03 JUNE 2021	REPORT NO:	CFO/027/21
PRESENTING OFFICER	IAN CUMMINS, DIRECTOR OF FINANCE AND PROCUREMENT		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	SLT		
TITLE OF REPORT:	2020/21 ANNUAL YEAR-END INTERNAL AUDIT REPORT		

APPENDICES:	APPENDIX A: 2020/21 ANNUAL INTERNAL AUDIT REPORT
--------------------	---

Purpose of Report

1. To present to Members the Annual Year End Internal Audit report for 2020/21.

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 2020/21 plan was considered by the Audit Committee on 4th June, 2020 (CFO/024/20).
4. The Internal Audit outturn report for 2020/21 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”.....“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”..... “In our audit of each of these key financials 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”

5. COVID-19 has had a minimal impact on the delivery of the internal audit work for 2020/21 and there were no significant changes to the planned work, although there are elements of the work yet to be finalised. The fundamental system audits performed required more time than initially envisaged, in part due to the necessity to work remotely due to COVID-19. Some of the non-fundamental system audits were not undertaken as they were no longer required due to process changes in the year or they were no longer applicable, (special services charging process). Some of the audit reviews have been deferred until 2021/22 as either audit work was re-directed to other reviews or COVID-19 meant the review would not be as effective as MFRS staff were pre-occupied with dealing with the challenges of COVID-19. Appendix A provides a brief overview of the key findings of each audit carried out in 2020/21.

6. During the year Internal Audit have completed seven audits and a further two are at the reporting or review 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. The table below summaries the audit review and findings:

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Creditors	Substantial	Substantial	Minor
Debtors	Substantial	Substantial	Minor
Medium Term Financial Plan	Substantial	Substantial	Minor
Budgetary Control	Substantial	Substantial	Minor
Payroll*	Good (tbc)	Substantial (tbc)	Minor (tbc)
Payroll	Good (tbc)	Substantial (tbc)	Minor (tbc)
HMICFRS Inspection outcome	n/a	n/a	n/a
Lease / Provided ESV car controls	In review	In review	In review
Special Services charging process	Deleted		
Asset and inventory processes	Deferred		
Cyber Security	Deferred		

7. During the period June 2020 to May 2021, Internal Audit followed up on a number of outstanding audit recommendations from historic audit reviews going back as far as 2012/13. The review found 25 recommendations yet to be certified as being actioned by the Service. The overall position at the end of the review was that of the 25 recommendations actively followed up, 5 recommendations have been closed and the implementation of the other 20 has either
- been actioned by the Service and is awaiting Internal Audit confirmation, or
 - a new system or process has been introduced by the Service and Internal Audit will evaluate if the required control measures have been satisfied at the next review of that Service area, or
 - MFRS officers require an extension to the agreed deadline due to either staff changes, or, resources have been redirected to manage COVID-19 challenges.

Appendix A provides more details on these audit recommendations. Over the next few months all of these recommendations will be completed.

8. 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

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

Staff Implications

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

Legal Implications

11. 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

12. The cost of the Internal Audit Service from Liverpool City Council in 2020/21 was £35,500. The Authority had made adequate budget provision to pay for these audit services.

Risk Management, Health & Safety, and Environmental Implications

13. None contained within this report.

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

14. 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



Liverpool
City Council

Internal Audit Service

Merseyside Fire & Rescue Service -
Annual Internal Audit Report and Opinion
2020/21



	Contents	Page
1	Introduction	3
2	Internal Audit Opinion 2020/21	4
3	Summary of Audit Work Completed	5
4	Recommendation Implementation	6
5	Quality Assurance and Improvement Programme Results	7
6	Organisational Independence	8
7	Statement on Conformance with PSIAS	8
8	Definitions of Audit Assurance	9

