

Public Document Pack



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



**R. Groves
Monitoring Officer**

Tel: 0151 296 4113
Extn: 4113 Shauna Healey

Your ref:

Our ref SH/RG

Date: 26/05/2022

Dear Sir/Madam,

You are invited to attend a meeting of the **AUDIT COMMITTEE** to be held at **1.00 pm** on **TUESDAY, 7TH JUNE, 2022** in the Liverpool Suite - Fire Service Headquarters.

The meeting is open to members of the public, please get in touch if you wish to attend.

This meeting will be webcast live to Youtube and is available at the link below:

<https://youtu.be/IKceB1Q2oVo>

Yours faithfully,

PP – S. Healey

Monitoring Officer

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MERSEYSIDE FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

7 JUNE 2022

AGENDA

Members

Anthony Boyle, Independent Person
Edna Finneran
Janet Grace, Sefton
Andrew Makinson
Linda Maloney (Chair)
Lisa Preston

1. Preliminary Matters

Members are requested to consider the identification of:

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

2. Minutes of the Last Meeting (Pages 5 - 8)

To consider the minutes of the last meeting held on 10th May 2022.

3. Grant Thornton 2021/22 Audit Plan (Pages 9 - 32)

To consider report CFO/015/22 provided by external auditors, Grant Thornton.

4. Grant Thornton Request - Informing the Audit Risk Assessment 2021/22 (Pages 33 - 72)

To consider report CFO/016/22 provided by external auditors, Grant Thornton.

5. Treasury Management 2021/22 Annual Report (Pages 73 - 84)

To consider report CFO/017/22 presenting the Treasury Management Annual Report.

6. **2021/22 Annual Year End Internal Audit Plan** (Pages 85 - 100)
To consider Report CFO/18/22 presenting the Year End Internal Audit Plan 2021/22.

7. **The Annual Governance Statement 2021/2022** (Pages 101 - 116)
To consider report CFO/019/22 which provides Members with the Annual Governance Statement for 2021/22.

8. **2022/23 internal audit plan** (Pages 117 - 122)
To consider report CFO/020/22 which presents the Internal Audit Plan for 2022/23.

MERSEYSIDE FIRE AND RESCUE AUTHORITY

10 FEBRUARY 2022

MINUTES

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

Also Present: Phil Garrigan (CFO), Ria Groves (Monitoring Officer), Ian Cummins (Director of Finance and Procurement)

Apologies: Mr Anthony Boyle (Independent Member)

1. Preliminary Matters

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

RESOLVED that:

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

2. Minutes from Previous Meeting

RESOLVED that the minutes of the previous meeting held on 28th September 2021 were agreed as an accurate record.

3. Grant Thornton Auditors Annual Report 2021

Members considered the Annual Report of the External Auditors, Grant Thornton, as presented by Georgia Jones. Members were advised that this was a new report resulting from changes to the Code of Audit Practice in 2021 and the report provided a more in depth analysis on value for money.

The report made three improvement recommendations to the Authority and it was explained that this kind of recommendation was the lowest level in terms of significance. It was reported that there were no key recommendations or statutory recommendations for the Authority.

The first recommendation for improvement related to enhanced training for Audit Committee Members to promote challenge of the Committee reports and this was welcomed by the Councillors.

Secondly, it was suggested that an Officer from Internal Audit attend the Committee meetings to answer any challenges from the Members.

The final recommendation sought the integration of service delivery performance reports and financial performance reports in order to highlight any links between the two.

Members queried how External Audit would be assured that any issues raised relating to a potential disciplinary could not occur again. It was explained that External Audit had considered the policies and procedures in place rather than judging the details of any disciplinary hearing and it was found that the policies were fit for purpose and no gaps were identified. Internal Audit and the Monitoring Officer were also reviewing the policies and the training available for Members on disciplinary procedures.

With regard to training, the Chair noted that Members were provided training in their own authorities as well as from the Authority and that the recent Budget Strategy Day had been well attended and useful for Members.

The Chief Fire Officer (CFO) asked for more detail on the recommendation concerning integrating performance reports and it was clarified that the suggestion was to link financial and service performance reports when looking at financial decision making and planning for the future. It was theorised that integrating the reports in this way would help to identify areas for investment and how that can effect another service area.

Ian Cummins, Director for Finance and Procurement noted the difference between a Fire Authority and a Council and suggested that the IRMP was the strategic document where that information was held. It was advised that moving forward these reports (quarterly financial review and the service plan updates) would if possible be brought to the same committee meeting and any correlation between the two would be highlighted at that meeting.

It was acknowledged that although the improvement recommendations were based on good practice, their implementation could vary across different organisations.

The CFO requested that future Grant Thornton reports be adapted to show MFRA staff as opposed to stock images and it was agreed that this would be actioned if possible.

RESOLVED that the contents of the presentation be noted

4. MRFA Audit Committee Progress report - January 2022

Georgia Jones presented a progress update report which provided the completed financial statement and value for money audit for 2021. The External

Auditors were now in the process of planning for 2021-22 to be presented at the next Committee meeting.

Members were made aware of additional fees attributed to pensions valuations and it was explained that was a national issue resulting from an increased level of scrutiny dictated by the Audit Commission.

RESOLVED that the contents of the report be noted.

5. Financial Review 2021/22 - October to December

Members received a report from the Director of Finance and Procurement, Ian Cummins, providing a financial review of 2021/22 from October to December.

The report covered the revenue and capital position as well as an update on treasury management performance, which had been consistent with the approved treasury management strategy for 2021/22.

Councillor Makinson raised concerns about inflation and the continual pressure on interest rates and asked if these factors would affect the deliverability of the capital programme. It was explained that the debt servicing costs associated with the required borrowing within the proposed five year capital programme had been incorporated into the revenue budget and MTFP. Members were advised that the revenue budget included a provision for pay and price inflation and the current forecast was that inflation pressures would be contained within the budget.

RESOLVED that:

- a) the contents of the report be noted;
- b) the proposed revenue and capital budget alignments be approved;
- c) the reserve adjustments as outlined in the report be approved, and the for £0.800m forecast favourable revenue variance be used to fund an increase in the capital investment reserve in order to contribute towards the cost of a new TDA development; and
- d) the Director of Finance and Procurement be instructed to continue to work with budget managers to maximise savings in 2021/22.

Close

Date of next meeting Tuesday, 7 June 2022

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	7TH JUNE 2022	REPORT NO:	CFO/015/22
PRESENTING OFFICER	GRANT THORNTON		
RESPONSIBLE OFFICER:	GRANT THORNTON	REPORT AUTHOR:	GRANT THORNTON
OFFICERS CONSULTED:	FINANCE		
TITLE OF REPORT:	GRANT THORNTON: MERSEYSIDE FIRE AND RESCUE AUTHORITY AUDIT PLAN		
APPENDICES:	APPENDIX A: AUDIT PLAN		

Purpose of Report

1. At the end of each financial year the Authority’s external auditor, Grant Thornton, carry’s out the statutory audit of the Authority’s financial statements. The purpose of this report is to present to Members Grant Thornton’s Audit Plan for the year ending 31 March 2022.

Recommendation

2. It is recommended that Members note the contents of the report.

Introduction and Background

3. The report provides an overview of the planned scope and timing of the staturoy audit of Merseyside Fire and Rescue Authority for those charged with governance.
4. The report presents a review of the significant risks, materiality, value for money arrangements and audit logistics.

Equality and Diversity Implications

5. This is an external report provided by Grant Thornton.

Staff Implications

6. This is an external report provided by Grant Thornton.

Legal Implications

7. This is an external report provided by Grant Thornton and forms part of the statutory audit of the Authority.

Financial Implications & Value for Money

8. This is an external report provided by Grant Thornton.

Risk Management, Health & Safety, and Environmental Implications

9. This is an external report provided by Grant Thornton.

Contribution to Our Vision: *To be the best Fire & Rescue Service in the UK.*

Our Purpose: *Here to serve, Here to protect, Here to keep you safe.*

10. It is a statutory requirement to undertake an audit of the Authority and it helps to ensure good governance, which in turn benefits the communities that we serve.

