

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 4000
Extn: 4113 Shauna Healey

Our ref SH/RG

Date: 16/05/23

Dear Sir/Madam,

You are invited to attend a meeting of the **AUDIT COMMITTEE** to be held at **1.00 pm** on **WEDNESDAY, 24TH MAY, 2023** in the Liverpool Suite - Fire Service Headquarters.

The meeting is webcast live to YouTube and is available at the following link:

<https://youtu.be/g1XEfO4amwE>

Yours faithfully,

PP – S Healey

Monitoring Officer

Encl.

This page is intentionally blank

MERSEYSIDE FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

24 MAY 2023

AGENDA

Members

Cllr Edna Finneran
Cllr Harry Gorman
Cllr Jan Grace
Cllr Paul Tweed
Cllr Lynn Hinnigan
Cllr Andrew Makinson
Mr Anthony Boyle (Independent Person)

1. Preliminary Matters

The Authority is requested to consider the identification of:

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

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

To consider the minutes of the last meeting held on 9th February 2023.

3. Grant Thornton (MFRA External Auditor) Audit Plan for Year Ending 31 March 2023 (Pages 9 - 34)

To consider report CFO/022/023 providing the Audit Plan from Grant Thornton for year ending 31st March 2023.

4. Treasury Management 2022/23 Annual Report (Pages 35 - 48)

To consider report CFO/017/23 presenting the Treasury Management Report for 2022/23.

5. Annual Governance Statement 2022/23 (Pages 49 - 98)

To consider report CFO/018/23 presenting the Annual Governance

Statement for 2022/23.

6. Internal Audit Plan 23/24 (Pages 99 - 104)

To consider report CFO/019/23 Internal Audit Plan presenting the Internal Audit Plan for 2023/24.

MERSEYSIDE FIRE AND RESCUE AUTHORITY

9 FEBRUARY 2023

MINUTES

Present: Councillors Edna Finneran, Harry Gorman, Janet Grace, Lennie Hinnigan, Andrew Makinson and Hugh Malone

Also Present: Chief Fire Officer Phil Garrigan, Director of Finance and Procurement Ian Cummins, Monitoring Officer Ria Groves

Apologies of absence were received from:
Mr Anthony Boyle

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 of the Previous Meeting

RESOLVED that the minutes of the last meeting held on 27th September 2022 were approved as an accurate record.

3. 2021/2022 Auditor's (Grant Thornton) Annual Report

Members received a verbal summary of the annual report from Georgia Jones (Grant Thornton).

Councillor Andrew Makinson queried the Authority's use of Crown Commercial Services as an intermediary for the new electricity supplier contract and if there was an alternative that would be better value for money. The Members were advised that it was in their remit to decide where they obtain their utilities and that the auditors were reviewing current arrangements.

It was noted that moving forward management of that particular contract would be more rigid to ensure that any issues could be identified at an early stage. When asked if it would be more cost effective for the Authority to manage the contract in-house, Ian Cummins explained that the Service doesn't employ energy market experts and through Liverpool City Council the Authority has benefitted over the last twenty years or so from using their in-house experts. In addition the new contract, approved by the Authority, covers the energy supply over the next three years and over that period additional controls have been put in place to manage and monitor the contract.

With regard to the recommendations made by Grant Thornton, Councillor Gorman asked if utilities contract management was an issue that has arisen recently. It was explained that the report was reflective and that Grant Thornton's recommendation over the future management of the utilities contract had in fact already been implemented at the start of 2022/2023.

RESOLVED that the contents of the auditor report be noted

4. Grant Thornton (Audit) Progress Report and Sector Update

Members received a summary of the progress report by Georgia Jones, with a focus on delivery, the 22/23 Financial Statements and value for money work.

RESOLVED that the contents of the auditor report be noted

5. Financial Review 2022/23 - October To December

Director of Finance and Procurement Ian Cummins gave a summary of the report which detailed the Authority's revenue and capital budgets, reserves and treasury management updates up to 31st December 2022.

RESOLVED that

- a) noted the contents of the report
- b) approved the proposed revenue and capital budget alignments;
- c) approved the use of the £0.250m forecast favourable revenue variance to fund an increase in the Capital Reserve in order to reduce future debt servicing costs; and
- d) instruct the Director of Finance and Procurement to continue to work with budget managers to maximise savings in 2022/23.

6. Internal Audit Progress Report - April to December 2022

Director of Finance and Procurement Ian Cummins gave a brief summary of the report, which sought to update Members on the progress of the 22/23 internal audit plan as approved by the Audit Committee in June.