1 Introduction

- 1.1 This report summarises the work that Internal Audit has undertaken across Merseyside Fire & Rescue Service during the 2020/21 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 (the Head of Internal Audit) to report to senior officers and 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 impact of COVID-19 on the public sector has been significant, including changes to ways of working, reprioritising services, redeploying staff and stretching capacity. For internal audit, it has raised the question of whether we have been able to undertake sufficient internal audit work to gain assurance during 2020/21. This is a key consideration to fulfil the requirement of the PSIAS for the CAE when issuing their annual opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 1.4 Internal Audit's approach to the completion of the 2020/21 work was to prioritise the completion of key activities to support the Internal Audit Annual Report and Annual Governance Statement.
- 1.5 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.
- 1.6 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 2020/21

- 2.1 There has been minimal impact on the delivery of the internal audit work for 2020/21 because of the COVID-19 pandemic. There have been no changes to the planned work although there are elements of the work yet to be finalised.
- 2.2 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 2020/21, 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.
- 2.3 The priority work on fundamental systems audits completed to date have shown a substantial level of compliance. No significant areas of weakness in governance, risk management or control have been identified from our audit work. Wider sources of assurance available to the Fire Authority include the results of the previous HMICFRS inspection on the effectiveness and efficiency with which MFRS prevents and protects the public, and responds to fires and other emergencies, and how well it looks after its personnel; which was published in June 2019. HMICFRS graded MFRS as 'Outstanding' in relation to preventing fires and other risks and responding to national risks; 'Good' in all other elements, apart from one 'Requires Improvement' in ensuring fairness and promoting diversity.
- 2.4 Assurance is also provided by Grant Thornton as the Authority's external auditor. In November 2020, Grant Thornton issued an unqualified opinion on the 2019/20 financial statements and they were also satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.
- 2.5 Based on the audit work carried out in 2020/21 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement.
- 2.6 We undertake individual internal audits with the overall objective of providing members, the Chief Fire Officer, the Treasurer 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.
- 2.7 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.
- 2.8 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 2020/21.

Fig 1 Summary of Opinions provided in 2020/21

Assurance Level	Control Environment	Compliance
Substantial	5	7
Good	2	-
Acceptable / Limited / None	-	-
Total Audits Completed	7	7

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 2020/21

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Creditors			
Debtors			
Medium Term Financial Plan			
Budgetary Control			
Payroll*	Good (tbc)	Substantial (tbc)	Minor (tbc)
Payroll	Good (tbc)	Substantial (tbc)	Minor (tbc)

Definition

*Old year carry fwd, completed in 20/21

Fundamental Systems

- 3.3 In our audit of each of these key financials 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.
- 3.5 These reviews included examining whether the Authority’s medium-term financial position continues to reflect 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.
- 3.6 We completed our work on payroll in May 2021. In addition to reviewing payroll key controls, additional substantive testing was performed to ensure that, maternity leave is reflected accurately in payments/deductions made to employees. An appropriate control environment is in place; however, a couple of earlier recommendations are yet to be fully actioned.

Fig 3 Other Strategic/Client directed audits completed in 2020/21

Audit Title	Control Environment	Compliance	Corporate Impact
HMICFRS Inspection outcome	n/a	n/a	n/a
Lease / Provided ESV car controls	In review	In review	In review

HMICFRS Inspection outcome

3.7 A review of the action plan to determine appropriateness / quality check of each action was performed, and assurance was obtained that actions were being progressed. Preparation for the next inspection has already been initiated; no formal audit opinion was deemed necessary.

Leases / Provided ESV car controls

3.8 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.

Contingency/Responsive/Advice and Assistance

3.9 No contingency/responsive work was identified this financial year; however the fundamental system audits performed required more time than initially envisaged, in part due to the necessity to work remotely. The contingency budget was used to complete this programmed work. The following audits were not undertaken but those deferred will be incorporated into the 2021/22 audit plan.

Fig 4 Audits deleted/deferred from the 2020/21 audit plan

Audit Title	
Special Services charging process	Deleted
Asset and inventory processes	Deferred
Cyber Security	Deferred

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 and medium recommendations within three months.