BACKGROUND PAPERS

NONE

GLOSSARY OF TERMS

Merseyside Fire & Rescue Authority Audit Plan

Year ending 31 March 2022

May 2022

Page 11



Contents



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Section

Key matters	3
Introduction and headlines	4
Significant risks identified	5
Accounting estimates and related disclosures	8
Other matters	11
Materiality	12
IT Audit Strategy	13
Value for Money Arrangements	14
Audit logistics and team	15
Audit fees	16
Independence and non-audit services	17
Digital Audit	18
Appendix 1: Progress against prior year recommendations	20

Page

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

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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 £3 million. The Authority have updated its Medium Term Financial Strategy (MTFS) based on latest funding assumptions from the Local Government Funding Settlement and the approved 2022/23 Budget estimate of £61.792 million. The Latest MTFS forecasts a neutral position up to 2023/24 and followed by a small funding gap for 2024/25 of £0.775 million, rising to £0.994 million by 2026/27.

Recovery from 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 function effectively, efficiently and economically.

The outbreak of the coronavirus 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. 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. These include additional funding to support the cost of services, offset the deficit on collection fund or other income losses.

Our assessment is that the Authority has developed a good understanding of its financial and wider governance risks during the pandemic. Despite future financial uncertainty about medium term government funding, it 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.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.

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 we consider whether there are sufficient arrangements in place at the authority for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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 £1.808m (PY £1.767m) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.090m (PY £0.088m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weaknesses.

Audit logistics

Our interim visit took place in March 2022 and our final visit will take place in July - October. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £41,079 (PY: £45,966) 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
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk 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.
ISA240 revenue and expenditure recognition risk	<p>Revenue:</p> <p>ISA (UK) 240 includes a rebuttable presumed risk that revenue recognition may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: There is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are very limited; The culture and ethical frameworks of local authorities, including Mersey Fire, mean that all forms of fraud are seen as unacceptable.</p> <p>Expenditure:</p> <p>In the public sector, whilst it is not a presumed significant risk, in line with the requirements of Practice Note (PN) 10: Audit of financial statements of public sector bodies in the United Kingdom - we also consider the risk of whether expenditure may be misstated due to the improper recognition of expenditure. This risk is rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition.</p> <p>Based on our assessment we consider that we are able to rebut the significant risk in relation to expenditure, but will nevertheless, and in line with PN10, recognise the heightened inherent risk of 'other service expenditure' in our audit scoping and testing assessment.</p>	<p>As we do not consider this to be a significant risk for the Authority, we will not be undertaking any specific work in this area other than our normal audit procedures.</p>

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Authority revalues its land and buildings on a five year rolling basis, with 20% of assets valued each year and a desktop valuation performed on the remaining assets. In the intervening years, such as 2021/22, the Authority requests a confirmation from its engaged valuation expert (Dears Brack) to ensure that there is no material difference. This valuation (£74.211m in 2020/21) 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>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 Council'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 Council's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Authority's pension fund net 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 (£1.165m in 2020/21) 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.

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

Accounting estimates and related disclosures

The Financial Reporting Council 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.

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 2022.

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
- Valuation of defined benefit net pension fund liabilities
- Impairment allowances

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 made enquiries of management requesting written responses from the Authority across a range of areas including accounting estimates that are significant to the Financial Statements. We have received the Authority's response and will also be sharing with Those Charged With Governance to ensure the responses are consistent with their understanding.

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 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 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 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.

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 £1.808m (PY £1.767m) for the Authority, which equates to 2% of your prior year gross expenditure. 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 officer 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.

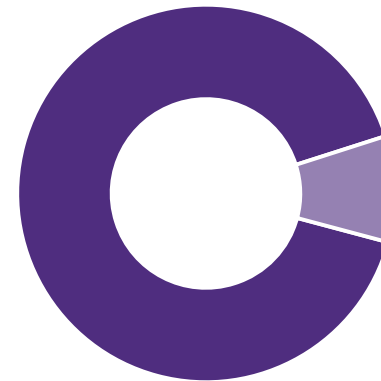
Matters we will report to the Audit Committee

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 £0.09m (PY £0.088m).

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

£90.411m
(PY: £85,194m)



- Prior year gross operating costs
- Materiality

Materiality

£1.808m
Authority financial statements materiality
(PY: £1.767m)



£0.090m
Misstatements reported to the Audit Committee
(PY: £0.088m)

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

Page 23

IT system	Audit area	Planned level IT audit assessment
E-financials	Financial reporting	<ul style="list-style-type: none"> Streamlined ITGC design assessment

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires 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 below:



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

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.



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

Sophia S Iqbal, Audit Manager



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

Ying Li, Audit In Charge



Ying assists in planning, managing and delivering the audit fieldwork, ensuring that the audit is delivered effectively and efficiently. She supervises and coordinates 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 agreed 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 items 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 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 2021/22 audit.

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 detailed on page 9 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

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 2021/22, as set out below, is detailed overleaf and has been agreed with the Director of Finance.

	Proposed Fee 2020/21	Actual Fee 2020/21	Proposed fee 2021/22
Merseyside Fire Authority Audit	£39,966	£45,966	£41,079
Total audit fees (excluding VAT)	£39,966	£45,966	£TBC

Assumptions

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

- prepare a good quality set of financial statements, 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.

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 Council'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.

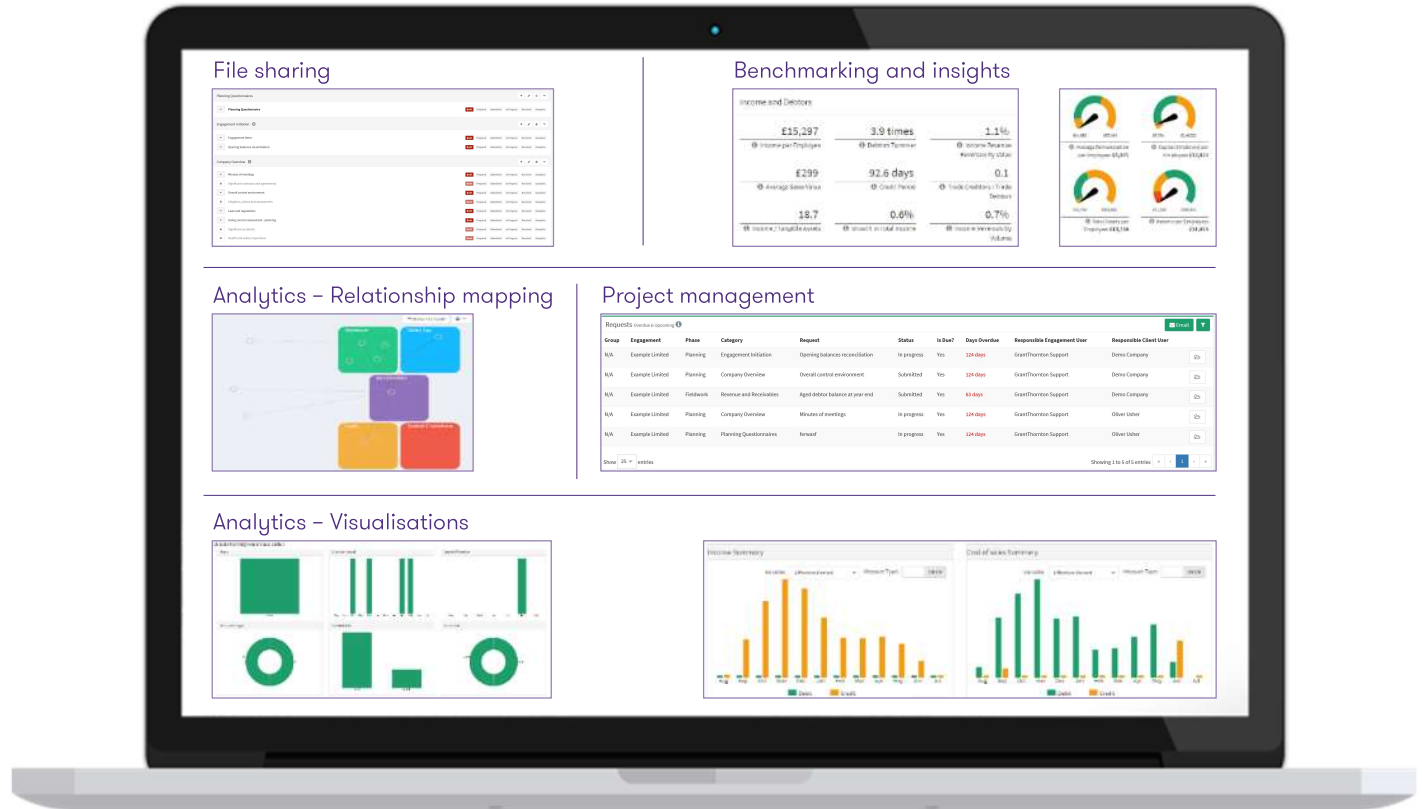
Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations

Page 28



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Page 29

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the Authority's financial statements, which resulted in 2 recommendations being reported in our 2020/21 Audit Findings Report. We will follow up progress against these recommendations as part of our final accounts work.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	<p>Valuations of the Authority's Land and Buildings</p> <p>We determined the valuation of Land and Buildings to be a risk requiring special audit consideration.</p> <p>We recommended that management consider the arrangements it has in place with its valuer and look to obtain and retain the evidence supporting the year end valuations to avoid delays in the audit process</p>	<p>Management accepted the recommendation. Apart from the 20% of assets revaluated each year, management has agreed with external valuer to get detailed working sheet for each asset being valued under the desktop exercise.</p>
TBC	<p>Audit Fees</p> <p>The cost of External Audit Services must be disclosed correctly in the financial statement in line with the Code requirements and ethical standards.</p> <p>We recommended that management ensure that the audit fees disclosed correctly reflect those stated in the Audit Plan, with narrative explanations for any difference due to notification of additional fees.</p>	<p>Management accepted the recommendation. For 2021/22, The financial statement disclosure will show the Audit Fee per Audit Plan with a note to explain what is charged in year with any accruals.</p>



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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	7TH JUNE 2022	REPORT NO:	CFO/016/22
PRESENTING OFFICER	IAN CUMMINS		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	GRANT THORNTON REQUEST - INFORMING THE AUDIT RISK ASSESSMENT 2021/22		
APPENDICES:	APPENDIX A:	INFORMING THE AUDIT RISK ASSESSMENT FOR MFRS 2021/22	

Purpose of Report

1. The Authority’s external auditor, Grant Thornton (GT), as part of their work on the 2021/22 financial statements, have requested that the Service complete a risk assessment questionnaire. The purpose of this report is to share with the Members of the Audit Committee the responses to the GT questionnaire prepared by the Director of Finance and Procurement, and, subject to any amendments ask Members to approve the responses outlined in Appendix A.

Recommendation

2. It is recommended that Members;
 - a) review the Director of Finance and Procurement responses to the Grant Thornton risk assessment questions outlined in Appendix A; and
 - b) subject to any Member amendments, approve the responses outlined in Appendix A.

Introduction and Background

3. As part of the 2021/22 audit work undertaken by GT on the Authority’s financial statements, GT will carry out a risk assessment of management processes and how the Authority manages the following areas:
 - **General Enquiries of Management** – (any significant challenges that may impact on the financial statements),
 - **Fraud,**
 - **Related Parties,**
 - **Going Concern, and**
 - **Accounting Estimates.**

4. GT undertake their risk assessment via a series of questions on each area. The Service's response to these questions will be used by GT to obtain an understanding of management processes and the Authority's oversight into GT's areas of perceived risk.
5. The Director of Finance and Procurement has prepared responses on to the GT questions using the GT template. Appendix A outlines the proposed responses. No areas of concern have been identified by the Director of Finance and Procurement.
6. GT have asked that the Audit Committee consider whether these responses are consistent with its understanding and whether there are any further comments Members would wish to make. Therefore, Members are asked to consider the questions raised by GT and the Director of Finance and Procurement responses and subject to any suggested amendments approve the responses in Appendix A.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

9. No direct legal implications are associated with the questionnaire.

Financial Implications & Value for Money

10. There are no direct financial implications arising from the report.

Risk Management, Health & Safety, and Environmental Implications

11. Good governance and sound management processes help mitigate known risks from ensuring the Authority's vision and objectives are being fulfilled.

Contribution to Our Vision: *To be the best Fire & Rescue Service in the UK.*

Our Purpose: *Here to serve, Here to protect, Here to keep you safe.*

12. Good governance and sound internal control arrangements will ensure the Authority's vision is known by all and drives and directs the Service outcomes.

BACKGROUND PAPERS

NONE

GLOSSARY OF TERMS

GT Grant Thornton

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Informing the audit risk assessment for Merseyside Fire & Rescue Service 2021/22

Georgia Jones
Director, Audit
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E Georgia.s.jones@uk.gt.com



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 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 your business or any 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.

Table of Contents

Page 39

Section	Page
Purpose	4
General Enquiries of Management	6
Fraud	9
Fraud Risk Assessment	10
Laws and Regulations	15
Impact of Laws and Regulations	16
Related Parties	18
Going Concern	20
Accounting Estimates	22
Accounting Estimates - General Enquiries of Management	23
Appendix A – Accounting Estimates	26

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Merseyside Fire & Rescue Service's external auditors and Merseyside Fire & Rescue Service's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Merseyside Fire & Rescue Service's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Page 42

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>With regards to new challenges or changes as a result of the 2021/22 CIPFA Code no significant changes to previous years requirements have been identified (IAS16 has been deferred until 2024/25)</p> <p>The Strategic Leadership Team have identified no new Service or Authority events in 2021/22 that were likely to have a material impact on the financial statements.</p> <p>Having regard to the potential impact of Covid-19 upon the financial statements there may be a number of issues that will present financial management and reporting challenges over the coming months. In the main it is expected that the potential impact on the accounts will be the extent (IF ANY) to which fair values at 31 March 2022 will be affected.</p> <p>The relevant professional valuer(s) will determine if Covid-19 has resulted in a material level of uncertainty resulting in an additional emphasis upon judgements and estimates when preparing the accounts. This in turn will bring sharper focus upon the extent to which management can be assured that fair values based on those judgements and estimates are reasonable. The accounts therefore may well need to contain a disclosure about the extent of that uncertainty through some form of limited assurance statement. In terms of those issues that may have a significant impact on the accounts, the main ones would appear to be:</p> <p>Property, Plant and Equipment. Most of the Authority's property is based on a DRC valuation, however for property based on market value any volatility in market conditions at the end of March would make the challenge to determine fair value at 31 March 2022 more difficult. However to negate this uncertainty the valuations on a number of properties were carried out over April 2022 and along with other information then used to assess movements in the overall property portfolio. The valuer will consider any guidance issued by RICS to its practitioners.</p>

General Enquiries of Management

Page 43

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>Pension liability. In addition to management being satisfied that it has an understanding of the valuation assumptions used by the actuary, the additional challenge posed by the virus is the extent to which the changing economic position will have an impact on the LGPS funded scheme and the asset values at 31 March and up to the point of accounts approval. Merseyside Pension Fund did agree to take out an insurance premium in 2019/2020 when the fund was 100% funded to cover any reductions in assets values if the overall funding fell below 90%, therefore limiting the impact of any crash in asset values.</p> <p>Accounts deadlines. To enable councils to cope with the coronavirus pandemic the statutory accounts deadlines have been extended. Officers are continuing to adhere to the original deadlines and are looking to prepare the financial statements by the end of May 2022. The revised statutory deadline for the Authority to publish its pre-audited accounts on or before 1st August 2022 with publication of audited accounts by 30 November.</p> <p>In 2018/2019 – 2020/21 the financial statements reflected the potential significant impact of the McCloud judgement and the actuaries (GAD for FPSs and Mercers for LGPS) were asked to make assumptions and allowances within the IAS19 accounting valuations. The same ask has been requested for 2021/22 judgements.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Merseyside Fire & Rescue Service? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Yes the Finance team review the CIPFA Code and Practitioners guide and consider IF any change in accounting policies are required. No such changes have been identified for 2021/22 compared to those in 2020/21. No new accounting policies have been identified.</p>

General Enquiries of Management

Question	Management response
<p>2. Have you considered the appropriateness of the accounting policies adopted by Merseyside Fire & Rescue Service?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>From 1 April 2024 a new leasing standard (IAS16) is to be introduced to local authority accounts for 2024/25. The adoption of this standard has the capacity to bring additional assets onto the Authority's balance sheet. As a sector-wide change in accounting policy the Authority will provide a note in its 2021/22 accounts setting out the anticipated impact. No actual amendments or disclosures are therefore now required for the 2021/22 financial statements.</p> <p>The suitability of accounting policies have been reviewed in the light of the coronavirus pandemic and it is considered that the existing policies are appropriate for 2021/22 and the financial accounting and reporting challenges that the virus presents.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain.</p>	<p>Not within the Authority's direct statements.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No.</p>

General Enquiries of Management

Page 45

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No.
6. Are you aware of any guarantee contracts? If so, please provide further details	No.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Merseyside Fire & Rescue Service during the year. Please indicate where they are working on open litigation or contingencies from prior years?	For any litigated claims under Public Liability and Employers Liability Weightmans Solicitors have acted on behalf of MFRA once they've been issued as approved suppliers on the Authority's insurers solicitors panel. Weightmans have also undertaken work outsourced by the legal department under a framework agreement. Blackhurst Budd have been engaged in regard to criminal law and Mr T Kenward in regard to Employment matters.