RESOLVED that the contents of the audit report be noted

Date of next meeting: Wednesday 24th May 2023

This page is intentionally left blank

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	24 MAY 2023	REPORT NO:	CFO/022/023
PRESENTING OFFICER	GRANT THORNTON		
RESPONSIBLE OFFICER:	GEORGIA JONES (GRANT THORNTON)	REPORT AUTHOR:	GEORGIA JONES (GRANT THORNTON)
OFFICERS CONSULTED:	N/A		
TITLE OF REPORT:	GRANT THORNTON (MFRA EXTERNAL AUDITOR) AUDIT PLAN FOR YEAR ENDING 31 MARCH 2023		

APPENDICES:	APPENDIX A: MFRA AUDIT PLAN
--------------------	------------------------------------

Purpose of Report

1. To present to Members Grant Thornton’s Audit Plan that outlines the Auditor’s approach to auditing the Authority’s 2022/2023 financial statements by the statutory deadline of 30th September 2023.

Recommendation

2. It is recommended that Members note Grant Thornton’s 2022/2023 Audit Plan report.

Introduction and Background

3. The Authority is required to prepare annually a set of financial statements as required by the relevant codes and regulations. The deadline for the production of the **unaudited** financial statements is by the end of May in the following year. Whilst this will be challenging, finance officers are confident that the deadline can be met, however this will be on the basis that outside organisations provide the relevant supporting information before the end of May.
4. The financial statements must then be audited by an independent auditor, who will then issue an opinion on the statements. The Authority’s current Auditor is Grant Thornton.
5. The Accounts and Audit (amendment) Regulations 2022 came into force on 22nd July 22 and extended the deadline for the publication of final 2022/2023 **audited** financial statements from 31st July 2023 to 30th September (and for the following 5 years). Grant Thornton’s proposed Audit Plan, Appendix A, outlines their approach to bring their 2022/2023 Audit Findings report and Audit Opinion to the September 2023 Audit Committee.

6. Members are asked to note Grant Thornton's Audit Plan as attached to this report as Appendix A.

Equality and Diversity Implications

7. Not applicable.

Staff Implications

8. Not applicable.

Legal Implications

9. The current regulations require the unaudited financial statements to be prepared by 31st May in the year following the end of the financial year, and the statements to be audited by 30th September.

Financial Implications & Value for Money

10. The 2022/2023 external audit fee, £44,692, has been included within the 2022/2023 approved budget.

Risk Management, Health & Safety, and Environmental Implications

11. Failure to prepare the financial statements or have them audited within the statutory deadlines may have an adverse impact on the Authority's financial management reputation.

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 achievement of sound financial administration and VFM arrangements is essential if the Service is to achieve the Authority's vision.

BACKGROUND PAPERS

NONE

GLOSSARY OF TERMS

MFRA Merseyside Fire and Rescue Authority is the physical and legal entity.

Merseyside Fire & Rescue Authority Audit Plan

Year ending 31 March 2023

Page 11

May 2023



Contents



Your key Grant Thornton team members are:

Georgia Jones

Key Audit Partner

T 0161 214 6383

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

Sophia S Iqbal

Engagement Manager

T 0161 234 6372

E Sophia.S.Iqbal@uk.gt.com

Ying Li

Audit in charge

T 0151 224 7215

E Ying.Li@uk.gt.com

Section	Page	
Key matters	3	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.
Introduction and headlines	5	
Significant risks identified	7	
Other matters	11	
Progress against prior year recommendations	12	
Our approach to materiality	13	
IT Audit Strategy	15	
Value for Money Arrangements	16	
Audit logistics and team	17	
Audit fees	18	
Independence and non-audit services	21	
Communication of audit matters with those charged with governance	22	

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

Key matters



National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands and increases in supplies and services. These are increased costs which all bodies are facing, including the fire authorities.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Key matters



Our Responses

- 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 out further in our Audit Plan, has been agreed with the Director of Finance and Procurement.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

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 in order 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 will consider 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.



Introduction and headlines

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 and buildings; and
- valuation of net pension 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 £1.781 million (PY £1.768m) for the Authority, which equates to 2% of your prior year gross operating costs 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 £89k (PY £88k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. We will continue to update our risk assessment until we issue our Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our interim visit has taken place in April 2023 and our final visit will take place from July to September 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £44,692 (PY: £41,079) 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.

Page 17

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.