Annual Internal Audit Report 2020/21

- 4.3 During the period June 2020 to May 2021, Internal Audit followed up audit recommendations from historic audit reviews going back as far as 2012/13. The review found 25 recommendations yet to be certified as being actioned by the Service. The overall position is that of the 25 recommendations actively followed up, 5 recommendations have been closed and the implementation of the other 20 has either
- been actioned and is awaiting Internal Audit confirmation, or
 - a new system or process has been introduced and Internal Audit will evaluate if the required control measures have been satisfied at the next review of that Service area, or
 - MFRS officers require an extension to the agreed deadline due to either staff changes or resources have been redirected to manage COVID-19 challenges.

Table 5 below details the recommendations that are still ongoing.

Fig 5: Analysis of recommendations followed up between June 2020 and May 2021. 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	-	2
Data Protection Regulations	2	-	-	2
Procurement	1	-	2	3
Older Audits				
Ancillary Fleet	-	4	5	9
Devolved Arrangements	-	3	-	3
Income Generation	-	1	-	1
Total	3	10	7	20

- 4.4 Payroll – the Service agreed to formalise its approach to honorarium / additional responsibility payments. MFRS officers have amended the current ARA policy to incorporate ARA authorisation procedures but the amendment has yet to be shared formally with Internal Audit. In addition, the Service agreed to prepare a new policy/instruction covering pay adjustments that would include recommendation that the Director of POD be given the discretion over the terms to be applied in the recovery of overpayments. It is understood that this policy has now been drafted but the change has yet to be shared formally with Internal Audit.
- 4.5 Data Protection Regulations – the Service have completed Information Asset Registers, but Internal Audit recommended that the privacy notices should be reviewed, and, documentation developed to outline how processes for managing and updating the registers will operate. Although Internal Audit understand that the privacy notices have been reviewed and updated we have not yet confirmed this to be so. The Service has yet to complete the documentation for managing the registers due to MFRS staff vacancies and the impact of COVID-19 on staff working arrangements. MFRS staff have committed to resolving these outstanding issues in the coming months.
- 4.6 Procurement – The E/S recommendation related to the due diligence checks on tender bids. Internal Audit have been advised that MFRS Procurement staff have launched a new e-procurement portal in May 2021 that will fulfil the requirements of

Annual Internal Audit Report 2020/21

the audit review, Internal Audit will review the use of the new live portal in due course.

- 4.7 Ancillary Fleet - due to the COVID-19 pandemic working practices within various departments changed as they have been temporarily disseminated to new locations with movement of staff and vehicles. A pool system was put in place for the vehicles used by departments in SHQ with looking to reduce the number of vehicles used but increase in usage and efficiency. Therefore, the writing of the Ancillary Vehicle Policy and the implementation of the associated audit recommendations are still ongoing.
- 4.8 Devolved Arrangements - as part of our planned asset management audit we will perform a review to identify whether previous devolved arrangement recommendations around the management of operational equipment held on stations have been superseded and identify whether there are any further areas of risk.
- 4.9 Income Generation – Following a review of the TDA commercial activity Internal Audit recommended officers consider developing a strategy for the planned commercial activity particularly around planned course provision, frequency and subscription. Due to COVID-19 Internal Audit have been advised the TDA have now brought forward plans to progress the offer of on-line and remote learning to generate future income. Therefore, we will review the recommendation with TDA staff once they have implemented their online proposals.

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. The annual review of both the Charter and the QAIP is scheduled to take place in July 2021.
- 5.5 External assessments are required to be undertaken at least every five years. The previous assessment concluded that Internal Audit complies with the main requirements of the standards. The next external assessment is due in the latter half of 2021.
- 5.6 Based on the results of the QAIP for 2020/21 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 an external peer review, as conforming to PSIAS.
- 7.2 The table below summarises actual audit days based on an agreed 112 days’ work. (of which 7 days were used in 19/20, leaving 105 days for 20/21). As can be seen, just under 80% of the contractual days were performed and resource will be prioritised to complete the strategic audits that were deferred to the financial year end.