General Enquiries of Management

Question	Management response
9. Have any of the Merseyside Fire & Rescue Service's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	N/A
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	No.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Merseyside Fire & Rescue Service's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Merseyside Fire & Rescue Service's management.

Fraud risk assessment

Page 48

Question	Management response
<p>1. Has Merseyside Fire & Rescue Service assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>In the Annual Fraud Indicator 2013 (AFI) the Audit Commission had identified several areas where local authorities face significant losses due to fraudulent activity, these are summarised below:</p> <ul style="list-style-type: none"> - Housing tenancy - Procurement - Payroll and recruitment - Council tax - Blue Badge Scheme - Grants - Pension fraud <p>Based on the above the potential for fraud is extremely limited within the Authority as the Authority does not have responsibility for Housing Benefit, Council Tax collection, social or disability benefits, and doesn't distribute grant funding.</p> <p>Approximately 70% of the Authority's spend is employee related; 10% related to the servicing of capital debt; and most of the other spend relates to premises (utilities) or firefighter kit. Therefore the potential for fraud is more restricted within MFRA.</p> <p>The Authority has a zero-tolerance approach towards fraud and has a comprehensive counter-fraud culture, policies and procedures in place:</p> <ul style="list-style-type: none"> • A code of corporate governance • Annually updated Financial Regulations, Standing Orders & Scheme of Delegation approved at the AGM. • Anti-Fraud & Corruption Policy & Strategy • Fraud Response Plan

Fraud risk assessment

Page 49

Question	Management response
<p>1. Has Merseyside Fire & Rescue Service assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<ul style="list-style-type: none"> • Confidential/Whistleblowing Reporting Policy <p>Procurement</p> <ul style="list-style-type: none"> * Procurement Strategy <p>New Recruit Control Checklist</p> <ul style="list-style-type: none"> • New Recruit Probationary review procedure • Code of Conduct for staff (includes emphasis on fraud) • Fraud awareness notification to all staff via MyView • Information Governance & Security Service Instructions - to ensure compliance with the requirements of Her Majesty's Government's (HMG) Security Policy Framework and to safeguard Authority information and assets <p>The Annual Governance Statement (AGS) to members reviews the governance framework that comprises the systems, processes, culture, values and system of internal control that manage the risks the Authority faces. Members can challenge the AGS if they believe any control or process is inadequate.</p> <p>The Authority, as required by the Accounts and Audit Regulations, has an Internal Audit Service. Each year the internal plan review the internal control system and assess its adequacy.</p> <p>The Authority employs a S151 Officer, Treasurer, who reports directly to Members and has statutory powers and responsibility for the financial administration of the Authority / Service.</p> <p>The Authority has a Monitoring Officer, this role is provided by the Authority Solicitor, to ensure a comprehensive system of governance and checks exist.</p>

Fraud risk assessment

Page 50

Question	Management response
<p>1. Has Merseyside Fire & Rescue Service assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>The Authority's Finance Department employs suitably qualified professionals to manage the financial administration, financial services of the Authority and prepare the statutory financial statements and other returns. These staff receive substantive training and support to ensure any new accounting or finance standards are followed and adhered to. This significantly reduces the risk of error in the financial statements. Comprehensive quarterly financial review reports are produced for Management & members, any variances to the approved financial plan will be reported on.</p> <p>No cases of fraud that have any impact on the financial statements have been identified</p> <p>Risk Management - A quarterly report is prepared for the Authority on the updated risk management register. This includes any actions to mitigate risks. If a significant potential risk exists that may result in a financial liability then the Treasurer picks this up and if necessary creates a specific reserve (or provision if applicable). The quarterly financial reviews include an assessment on the adequacy and use of all reserves.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>As employee costs make up 70% of costs then in terms of absolute revenue spend this would be an area potentially most at risk of fraud, but very limited in terms of the type of fraud that could be committed. The recruitment processes and checks carried out on potential new employees are comprehensive, combined with a formal management structure in place to supervise staff. A Confidential/Whistleblowing Reporting Policy exists as well as other controls. Standing Orders and Financial Regulations are in place to ensure the award of services, contracts and goods orders follow an agreed process. Expense claims must be signed-off by an employee's manager.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Merseyside Fire & Rescue Service as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>No.</p>

Fraud risk assessment

Page 51

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	For reporting of Risk issues see the answer to Q1 within this section.
5. Have you identified any specific fraud risks? If so, please provide details Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Merseyside Fire & Rescue Service where fraud is more likely to occur?	No No No
6. What processes do Merseyside Fire & Rescue Service have in place to identify and respond to risks of fraud?	See Q1, this outlines the various polices and systems that exist to identify and respond to fraud.

Fraud risk assessment

Page 52

Question	Management response
<p>7. How do you assess the overall control environment for Merseyside Fire & Rescue Service, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Internal Audit review the internal control environment each year and assess its effectiveness. The Authority receives the Annual Governance Statement each year that assess the internal control arrangements.</p> <p>Also see Q1 answer for policies and processes in place to deter or detect fraud.</p> <p>No</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No. Both financial and performance reporting within the Authority is robust and challenged by the Senior Leadership Team and Members' of the Authority.</p> <p>Processes and resources are in place to ensure this can't happen. Sufficient qualified finance staff are employed to work on the internal financial reporting statements, the Statement of Accounts, and monitor financial procedures to ensure they operate as they should and the relevant professional codes are adhered to.</p> <p>The Authority has an independent Internal Audit service that annually reviews the systems of control and in particular those that relate to the fundamental financial systems.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Merseyside Fire & Rescue Service communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The Authority has a set of Core Values that shape what we do whilst the personal values shape how we do it. This indicates what our expectations are of our people and how they deliver the aims of the organisation. All staff are aware of these values, new staff are introduced to them as part of their induction. The values are contained in all the strategic documentation, IRMP, MTFP etc. The Authority's procurement process requires contractors to maintain a high ethical and social responsibility and adhere to all current employment legislation and rights. Contractors are advised these issues are considered in the evaluation of tender documents.</p> <p>A permanent message on the MyView login page "<i>Whilst the Authority has in place rules, regulations and procedures to ensure that the highest standards of conduct and service delivery are followed, irregularities, wrong-doing or serious failures in standards can sometimes occur. The Authority expects employees to be able to report any serious concerns they have about any aspect of the Authority's work without fear of reprisal and therefore has established a Whistleblowing/ Confidential Reporting Policy</i>"</p> <p>No significant issues have been reported.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>As all processes require authorisation by a second person, and other controls are in place to validate transactions / approvals no specific posts are identified as high risk.</p>

Fraud risk assessment

Question	Management response
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No.</p> <p>As well as requiring a year end formal return from all members and senior staff about 3rd party interests, officers must declare such interest to the Monitoring officer and also at any committee they attend.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Audit Committee would receive a report from the Monitoring officer on any reported frauds and the outcome of any investigations. The review would also be shared with Internal Audit who would be asked to review the internal control arrangements and follow up with further audit reviews post the implementation of any changes. A summary of all internal audit reports and investigations would go to the Audit Committee for scrutiny and the Group Internal Auditor would be present for the Committee to challenge any findings or recommendations.</p> <p>The Audit committee monitors the Authority policies on Whistleblowing, the anti-fraud and anti – corruption strategy as well as the right to consider the Authority’s own compliance with the policy through reports to the committee. The Audit committee also has an independent member in its membership whose role is to provide extra scrutiny on all matters within its terms of reference.</p> <p>The Audit Committee also services as the Investigating and Disciplinary Committee for any allegations that involve Relevant Officers which may include the appointment of an independent investigator and the establishment of an Independent Panel to review the allegations and report back to the Committee. The monitoring officer would report all such incidents to the Audit Committee.</p> <p>The Audit Committee also receives the Internal Audit annual report and the AGS that review the adequacy of the internal control processes in place.</p> <p>No fraud or weaknesses in internal control have been reported.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>