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ (ISA (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
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. 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:</p> <ul style="list-style-type: none"> - 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>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. 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> <p>We will:</p> <ul style="list-style-type: none"> • review and test, on a sample basis, material revenue and expenditure transactions, ensuring that it remains appropriate to rebut the presumed risk of revenue and expenditure recognition. • design and carry out appropriate audit procedures to ascertain the recognition of expenditure is in the correct accounting period using cut-off testing.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

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 Local Government Pension Scheme (LGPS) pension net liability as reflected in the balance sheet, and asset and liability information disclosed in the notes to the accounts, represents a significant estimate in the financial statements.</p> <p>The Firefighters Pension scheme's pension fund liability as reflected in the balance sheet and notes to the accounts also represents a significant estimate in the financial statements.</p> <p>These estimates by their nature are subject to significant estimation uncertainty being sensitive to small adjustments in the key assumptions used.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability.</p> <p>We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.</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 the 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 Merseyside Pension Fund financial statements. • test the data provided to the actuary of the Fire Fighter Pension Fund.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	<p>The Authority revalue 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 2022/23, the Authority requests a confirmation from its engaged valuation expert (Dears Brack) to ensure that there is no material difference. This valuation (£81.2m in 2021/22) 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 Authority’s valuation of land and buildings are not materially misstated and evaluate the design of the associated controls • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into the Authority’s asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

‘In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity’s controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.’ (ISA (UK) 315)

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 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.

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the Authority's financial statements, which resulted in three recommendations being reported in our 2021/22 Audit Findings Report. We are pleased to report that management are in the process of implementing our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	<p>Depreciation asset lives</p> <p>Our audit work identified a number of assets which have been fully depreciated and written out of the asset register yet remain in use. The implication being that the original life allocated to the asset may not have been accurate.</p>	<p>Management have agreed to consider the current asset lives and amend if they deem some economic residual value is left in the asset. We will follow this up on or post statements visit.</p>
In progress	<p>Floor plans</p> <p>Our audit work identified the Authority have floor plans in place but the measurements stated on the floor plans are not always accurate. It is important for the Authority to maintain up to date and accurate floor plans to support the valuation process.</p>	<p>Management have agreed to review and amend floor plans as required. We will follow this up on or post statements visit.</p>
In progress	<p>Land Registry</p> <p>As part of our confirmation of ownership of assets work, we identified one asset where the Land Registry department, have not updated the records to confirm this is owned by the Authority. The Authority has provided evidence of the transfer of land to them.</p>	<p>Management accepted this finding and agreed all relevant details will be updated to all relevant bodies and a record management regime adopted. We will follow this up on or post statements visit.</p>

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	<p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. Materiality at the planning stage of our audit is £1.781 million, which equates to 2% of your draft gross expenditure for the period.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>Due to the public interest in senior officer remuneration disclosures, we apply specific audit procedures and have not set a materiality level. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We will apply heightened auditor focus in the completeness and clarity of disclosures in this area and will request amendments to be made if any errors would alter the bandings reported for any individual.</p>

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>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.</p>
4	<p>Other communications relating to materiality we will report to the Audit Committee</p> <p>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.</p>	<p>We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>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 £89.1k (PY £88.4k). 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.</p>

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. 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 and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 18.

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:

IT system	Audit area	Planned level IT audit assessment
E-financials	Financial reporting	<ul style="list-style-type: none"> A review of the IT General Controls related to security management, development and maintenance and technology infrastructure

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office -issued its latest Value for Money guidance -to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



Governance

How the body ensures that it makes informed decisions and properly manages its risks.

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 co-ordinates the on-site audit team.

Audited Entity 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 audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity 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 an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

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

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

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Merseyside Fire and Rescue Authority to begin with effect from 2018/19. The fee agreed in the contract was £30,392. 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 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Authority's IT Infrastructure and environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Authority's business model, which may result in us needing to perform additional inquiries to understand the Authority's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £2k. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with the Director of Finance and Procurement.