Fig 5 Actual v Budgeted Days

Audit Title	Planned	Actual
Fundamentals	47	60
Strategic reviews/client directed/ad-hoc reviews	31	12
Contingency	14	0
Follow Up	5	4
Audit management	8	6
Total	105	82

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:	3rd JUNE 2021	REPORT NO:	CFO/025/21
PRESENTING OFFICER	IAN CUMMINS, DIRECTOR OF FINANCE AND PROCUREMENT		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	THE ANNUAL GOVERNANCE STATEMENT 2020/2021		
APPENDICES:	APPENDIX A: 2020/2021 ANNUAL GOVERNANCE STATEMENT		
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 2020/2021 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 2020/2021 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)

Delivering Good Governance in Local Government – Framework, CIPFA/SOLACE (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

2020-2021 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 2021.

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 supplementary 2019/21 IRMP, that extends the current plan to 2021, and established the service priorities for that period. The Authority approved the release of the draft IRMP 2021-24 at the Budget Authority meeting on 25th February 2021, and this is currently out for consultation prior to final approval, publication and implementation. The proposals in the IRMP are aligned to the Authority's medium-term financial plans and therefore have been resourced.

- 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 2020/21 and approved by the Authority at its meeting on 11th June 2020 (CFO/032/20), 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 ownership of the risk register 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 2019/20 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 11th June 2020 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.
- The Joint Fire & Police 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 risk register and 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 and Procurement 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.

To appoint task and finish groups to undertake detailed work, involving relevant Scrutiny Members, key reference holders and relevant officers.

- The Appeals Committee – to consider whether to assent to applications for specific licences as may be referred to the Committee by the Health and Safety Executive or the Chief Fire Officer.
- The Appointments Committee - To consider and determine for appointment to the posts and offices of the Chief Fire Officer, Deputy Chief Fire Officer, Treasurer (Director of Finance and Procurement), Monitoring Officer (Head of Legal Services) 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 2020/21 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 Head 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 and Procurement fulfils this role and is a qualified and experienced accountant. The Director of Finance and Procurement 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 and Procurement 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 2019/20 and it is anticipated this will be repeated in 2020/21. 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 2020/21, 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 and Procurement. An interim and year-end Internal Audit Plan reports are submitted to the Audit 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:

*“From the Internal Audit work undertaken in compliance with the PSIAS in 2020/21, 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 priority work on fundamental systems audits completed to date have shown a substantial level of compliance. No significant areas of weakness in governance, risk management or control have been identified from our audit work. ...Assurance is also provided by Grant Thornton as the Authority's external auditor. In November 2020, Grant Thornton issued an unqualified opinion on the 2019/20 financial statements and they were also satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020...Based on the audit work carried out in 2020/21 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 2020/21 statutory financial statements and make a VFM conclusion during the 2021/22 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 2020/21 the Auditor's Annual Audit Findings Report and Audit Annual Letter covering 2019/20 confirmed the Authority's overall performance continues to be strong and the Authority received an unqualified opinion on the 2019/20 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.

5. SIGNIFICANT GOVERNANCE ISSUES

5.1.1 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.

5.1.2 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 temporary £1m investment back into frontline service in the 2019/20 five year medium term financial plan. The £1m investment was consolidated within the base budget as part of the 2020/21 budget plan.

5.1.3 Whilst no significant weaknesses have been identified in control systems at present, the assumptions made in the medium term financial plan (MTFP), 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 Director of Finance and Procurement will ensure that any variation to the assumptions made in the MTFP are identified at the earliest possible time, and reported to Members' through the quarterly financial review reports. Also, the Authority has established specific reserves to cover the risk of a variation to the key assumptions in the MTFP. These reserves would allow the Authority time to approve structural changes to deliver the required permanent savings to return the MTFP to a balanced position over the longer term.

5.1.4 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.

- 5.1.5 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.