Fraud risk assessment

Question	Management response
14. Have any reports been made under the Bribery Act? If so, please provide details	No

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Merseyside Fire & Rescue Service's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Merseyside Fire & Rescue Service have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>The Authority employees a qualified solicitor who is supported by an experienced legal team. Any areas of legal uncertainty are resolved via the engagement of Counsel advice.</p> <p>The Authority is not aware of any changes to the regulatory environment that may impact on it's financial statements.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>As above, and a member of the legal team is present at all committee meetings.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>No</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>No. The Authority employees a qualified solicitor and insurance expert. Any liable claim is met from a specific insurance policy or internal fund. Legal & Insurance staff work with Finance to ensure all claims are provided for.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Merseyside Fire & Rescue Service have in place to identify, evaluate and account for litigation or claims?	See previous answer
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

Related Parties

Matters in relation to Related Parties

Merseyside Fire & Rescue Service are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Merseyside Fire & Rescue Service;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any body that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority's perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Page 61

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Merseyside Fire & Rescue Service's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Merseyside Fire & Rescue Service • whether Merseyside Fire & Rescue Service has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	No
<p>2. What controls does Merseyside Fire & Rescue Service have in place to identify, account for and disclose related party transactions and relationships?</p>	It keeps a register of member / senior officers related party interests. Any committee report in which a conflict of interest may arise requires the relevant member to declare at the start of the meeting the conflict and if necessary exclude themselves from voting on the matter.
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	See above
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	Decisions must be referred back to members for a decision unless specific authority has been delegated, in which case the matter must still be reported back to members' for scrutiny.

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Page 63

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Merseyside Fire & Rescue Service will no longer continue?</p>	<p>All fire and rescue services have duties and responsibilities that are set out in legal / statutory documents. These include:</p> <p>The Fire and Rescue Services Act 2004 which explains how we: • Respond to fires and other emergencies • Prevent fires and other emergencies (home and community safety) • Protect (commercial and public building) • Educate and inform the public</p> <p>The Civil Contingencies Act 2004 which explains how we: • Work with other agencies to deal with emergencies</p> <p>Fire Safety Order 2005 which explains how we: • Promote fire safety in places such as offices, factories, shops, public buildings and high rise buildings</p> <p>The National Framework 2018 which explains how we: • Identify and assess risk in Merseyside • Prevent fire and other emergencies and protect buildings and people • Respond to emergency incidents • Collaborate with other organisations • Put in place business continuity arrangements so we can deliver our services even when faced with an emergency like the pandemic • Provide National Resilience when major incidents happen anywhere in the country</p> <p>Any changes to the statutory functions or role of the fire and rescue service would require Government approval through an Act of Parliament (Green/White paper) and this (and probably pre-this via the Home Office) would see the Authority and Senior Leadership team being involved from the early stages in any consultation arrangements by the relevant regulatory bodies.</p>

Going Concern

Question	Management response
<p>2. Are management aware of any factors which may mean for Merseyside Fire & Rescue Service that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>No</p>
<p>3. With regard to the statutory services currently provided by Merseyside Fire & Rescue Service, does Merseyside Fire & Rescue Service expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Merseyside Fire & Rescue Service to cease to exist?</p>	<p>MFRS expect to continue to provide all current services for the foreseeable future.</p>
<p>4. Are management satisfied that the financial reporting framework permits Merseyside Fire & Rescue Service to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes.</p> <p>As the Authority is funded through the Government's Local Authority Funding system and Council Tax the Authority's future funding is as certain as it can be. The only question is over the level of Government funding. The 2021/22 – 2025/26 MTFP does rely on some key assumptions about future costs / funding, but if any future deficit materialises then the Authority will agree options to ensure a balanced budget.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body'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 body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body'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?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	PPE and Pension values.
2. How does the Authority's risk management process identify and address risks relating to accounting estimates?	Property and Pension valuations are performed by independent experts who are required to adhere to their professional standards or specific regulations. Any material uncertainty over these estimates will be referred to in the financial statements.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	See above, these are the only really key estimates
4. How do management review the outcomes of previous accounting estimates?	The above estimates are prepared on an annual basis and MFRA finance staff consider the assumptions, data and calculations used by the experts. If as a result of the review any prior year adjustments are required they will be actioned.
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	No

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	The Code / Regulations drive the complexity of the financial statements. It is clear from the ask what information requires specialist input (PPE / Pensions) and the Service outsources the ask to the relevant professional experts.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	The relevant professional body has its own Professional Standards / Codes it must adhere to and these are often referred to within the Cipfa codes. The information provided by these bodies will confirm the required regulations have been followed.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	See above.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	The Chief Accountant and supporting staff attend the various year-end closedown workshops run by Cipfa / GT, purchase the updated annual Code and practitioner's guide to ensure the required standards and processes are followed.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	The relevant external professional opinion is sought as required.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Reference is made in the report to the Committee seeking authorisation to publish the audited financial statements that the relevant Code and Regulations have been followed by the statutory officer responsible (s151 officer)

Appendix A Accounting Estimates

Page 69

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Property without a potential Market value (fire stations) DRC Property with a potential Market value (HQ / TDA) Market Value	Previous Valuations and Market conditions in the current climate and an impairment review by estates team and valuers.	Yes Dears Brack Valuers	Valuation Report produced each year with a 20% Rolling full valuation and the balance a desktop exercise based on the 20% valuation.	No
Depreciation	All depreciation is based on estimated useful life of that particular asset. No residual value is assumed.	General controls Fire Engines 12 years Vans 7 years Cars 5 years Equipment can vary?	Yes for L & B Dears Brack give each property a life span	All depreciation is based on estimated useful life of that particular asset. No residual value is assumed.	No
Valuation of defined benefit net pension fund liabilities	In year Data is provided to each expert per their requests.	Actuals in year to December and forecast to year end	YES - GAD Firefighters scheme Mercers LGPS Scheme	See Valuation Reports on INFLO for both GAD and LGPS Valuations	No
PFI Liabilities	Operator Model Provided	See Operator Model in INFLO	Pricewaterhouse coopers Spreadsheet	See Operator Model in INFLO	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates	PWLB Debt PFI Liability		Experts Spreadsheets		No
Provisions	Insurance provision	Year End Claims evaluated based on historical experience	In House Team And Zurich Municipal	Year End Claims evaluated based on historical experience	No
Staff holiday accruals	Information is gathered from the STARS system based on the information for all staff	Based on actuals	No	Based on 100%	No

Page 70



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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	7TH JUNE 2022	REPORT NO:	CFO/017/22
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:	TREASURY MANAGEMENT 2021/22 ANNUAL REPORT		

APPENDICES:	APPENDIX A: TREASURY MANAGEMENT 2021/22 ANNUAL REPORT
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Purpose of Report

1. To advise Members of the activities of the Treasury Management operation and actual performance against the agreed Prudential Indicators in 2021/22. 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. It is recommended that Members note the Treasury Management Annual Report 2021/22 (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 2021/22 – 2025/26 Budget and Financial Plan report, CFO/010/21, considered by Members at the Authority meeting on 25th February 2021, set the Authority's treasury management strategy for 2021/22:

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 debt rescheduling;
- annual investment strategy;
- external debt prudential indicators;
- treasury management prudential indicators;
- performance indicators;
- treasury management advisors.

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/069/21, was considered by Members at the Policy and Resources Committee on 16th December, 2021. The report confirmed that to date treasury management activity in 2021/22 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 2021/22 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, (SLA).