Audit fees

	Actual Fee 2020/21	Actual Fee 2021/22	Proposed fee 2022/23
Merseyside Fire and Rescue Authority Audit	£45,966	£41,079	£44,692
Total audit fees (excluding VAT)	£45,966	£41,079	£44,692

Page 29

Assumptions

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

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

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA 2019	£30,392
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£8,000
Increased audit requirements of revised ISAs 540	£1,800
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£2,000
Total audit fees 2020/21 (excluding VAT)	£42,192
<i>New issues for 2022/23</i>	
Enhanced audit procedures for Payroll – Change of circumstances	£500
Increased audit requirements of revised ISAs 315/ 240	£2,000
Total proposed audit fees 2022/23 (excluding VAT)	£44,692

All variations to the scale fee will need to be approved by PSAA

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Authority 's Ethical Standard 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.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	
Respective responsibilities of auditor and management/those charged with governance	•		ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•	
Significant matters in relation to going concern	•	•	We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.
Significant findings from the audit		•	
Significant matters and issue arising during the audit and written representations that have been sought		•	Respective responsibilities
Significant difficulties encountered during the audit		•	
Significant deficiencies in internal control identified during the audit		•	As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.
Significant matters arising in connection with related parties		•	
Identification or suspicion of fraud (deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically Authority tax fraud)		•	The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	



© 2023 Grant Thornton UK LLP.

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

This page is intentionally left blank

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	24 MAY 2023	REPORT NO:	CFO/017/23
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 2022/23 ANNUAL REPORT		

APPENDICES:	APPENDIX A:	TREASURY MANAGEMENT 2022/23 ANNUAL REPORT
--------------------	--------------------	--------------------------------------------------

Purpose of Report

1. To advise Members of the activities of the Treasury Management operation and actual performance against the agreed Prudential Indicators in 2022/23. 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 2022/23 (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 2022/23 – 2026/27 Budget and Financial Plan report, CFO/007/22, considered by Members at the Authority meeting on 24th February 2022, set the Authority's treasury management strategy for 2022/23:

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

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

The strategy covers:

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

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

Interim Treasury Management report

7. The interim treasury management report, CFO/049/22, was considered by Members at the Policy and Resources Committee on 15th December, 2022. The report confirmed that to date treasury management activity in 2022/23 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 2022/23 is attached as Appendix A to this report and demonstrates that treasury management activity has been carried out in-line with the approved Treasury Management Strategy and therefore within the borrowing and treasury management limits set by the Authority throughout the year. Treasury Management practices have maintained full compliance with the relevant Codes and Statutes.

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

Equality and Diversity Implications

10. None arising from this report.

Staff Implications

11. None arising from this report.

Legal Implications

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

Financial Implications & Value for Money

13. The cost of Treasury Management Services was £24,727 in 2022/23 and was provided by Liverpool City Council.
14. The Authority's overall debt outstanding during the year reduced from £33.885m to £33.720m:-

	For Periods ending (2022/23)													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	33,885	0	0	0	0	0	0	-165	0	0	0	0	0	33,720

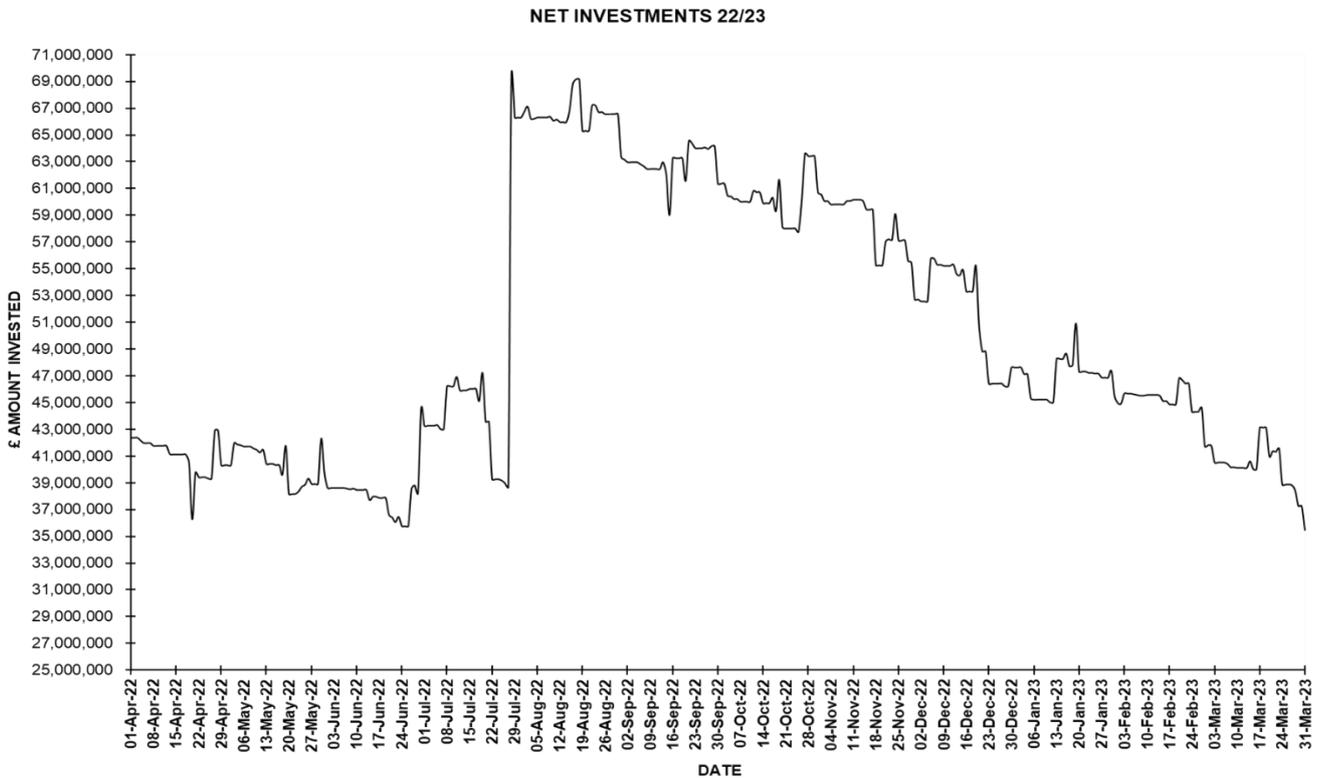
15. The reduction in debt of £0.165m was due to the repayment of loans totalling that matured in the year. Note that the closing debt figure of £33.720m excludes £0.2m of short-term borrowing provided by Liverpool City Council as this was just overnight funding made available to the Authority as part of the arrangement with have with the Council.
16. The Authority paid total interest of £1.732m 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
01/04/22	39.750