5.2 COVID-19 Impact (2020/2021 and future years)–

- 5.2.1 **Authority governance / committee meetings:** the Authority made the decision to conduct committee meetings via “zoom” rather than hold physical meeting during 2020/21 further to a change in legislation to allow for this. From May 2021 the expectation is that the committee meetings will be face to face and return to the pre-Covid 19 arrangements as the regulations for remote meetings is due to expire.
- 5.2.2 **The impact of social distancing on the Service:** Operational response continued to operate as normal throughout 2020/21 and the Service procured the required PPE to ensure firefighters attending operational incidents are protected. The operational response will continue as normal throughout 2021/22. Staff are expected to return to their normal place of work from June 2021 and full Prevention and Youth service provision will commence in 2021/22 with the relevant COVID-19 adjustments to work practices to ensure the safety of staff, the Merseyside community, and participants.
- 5.2.3 **Volunteering:** the Service throughout 2020/21 and going forward into 2021/22 has looked to support other emergency services, councils, care homes and the vulnerable in the community by providing support in the form of face mask fitting tests; assisting the Coroners Service; delivering food and medicines; and delivering COVID-19 test kits to social care homes.
- 5.2.4 **Additional Costs & Loss of Income:** During 2020/21 the Service suffered from the financial impact of COVID-19 in the form of; a reduction in Council Tax and Business Rates resulting in a potential £3.7m deficit on the Collection Fund; additional expenditure on PPE, cleaning and ICT; and a reduction in income yield from commercial training and other activities. The Authority received a £1.7m COVID-19 grant and is expecting to receive specific grants to cover £2.6m of the Collection Fund deficit. The Authority is anticipating these grants will cover all of the 2020/21 and 2021/22 costs associated with COVID-19.

5.2.5 **Longer-term financial impact:** The Government has announced it will defer the fair funding review and retained business rates funding adjustments until at least 2022/23. The impact of COVID-19 on the UK economy may result in future financial challenges for the Government. At a local level council tax and business rates income is expected to recover over the medium term and it is hoped this would as early as 2022/23.

CERTIFICATION

6 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..... Signed.....
L. MALONEY P. GARRIGAN
CHAIR of AUDIT COMMITTEE CHIEF FIRE OFFICER

Signed
I. CUMMINS
DIRECTOR OF FINANCE AND PROCUREMENT

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	3 JUNE 2021	REPORT NO:	CFO/026/21
PRESENTING OFFICER	IAN CUMMINS, DIRECTOR OF FINANCE AND PROCUREMENT		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	SLT		
TITLE OF REPORT:	2021/22 INTERNAL AUDIT PLAN		

APPENDICES:	APPENDIX A: 2021/22 AUDIT PLAN
--------------------	---------------------------------------

Purpose of Report

1. To notify Members of the proposed Internal Audit plan for 2021/22 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 2021/22 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 and Procurement, 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 2021/22 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 2021/22 Internal Audit Plan. The proposed Plan utilises 135 Audit Days, which is 23 days above the agreed annual allowance. This is due to the impact of Covid 19 in 2020/21, as some strategic audits were deferred until the financial year end and elements of the work will now be finalised in 2021/22. Therefore, 23 audit days have been carried forward from the 2020/21 Audit Plan to facilitate the completion of this work.
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. There are no Risk Management, Health & Safety, and Environmental Implications contained within this report.

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

This page is intentionally left blank

STRATEGIC AUDIT PLAN 2021/22

		21/22	21/22
		Audit Days	Audit Days
	<u>Fundamental Financial Systems</u>		47
	<u>Strategic Reviews / Client directed / Ad hoc reviews</u>		
1	Stores – review stock management processes	15	
2	Review asset management of ICT devices and phones. Review to include how the system identifies surplus devices, staff with more than 1 device; mobile phones no longer required; and, age profile of devices linked to asset refresh strategy.	15	
3	Review current Counter Fraud Policies	7	
4	Carry out specialist Cyber Security audit review	6	
5	Walk-through current data flow for POD/Payroll/Finance application, and consider potential improvements through greater automated data integration.	15	
	Strategic Reviews / Client directed / Ad hoc reviews		58
	Contingency - Investigations/Responsive / Advice & Assistance		17
	Follow up on implementation of previous audit recommendations.		5
	Audit Management		8
	Total Planned Days		<u>135</u>

This page is intentionally left blank