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

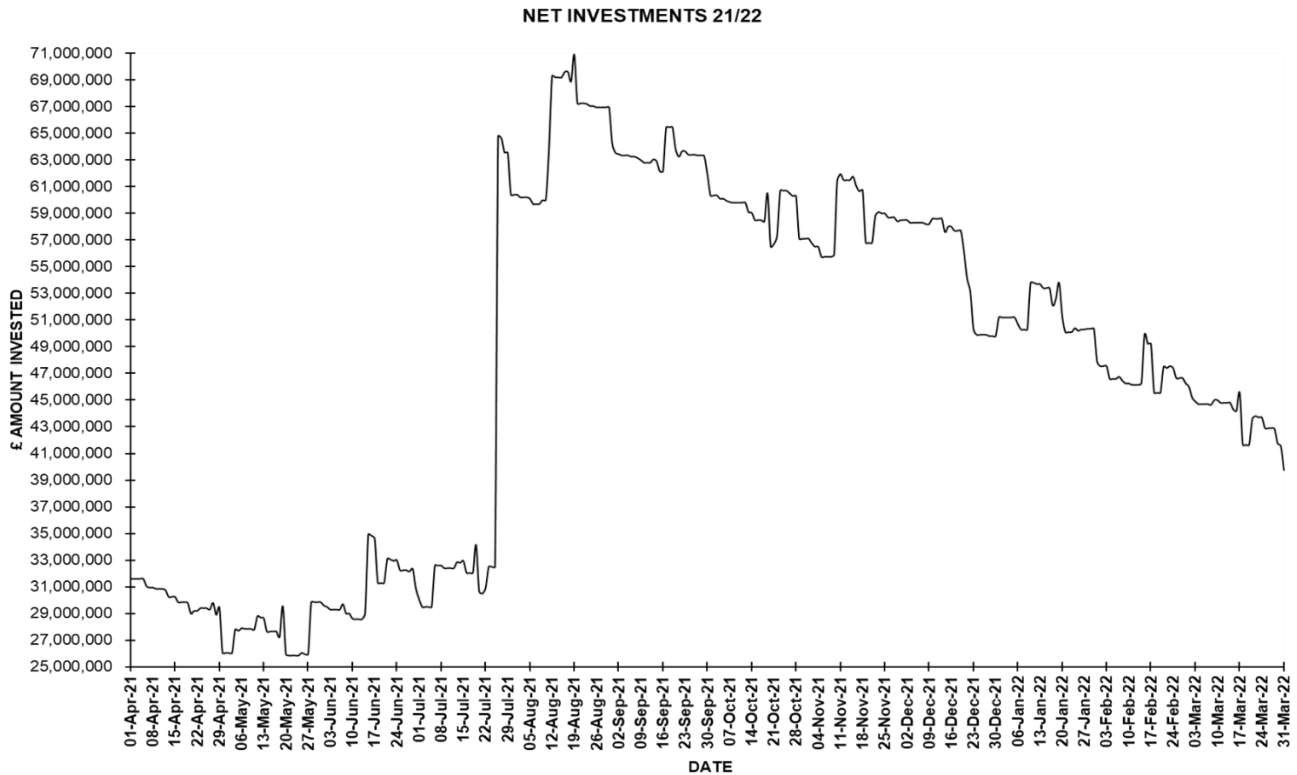
13. The cost of Treasury Management Services was £23,327 in 2021/22 and was provided by Liverpool City Council.
14. The Authority's overall debt outstanding during the year reduced from £36.885m to £33.885m:-

	For Periods ending (2021/22)													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	
PWLB	36,885	0	0	0	0	0	0	0	0	-1,500	-1,500	0	0	33,885

15. The reduction in debt of £3.000m was due to the repayment of loans totalling that matured in the year.
16. The Authority paid total interest of £1.849m 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
01/04/21	29.000
31/03/22	39.750

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 £33.8m 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 £39.750m of investments at the year-end.
20. The investments are held in institutions that reflect the approved investment strategy. The table overleaf outlines the £39.750m of investments held as at 31st March 2022;

ANALYSIS OF INVESTMENTS END OF QUARTER 4 2021/22

Institution	Credit Rating	MM Fund*	DMADF	Bank / Other	Building Society	Local Authority	Average Interest
		£		£	£	£	%
Debt Management Account Deposit Facility	AAA		1,000,000				
HSBC	A			2,000,000			0.30
HSBC (MFRS Deposit Account)	A			2,750,000			0.11
Santander	A			2,000,000			0.76
Sumitomo	A			1,000,000			0.50
Leeds B Soc					2,000,000		0.90
Nationwide BS					2,000,000		0.30
Newcastle BS					2,000,000		0.18
Ashford BC						2,000,000	0.30
Blackpool Council						2,000,000	0.61
Cheltenham BS						2,000,000	0.50
Cheshire East BC						3,000,000	0.60
City of Kingston upon Hull						3,000,000	0.36
Eastleigh BC						3,000,000	0.60
Lancashire CC						2,000,000	0.60
London Fire Commissioner						2,000,000	0.80
Monmouthshire CC						2,000,000	0.80
North Lanarkshire						2,000,000	0.60
PCC Merseyside						2,000,000	0.60
Totals		0	1,000,000	7,750,000	6,000,000	25,000,000	0.52
Total Current Investments						39,750,000	

*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 £0.070m, which was £0.100m below the amount budgeted for, reflecting the low level of interest rates in the market over 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 Vision: *To be the best Fire & Rescue Service in the UK.*

Our Purpose: *Here to serve, Here to protect, Here to keep you safe.*

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 vision.

BACKGROUND PAPERS

CFO/010/21 2021/2022-2025/2026 Budget and Financial Plan report, Authority 25th February, 2021

CFO/069/21 Interim Treasury Management report, Policy and Resources Committee 16th December, 2021.

GLOSSARY OF TERMS

CIPFA Chartered Institute of Public Finance and Accountancy (CIPFA)

TREASURY MANAGEMENT ANNUAL REPORT 2021/22

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 2021/22.
2. The strategy for the year was identified in the Treasury Management Strategy Statement 2021/22. 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. The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the financial year. The bank rate was 0.10% at the start of the financial year but rising inflation; driven by rising global costs, strong demand, supply shortages and a surge in wholesale gas and electricity prices; resulted in a series of interest rate rises towards the latter part of the financial year.
4. The Bank of England increased Bank Rate from 0.10% to 0.25% in December, then hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.
5. In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

6. Given the uncertainty throughout 2021/22 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.
7. PWLB rates and gilt yields have seen volatility over the course of the financial year, with long term PWLB rates varying from a low of 1.45% to a peak of 2.69%. At the start of the financial year long term PWLB rates were 2.23% and finished the financial year higher at 2.59%.
8. The Authority is not planning to borrow to invest primarily for commercial return and so is unaffected by changes to the Prudential Code. These changes are outlined in further detail later in this report.
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 (CFR) 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 2021/22 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 2021/22 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 2021/22 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 2021/22 was 0.11%. This compares with an average Sterling Overnight Rate (SONIA) of 0.14%.

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 2021/22 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£62 million
Operational boundary for external debt:	£57 million

Against these limits, the maximum amount of debt reached at any time in the financial year 2021/22 was £36.9 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 (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) 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 2021	31 March 2022	31 March 2023
	Actual	Actual	Estimate
	£’m	£’m	£’m
Capital Financing Requirement	52.2	54.4	73.2
Less: PFI	(17.3)	(16.8)	(16.4)
Less:MRD	(0.2)	(0.2)	(0.1)
Borrowing CFR	34.7	37.4	56.7
Existing Debt Portfolio	37.1	33.9	33.7
Over(-)/Under borrowing	(2.4)	3.5	23.0

Borrowing as a % of CFR	106.9%	90.6%	59.4%
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TREASURY MANAGEMENT PRUDENTIAL INDICATORS

16. The treasury management indicators of prudence for 2021/22 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 2021/22 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 2021/22 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%	1%	0%
24 months and within 5 years	50%	0%	0%	0%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	100%	0%	99%	91%

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 2021/22. No investments longer than 365 days have been placed during 2021/22.

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 2021/22.

Investments – Internal returns compared to the average Sterling Overnight Rate (SONIA). The return in the financial year 2021/22 was 0.03% below 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.

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

21. In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. 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. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
22. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.
23. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. It is our intention to introduce the revised reporting requirements during 2023/24.
24. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.
25. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing.

Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

26. Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.
27. This Authority will follow the same process as the Prudential Code, i.e. delaying changes in reporting requirements to the 2023/24 financial year.

IFRS 16

28. The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022. Following a consultation CIPFA/LASAAC has announced an optional two year delay to the implementation of this standard; a decision which was subsequently confirmed by the Financial Reporting Advisory Board in early April 2022.