31/03/23

34.450

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



(note: £2.600m was invested on 01.04.2022)

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 £28.0m 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 £35.450m of investments at the year-end.
20. The investments are held in institutions that reflect the approved investment strategy. The table overleaf outlines the £35.450m of investments held as at 31st March 2023;

ANALYSIS OF INVESTMENTS END OF QUARTER 4 2022/23

Institution	Credit Rating	MM Fund*	DMADF	Bank / Other	Building Society	Local Authority	Average Interest
		£		£	£	£	%
Blackrock	AAA	1,100,000					4.09
CCLA Investment Management	AAA	2,400,000					4.12
Legal & General	AAA	500,000					4.09
HSBC (MFRS Deposit Account)	A			450,000			1.36
Santander	A			2,000,000			2.50
Cumberland BS					1,000,000		3.45
Newcastle BS					1,000,000		2.35
Principality BS					1,000,000		1.55
Birmingham CC						3,000,000	4.45
Bury MBC						2,000,000	3.58
Cheshire East Council						2,000,000	3.62
Lancashire CC						2,000,000	2.10
Medway Council						2,000,000	1.30
North Lanarkshire						2,000,000	3.90
Rushmoor BC						3,000,000	4.00
South Cambridgeshire DC						3,000,000	1.95
Suffolk CC						3,000,000	4.00
Wirral BC						2,000,000	4.20
Wyre Forest DC						2,000,000	2.00
Totals		4,000,000	0	2,450,000	3,000,000	26,000,000	3.08
Total Current Investments						35,450,000	

*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 £0.920m, which was £0.598m above the amount budgeted for, reflecting the increase in interest rates during 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/007/22 2022/2023-2026/2027 Budget and Financial Plan report, Authority 24th February, 2022

CFO/049/22 Interim Treasury Management report, Policy and Resources Committee 15th December, 2022.

GLOSSARY OF TERMS

CIPFA Chartered Institute of Public Finance and Accountancy (CIPFA)

TREASURY MANAGEMENT ANNUAL REPORT 2022/23

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 2022/23.
2. The strategy for the year was identified in the Treasury Management Strategy Statement 2022/23. 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 the 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 0.75% 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 throughout the financial year.
4. The Bank of England increased the Bank Rate from 0.75% at the start of the year to 4.25% by March 2023 with the policy rate increasing at each meeting of the Monetary Policy Committee (MPC). At the meeting in March, members of the MPC highlighted concern over the persistence of inflation which in recent months has remained elevated above expectations. Market commentators speculate that there could be a further rise in May 2023 at which point the bank rate will stabilise at that level for a period of time, however this will be influenced by the path of inflation over coming months.
5. Given the volatility throughout 2022/23 a cautious approach has been adopted with regards to funding the authority's capital spend. No new borrowing was arranged during the year, instead investments have been reduced as a means of deferring the point by which the authority needs to borrow. Given the profile in recent years whereby the capital financing requirement has been fully matched by external borrowing, there is the capacity to adopt this course on the expectation that interest rates will be more favourable over the next 12-24 months. Given the long-dated

nature of the authority's existing borrowing portfolio there is also scope for shorter term borrowing where this proves advantageous. Investments continue to be dominated by low counterparty risk considerations, resulting in reduced returns compared to borrowing rates supporting the rationale for deferring borrowing where possible.

6. 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 2.4% to a peak of 5.7%. At the start of the financial year long term PWLB rates were 2.62% and finished the financial year higher at 4.6%.
7. The overall structure of interest rates has for some time meant that short term rates have remained lower than long term rates. In this scenario, the strategy has continued to be to reduce investments and borrow for short periods and possibly at variable rates when required. However, this needs careful review to avoid incurring higher borrowing costs in the future when the authority may not be able to avoid new borrowing to finance capital expenditure and/or refinance maturing debt. The rise in interest rates during 2022/23 exceeded many forecasts from before the financial year, the question is now whether this will be sustained at a new elevated level or if they will have to be cut as a response to a slowing economy and as the lagged impact of monetary tightening begins to take effect.

CAPITAL BORROWINGS AND DEBT RESCHEDULING

8. The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority did envisage that there would be new long-term borrowing in 2022/23 driven by the financing need of the capital programme, however, no new long-term borrowing was arranged given the unfavourable environment in addition to slippage in the capital programme delivery. In the current conditions it is intended to reduce investments and defer new long-term borrowing where this is possible. Market conditions continued to be unfavourable for any debt rescheduling.

ANNUAL INVESTMENT STRATEGY

9. The investment strategy for 2022/23 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with central government regulations and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and for a maximum of one-year duration.
10. Extreme caution was taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with high rated or nationalised banks and AAA rated money market funds has enabled reasonable returns which were able to benefit in a rising interest rate environment. The credit ratings and individual limits for each institution to be used by the Authority in 2022/23 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 2022/23 was 1.84%. This compares with an average Sterling Overnight Rate (SONIA) of 2.19%. Deposits that were placed for extended terms during the year tended to average returns below that of overnight returns. In an interest rate rising environment effectively duration acted as a dampener on returns, the opposite of what might typically be expected. However, it remains prudent to maintain a balanced investment portfolio and not have all investments placed in overnight instruments

- 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

- The external debt indicators of prudence for 2022/23 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£73 million
Operational boundary for external debt:	£56 million

Against these limits, the maximum amount of debt reached at any time in the financial year 2022/23 was £33.9 million.

- 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 (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) 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 2022	31 March 2023	31 March 2024
	Actual	Actual	Estimate
	£'m	£'m	£'m
Capital Financing Requirement	54.4	51.4	78.7
Less: PFI	(16.3)	(16.4)	(15.8)
Less:MRD	(0.2)	(0.1)	(0.1)
Borrowing CFR	37.4	34.9	62.8
Existing Debt Portfolio	33.9	33.7	45.7
Over(-)/Under borrowing	3.5	1.2	17.1
Borrowing as a % of CFR	90.6%	96.56%	72.77%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

14. The treasury management indicators of prudence for 2022/23 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 2022/23 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 2022/23 was as follows:

Maturity Period	Upper Limit	Lower Limit	Maximum Actual	Minimum Actual
Under 12 months	50%	0%	1%	0%
12 months and within 24 months	50%	0%	0%	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%	100%	99%

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 2022/23. One investment for £2m, longer than 365 days, was placed during 2022/23.

PERFORMANCE INDICATORS

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

16. The indicators for the treasury function are:

Borrowing - Average rate of long term borrowing for the year compared to average available. No new long-term borrowing was arranged in 2022/23.

Investments – Internal returns compared to the average Sterling Overnight Rate (SONIA). The return in the financial year 2022/23 was 0.35% below the benchmark.

TREASURY MANAGEMENT ADVISORS

17. The treasury management service is provided to the Authority by Liverpool City Council. The terms of the service are set out in an agreed Service Level Agreement. The Council employs treasury management advisers appointed under a competitive procurement exercise who provide a range of services which include: -

- Technical support on treasury matters, capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.
- Credit ratings/market information service comprising the three main credit rating agencies.

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

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

19. 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.