CONCLUSION

29. Treasury Management activity in 2021/22 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:	7TH JUNE 2022	REPORT NO:	CFO/018/22
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:	2021/22 ANNUAL YEAR-END INTERNAL AUDIT PLAN		

APPENDICES:	APPENDIX A: 2021/22 ANNUAL INTERNAL AUDIT REPORT
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Purpose of Report

1. To present to Members the Annual Year End Internal Audit report for 2021/22.

Recommendation

2. It is recommended 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 2021/22 plan was considered by the Audit Committee on 3 June, 2021 (CFO/026/21).
4. The Internal Audit outturn report for 2021/22 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”.....” Based on the audit work carried out in 2021/22 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement.”.....” 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.”

5. During the year Internal Audit have completed eight audits, although one is in the review stage, and a further three are at the review stage. All of the completed fundamental systems audit reviews found a substantial level of assurance in the current system of control and governance and that any potential corporate risk to the Authority was negligible. The stores audit (client review) found a limited control environment that had a potential moderate impact and officers have accepted the audit review recommendations and agreed to act on the recommendations to document procedural notes and improve security of stock. The table below summaries the audit review and findings:

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Creditors			
Debtors			
Medium Term Financial Plan			
Budgetary Control			
Payroll			
Treasury management	WIP	WIP	WIP
Stores – review of stock management processes	Limited	Acceptable	Moderate
Review asset management of ICT devices and phones	In review	In review	In review
Walk-through current data flow for POD/Payroll/Finance	WIP	WIP	WIP
Counter Fraud Policies	WIP	WIP	WIP

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

6. Copies of any specific 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

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

Staff Implications

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

Legal Implications

9. 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

10. The cost of the Internal Audit Service from Liverpool City Council in 2021/22 was £35,500. The Authority had made adequate budget provision in 2021/22 to pay for these audit services.

Risk Management, Health & Safety, and Environmental Implications

11. None contained within this report.

Contribution to Our Vision: *To be the best Fire & Rescue Service in the UK.*

Our Purpose: *Here to serve, Here to protect, Here to keep you safe.*

12. 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/026/21 Annual Internal Audit Plan 2019/20" Audit Committee 3 June 2021.

Account & Audit Regulations 2015

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

GLOSSARY OF TERMS

NONE

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Liverpool
City Council

Internal Audit Service

Merseyside Fire & Rescue Service -
Annual Internal Audit Report and Opinion
2021/22



	Contents	Page
1	Introduction	3
2	Internal Audit Opinion 2021/22	4
3	Summary of Audit Work Completed	5
4	Recommendation Implementation	8
5	Quality Assurance and Improvement Programme Results	9
6	Organisational Independence	10
7	Statement on Conformance with PSIAS	10
8	Definitions of Audit Assurance	11

1 Introduction

- 1.1 This report summarises the work that Internal Audit has undertaken across Merseyside Fire & Rescue Service during the 2021/22 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 plan is designed to give reasonable assurance that controls are in place and working effectively. Opinions are formed in respect of each individual audit and the audit opinion is separated between control environment (the controls in place) and compliance (whether or not the controls have been adhered to) so it is easier to identify where corrective action is needed.
- 1.4 We 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 2021/22

- 2.1 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 2021/22, it is our opinion that we can provide **Substantial** Assurance that the system of internal control in place at Merseyside Fire & Rescue accords with proper practice. This opinion is based on the individual assurance levels we have provided for each of the audit reviews undertaken during the year and includes consideration of the wider sources of assurance provided to the Authority.
- 2.2 The priority work on fundamental systems audits completed to date have shown a substantial level of compliance. Based on the audit work carried out in 2021/22 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement. One area of weakness in control was identified (stores) but action was agreed to immediately address the findings and recommendations made.
- 2.3 Wider sources of assurance available to the Fire Authority include the results of the latest HMICFRS inspection on the effectiveness and efficiency with which MFRS prevents and protects the public, and responds to fires and other emergencies, published in December 2021. HMICFRS graded MFRS as:
- Outstanding at efficiently keeping people safe and secure from fire and other risks
 - Good at effectively keeping people safe and secure from fire and other risks
 - Good at looking after its people
- 2.4 Assurance is also provided by Grant Thornton as the Authority's external auditor. In October 2021, Grant Thornton issued an unqualified opinion on the 2020/21 financial statements, that they provided a true and fair view of the financial position of the Authority as at 31 March 2021 and had been properly prepared in accordance with the CIPFA / LASAAC code or practice 2020/21.
- 2.5 We undertake individual internal audits with the overall objective of providing members, the Chief Fire Officer, the Director of Finance and Procurement 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.
- 2.6 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.

2.7 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 2021/22.

Fig 1 Summary of Opinions provided in 2021/22

Assurance Level	Control Environment	Compliance	
Substantial	6	6	
Good	-	-	
Acceptable / Limited / None	1	1	
Audits not yet reported	1	1	
Total Audits Completed	8	8	
Audits at fieldwork stage			3
Audits deferred			1
Total Planned Audits			12

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 2021/22

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Creditors			
Debtors			
Medium Term Financial Plan			
Budgetary Control			
Payroll			
Treasury management	WIP	WIP	WIP

Fundamental Systems

3.3 We completed all our fundamental systems work in May 2021. 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.
- 3.6 A service level agreement exists between MFRA and Liverpool City Council covering the provision of treasury management services. We therefore place assurance on the audit work undertaken of the LCC Treasury Management system where the systems overlap. Sample testing is also performed of MFRA transactions and documentation as part of the audit.

Fig 3 Other Strategic/Client directed audits in 2021/22

Audit Title	Control Environment	Compliance	Corporate Impact
Stores – review of stock management processes	Limited	Acceptable	Moderate
Review asset management of ICT devices and phones	In review	In review	In review
Walk-through current data flow for POD/Payroll/Finance	WIP	WIP	WIP
Counter Fraud Policies	WIP	WIP	WIP

Stores – review of stock management processes

- 3.7 The scope of this audit was to provide assurance that the stores department had clear and up to date stock management and security procedures. Following the Covid-19 global pandemic, inventory levels increased due to the increased need for Personal Protection Equipment (PPE) products. A stocktake was not conducted in April 2020 due to the focus being on the outbreak of the pandemic and the 2020/21 year-end stock check (completed in April 2021) recorded a high number of manual stock adjustments.
- 3.8 The audit identified that the stores department does not have documented procedural notes; the accuracy of dispatch notes and the security of stock, were also highlighted as areas for improvement.
- 3.9 Ten audit recommendations were made, for which the stores team agreed to ensure prompt implementation. Internal Audit will review action taken against the recommendations during quarter one of this financial year.

Review asset management of ICT devices and phones

- 3.10 The scope of the audit includes examining controls relating the accuracy of the ICT asset register. Including whether there is a nominated officer responsible for maintaining the ICT asset register. That new stock is added to asset register on receipt. That obsolete stock is disposed of in line with industry standards and the asset register is updated. Also that assets allocated to staff who leave are returned to ICT, 'wiped' and reused where appropriate. The audit is currently in review so it would be inappropriate at this stage to provide an overall opinion until it has been agreed by management.

Walk-through current data flow for POD/Payroll/Finance

- 3.11 This is a review of the data flow for POD/Payroll/Finance to consider potential improvements, improve integration and the automation of information. To reduce double entry and utilise workflows to improve efficiency and effectiveness. This review is currently in progress so it would be inappropriate at this stage to provide an overall opinion.

Counterfraud Policies

- 3.12 Internal Audit is currently reviewing the authority's counter fraud policies to provide advice and support on whether any updates are necessary.

Contingency/Responsive/Advice and Assistance

- 3.13 No contingency/responsive work was identified this financial year; however the fundamental system audits performed required more time than initially envisaged. The contingency budget was used to complete this programmed work.
- 3.14 The cyber security review has been deferred and will be incorporated into the 2022/23 audit plan. In addition to having access to relevant training resources which can be disseminated across the organisation to enhance awareness of the risks and how to reduce them; Internal Audit is also looking at a number of options to procure technical IT audit specialists to further enhance audit provision.

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.

- 4.3 During the period June 2021 to May 2022, Internal Audit followed up on 20 historic audit recommendations covering audits from up to 10 years ago. The review confirmed 8 recommendations had been implemented, with the remaining 12 relating to two areas that have either changed systems or due to the age require an audit revisit to determine the applicability of the recommendations. Both areas will be reviewed as part of the 2022/23 internal audit plan; asset registers and ancillary vehicles;
1. 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.
 2. The COVID-19 pandemic necessitated different working practices within departments 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 the service looking to reduce the number of vehicles used but increase in usage and efficiency. The planned review of ancillary vehicles will consider whether the recommendations have since been superseded.