20. 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.
21. 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.
22. 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.
23. 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.
24. 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.
25. 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

26. 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

27. Treasury Management activity in 2022/23 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.

This page is intentionally left blank

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	24 MAY 2023	REPORT NO:	CFO/018/23
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 2022/2023		
APPENDICES:	APPENDIX A: 2022/2023 ANNUAL GOVERNANCE STATEMENT APPENDIX B: INFORMING THE AUDIT RISK ASSESSMENT FOR MFRA 2022/23		

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;
 - a) approve the 2022/2023 Annual Governance Statement; and
 - b) subject to any amendments proposed by Members, approve the completed Grant Thornton questionnaire ‘Informing the Audit Risk Assessment for MFRA 2022/23’.

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 2022/2023 AGS for Merseyside Fire and Rescue Authority, 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 governance and the internal control systems and processes. The CIPFA/SOLACE framework recommends that a review of the effectiveness of the system of internal control should be reported as part of the AGS. A review of the effectiveness of the Authority’s 2022/2023 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 the work undertaken by 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).
5. Members are asked to approve the 2022/2023 AGS attached as Appendix A to this report.
6. Under International Standards on Auditing (UK and Ireland) (ISA (UK&I)) auditors have specific responsibilities to communicate with the Senior Leadership Team (SLT) and the Audit Committee. As part of their risk assessment procedures the Authority’s external Auditor (Grant Thornton) have sought an understanding of the management processes, internal control mechanisms, and the Audit Committee’s oversight of the following areas:
 - General Enquiries of Management
 - Fraud
 - Laws and Regulations
 - Related Parties
 - Going Concern and
 - Accounting Estimates.
7. Grant Thornton have asked the Authority’s management team (SLT) and the Chair of the Audit Committee to complete a questionnaire in relation to the management of the above risks and any related events that took place in 2022/2023. As the internal controls that operated in 2022/2023, outlined in the AGS, manage the risks identified by the Auditors, this report includes the completed Audit questionnaire, attached as Appendix B. Subject to any Member amendments, Members are asked to approve the completed Audit questionnaire.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

10. 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

11. 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

12. 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.*

13. Good governance and sound internal control arrangements will ensure the Authority's vision is known by all and drives and directs Merseyside Fire and Rescue Services outcomes.
14. The Authority has effective leadership and makes decisions that deliver strong financial management and efficient and effective service delivery. Robust and comprehensive governance arrangements are integral to this performance

BACKGROUND PAPERS

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

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

GLOSSARY OF TERMS

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

2022-2023 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 also **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 2023.

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 Vision 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.

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.

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 2022/23 and approved by the Authority at its meeting on 9 June 2022 (CFO/023/22), 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 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 2021/22 Annual Audit Letter and Audit Findings Report;

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 9 June 2022 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 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.

- The Appeals Committee – To consider and determine Appeals referred from the Audit Committee in relation to the Members Code of Conduct if appropriate, determine any other matters which may be referred to the Committee by the Authority, or any committee.
- 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 2022/23 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 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 2021/22 and it is anticipated this will be repeated in 2022/23. 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

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 2022/23, 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 are 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. Although at the time of writing the AGS Internal Audit have yet to finalise all of the 2022/23 audit reviews the findings to date suggest;

- substantial Assurance that the system of internal control in place at Merseyside Fire & Rescue accords with proper practice, and
- the work on fundamental systems audits completed to date have shown a substantial level of compliance, and no significant control weaknesses, which impact on the Annual Governance Statement, have been identified.

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 2022/23 statutory financial statements and make a VFM conclusion during the 2023/24 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 2022/23 the Auditor's Annual Audit Findings Report and Audit Annual Letter covering 2021/22 confirmed the Authority's overall performance continues to be strong and the Authority received an unqualified opinion on the 2021/22 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**. 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.

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.....
J. Grace
CHAIR of AUDIT COMMITTEE

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

Signed
I. CUMMINS
DIRECTOR OF FINANCE & PROCUREMENT

This page is intentionally left blank

Informing the audit risk assessment for Merseyside Fire and Rescue 2022/23

Georgia Jones
Director, Audit
T 0161 214 6383
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 67

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 and Rescue Service's external auditors and Merseyside Fire and 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 and 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

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 2022/23?</p>	<p>With regards to new challenges or changes as a result of the 2022/23 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 2022/23 that were likely to have a material impact on the financial statements.</p> <p>The relevant professional valuer(s) will determine any material level of uncertainty exists in the valuation of property or pension estimates and if necessary highlight any key judgements in the 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.</p> <p>In terms of those issues that may have a significant impact on the accounts, the main ones would appear to be 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 2023 more difficult. However to negate this uncertainty the valuations on a number of properties were carried out over April 2023 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 71

Question	Management response
<p>2. Have you considered the appropriateness of the accounting policies adopted by Merseyside Fire and 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 2022/23 compared to those in 2021/22. No new accounting policies have been identified.</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

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 and 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

Page 73

Question	Management response
9. Have any of the Merseyside Fire and 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.