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 In the main, the development of the QAIP involved bringing together Internal Audit's existing arrangements in a formalised framework. The QAIP is made up of internal and external assessments and it is a requirement of the PSIAS for the results of assessments against the QAIP to be reported in the Annual Report.
- 5.3 External assessments are required to be undertaken at least every five years. An external peer review against the PSIAS was undertaken by Bristol City Council between December 2021 and March 2022 as part of this five yearly cycle. It is yet to be formally reported but any recommendations arising will form part of an improvement plan.
- 5.4 The annual review of both the Charter and the QAIP is scheduled to take place in July 2022, and will incorporate any recommendations arising from the above external review.

5.5 Based on the results of the QAIP for 2021/22 the Head of Internal Audit can confirm that internal audit activity generally 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 As referenced above the external peer review is yet to be formally reported in full to Liverpool City Council, however it is acknowledged that there is general compliance with the PSIAS.

7.2 The table below summarises actual audit days based on an agreed 122 days' work, but this includes carried forward day from 20/21. As can be seen, 90% of the planned days were performed and resource will be prioritised to complete the strategic audits that were deferred to the financial year end.

Fig 4 Actual v Budgeted Days

Audit Title	Planned	Actual
Fundamentals	39	50
Strategic reviews/client directed/ad-hoc reviews	58	46
Contingency	12	0
Follow Up	5	6
Audit management	8	8
Total	122	110

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.

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	7th JUNE 2022	REPORT NO:	CFO/019/22
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 2021/2022		
APPENDICES:	APPENDIX A: 2021/2022 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. It is recommended that Members approve the 2021/2022 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 2021/2022 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 Vision: *To be the best Fire & Rescue Service in the UK.*

Our Purpose: *Here to serve, Here to protect, Here to keep you safe.*

10. Good governance and sound internal control arrangements will ensure the Authority's vision 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)

Account and Audit (England) Regulations 2015

GLOSSARY OF TERMS

SOLACE Society of Local Authority Chief Executives and Senior Managers

CIPFA Chartered Institute of Public Finance and Accountancy

AGS Annual Governance Statement

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2021-2022 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 2022.

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 vision, aims and service objectives for the organisation. The Authority approved a new IRMP that extends the current plan to 2024 and established the service priorities for that period. The proposals in the IRMP are aligned to the Authority's medium term financial plans and have therefore been resourced.
- 3.2.2 The Authority's Vision reflects a clear focus on the core duties and functions in relation to Operational Preparedness, Operational Response and Prevention and Protection. The Authority's vision is; ***To be the best Fire & Rescue Service in the UK, (One team, putting its communities first)***. To deliver this the Authority has established four key corporate aims:
- **Prepare**
We will always be the best that we can be by having highly skilled and trained people who plan for every risk and keep our teams safe and effective.

- **Respond**
We will be there when you need us most, pulling out all the stops to save lives. Whether we are taking 999 calls, or attending incidents, we keep our communities safe.
- **Prevent**
We are there for you. We are a visible presence that provides reassurance, support and advice. Alongside our partners, we protect the most vulnerable and reduce inequalities.
- **Protect**
We protect people from harm, provide advice, guidance and when absolutely necessary use enforcement to keep the public and our firefighters safe.

3.2.3 The vision 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 2021/22 and approved by the Authority at its meeting on 10 June 2021 (CFO/032/21),

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 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 Sub-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 2020/21 Annual Audit Letter and Audit Findings Report;

“Overall, we found no evidence of any significant weaknesses in the Authority’s arrangements for ensuring the Authority can continue to deliver financially sustainable services”..... “We did not identify any risks of significant weaknesses in the Authority’s arrangements for improving economy, efficiency and effectiveness in our risk assessment. Further work confirmed this view..”

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

4.4 The Authority and Its Committees

4.4.1 The Authority

The Authority considered at its Annual General meeting on 10 June 2021 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 Police & Fire Collaboration Committee – To act as a Strategic Board to oversee collaboration between Merseyside Police (MP) and the Authority. To consider any reports on proposals for collaboration and potential budget savings or working arrangements.
- The Audit Committee – To consider the internal audit's annual report and opinion, and a summary of internal audit activity and the level of assurance it can give the Authority's corporate governance arrangements.

To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance. To monitor the 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 & 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 2021/22 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 CIPFA have produced a Financial Management Code to support good practice in financial management and to assist fire & rescue and local authorities in demonstrating their financial sustainability. The Director of Finance and Procurement has carried out an initial assessment of the

Authority's conformity to the CIPFA Statement of Principles of Good Financial Management. No significant areas of weakness have been identified.

- 4.5.7 Grant Thornton approved an unqualified Statement of Accounts for 2020/21 and it is anticipated this will be repeated in 2021/22. 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 2021/22, 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 2021/22, 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. Based on the audit work carried out in 2021/22 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement."*

Assurance is also provided by Grant Thornton as the Authority's external auditor. In December 2021, Grant Thornton issued an unqualified opinion on the 2020/21 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 2021.

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 2021/22 statutory financial statements and make a VFM conclusion during the 2022/23 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 2021/22 the Auditor's Annual Audit Findings Report and Audit Annual Letter covering 2020/21 confirmed the Authority's overall performance continues to be strong and the Authority received an unqualified opinion on the 2020/21 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 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. The Authority has established specific reserves to cover the risk of a variation to the key assumptions in the MTFP and these reserves would allow the Authority time to approve structural changes to deliver the required permanent savings over the longer term.

5.1.3 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.

5.1.4 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 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 (2021/2022)

5.2.1 During 2021/22 the Authority committee meetings returned to the pre-covid19 arrangements.

5.2.2 **The impact of social distancing on the Service:** The operational response continued as normal throughout 2021/22. Non-operational activities continued on an agile basis as and when required depending on national levels of covid19 infections and Government advice. By the end of the year all services returned to the pre-Covid 19 arrangements.

5.2.3 **Financial impact.** The Authority received no new specific covid19 grant in 2021/22 but the limited additional costs incurred in the year could be contained within the available budget.

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.....

L. MALONEY
CHAIR of AUDIT COMMITTEE

Signed.....

P. GARRIGAN
CHIEF FIRE OFFICER

Signed

I. CUMMINS
DIRECTOR OF FINANCE & PROCUREMENT

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	7TH JUNE 2022	REPORT NO:	CFO/020/22
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:	2022/23 INTERNAL AUDIT PLAN		

APPENDICES:	APPENDIX A: 2022/23 AUDIT PLAN
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Purpose of Report

1. To notify Members of the proposed Internal Audit plan for 2022/23 and to seek comments from Members on the plan.

Recommendation

2. It is recommended that Members;
 - a. sight and consider the proposed audit plan and the areas of focus detailed within; and
 - b. approve the 2022/23 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 2022/23 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 2022/23 Internal Audit Plan. The proposed Plan utilises the annual 112 Audit Days, and a further 12 days carried over from 2021/22 for work yet to be completed.
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 Vision: *To be the best Fire & Rescue Service in the UK.*

Our Purpose: *Here to serve, Here to protect, Here to keep you safe.*

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

BACKGROUND PAPERS

NONE

GLOSSARY OF TERMS

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

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APPENDIX A**STRATEGIC AUDIT PLAN 2022/23**

		22/23	22/23
		Audit Days	Audit Days
	Fundamental Financial Systems (general ledger, payroll, creditors/debtor systems etc)		40
	Strategic Reviews / Client directed / Ad hoc reviews		
1	Asset Registers – review documentation/ processes in individual fire stations, prevention and protection directorates including the stock management processes	15	
2	Ancillary Vehicles – review of use and management of vehicles.	10	
3	Governance of Contracts managed by a 3rd Party (review control measures to ensure MFRA officers engaged in contract succession arrangements)	10	
3	Ethics – compliance review of processes (declarations of interests & gifts & hospitality)	5	
4	Overall Governance - assurance on the adequacy of governance arrangements, through our review of the minutes of SLT and the Authority.	5	
4	Counter Fraud Policies (c/fwd 21/22)	6	
5	Cyber Security (c/fwd 21/22)	6	
	Strategic Reviews / Client directed / Ad hoc reviews		97
	Contingency - Investigations/Responsive / Advice & Assistance		14
	Follow up on implementation of previous audit recommendations.		5
	Audit Management		8
	Total Planned Days		<u>124</u>

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