Page 74 As Merseyside Fire and 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 and Rescue Service's management.

Fraud risk assessment

Page 75

Question	Management response
<p>1. Has Merseyside Fire and 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 risk assessment

Page 76

Question	Management response
<p>1. Has Merseyside Fire and 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"> • Fraud Response Plan • 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 77

Question	Management response
<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 and Rescue Service as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>Yes, potentially 2 financially immaterial fraudulent incidents;</p> <ol style="list-style-type: none"> 1. 1. A supplier had their email account hacked after emailing a valid invoice for £275 to the Authority's payments section, that resulted in a follow-up email being received the following day from the supplier's email account advising that their bank details had changed. The payment was made to the new bank account but the supplier contacted the service after several weeks saying he hadn't received any payment. The matter was been referred to the Authority's bank, and procedures within the payments section enhanced so internal checks will prevent this fraud from re-occurring. 2. 2. During the year an alleged misappropriation of an Authority asset for personal use is being investigated to establish the facts of the allegation.

Fraud risk assessment

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 and Rescue Service where fraud is more likely to occur?	No. No. No.
6. What processes do Merseyside Fire and 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 79

Question	Management response
<p>7. How do you assess the overall control environment for Merseyside Fire and 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 and 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 "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"....</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>
<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>¹⁶How do you mitigate the risks associated with fraud related to related party relationships and</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>

Fraud risk assessment

Question	Management response
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	No.
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 and 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

Page 85

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 and 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 2022/23 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 and 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 and 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 and 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

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Merseyside Fire and Rescue Service's 2021/22 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Merseyside Fire and Rescue Service whether Merseyside Fire and 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 and 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 90

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 and 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

Page 91

Question	Management response
<p>2. Are management aware of any factors which may mean for Merseyside Fire and 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 and Rescue Service, does Merseyside Fire and 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 and 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 and 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 2022/23 – 2026/27 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

Page 93

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 2022/23 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

Page 95

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 96

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
PFI Liabilities	Operator Model Provided	See Operator Model in INFLO	Pricewaterhouse coopers Spreadsheet	See Operator Model in INFLO	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
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

Appendix A Accounting Estimates

Page 97

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



MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	24 MAY 2023	REPORT NO:	CFO/019/23
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:	2023/24 INTERNAL AUDIT PLAN		

APPENDICES:	APPENDIX A:	2023/24 AUDIT PLAN
--------------------	--------------------	---------------------------

Purpose of Report

1. To notify Members of the proposed Internal Audit plan for 2023/24 and to seek comments from Members on the detail and focus areas within the plan.

Recommendation

2. It is recommended that Members;
 - a) consider any comments or opinions they might have on the proposed audit plan; and
 - b) approve the 2023/24 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 2023/24 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 2023/24 Internal Audit Plan.
7. Arrangements have been set in place for monitoring progress against the plan on an ongoing basis and for closely managing any ad hoc work requirements during the year.

Equality and Diversity Implications

8. There are no equality or diversity implications contained within this report.

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

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

Risk Management, Health & Safety, and Environmental Implications

12. There are no risk management, health & safety, or 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

This page is intentionally left blank

APPENDIX A**STRATEGIC AUDIT PLAN 2023/24**

		23/24	23/24
		Audit Days	Audit Days
	Fundamental Financial Systems (general ledger, payroll, creditors/debtor systems etc)		40
	Strategic Reviews / Client directed / Ad hoc reviews		
1	FDs Provided Vehicles – review log books and confirm controls in place to ensure vehicles only used for business activity. Recommend any additional controls	12	
2	MFRS Vehicles – Fuel Cards ; review controls in place and monitoring arrangements	6	
3	Following concerns raised at a national level over potential risks within the Fire Sector Internal Audit have asked to review MFRS; <ul style="list-style-type: none"> • Bullying, harassment, discrimination processes • Enforcement Powers – ensuring policies are followed 	10	
4	Foreign, Commonwealth & Development Office Grant Funding – Assurance that FCDO funds have been used for the intended purposes.	4	
	Strategic Reviews / Client directed / Ad hoc reviews		72
	Contingency - Investigations/Responsive / Advice & Assistance		12
	Follow up on implementation of previous audit recommendations.		8
	Audit Management		8
	Total Planned Days		<u>100</u>

This page is intentionally left blank