Public Document Pack

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

The Protocol and Procedure for visitors attending meetings of Merseyside Fire and Rescue Authority can be found by clicking **here** or on the Authority's website:
http://www.merseyfire.gov.uk - About Us > Fire Authority.

J. Henshaw
LLB (Hons)
Clerk to the Authority

Tel: 0151 296 4000
Extn: 4113 Kelly Kellaway

Your ref: Our ref HP/DM Date: 1 June 2016

Dear Sir/Madam,

You are invited to attend a meeting of the **AUDIT SUB-COMMITTEE** to be held at **1.00 pm** on **THURSDAY, 9TH JUNE, 2016** in the Liverpool Suite at Merseyside Fire and Rescue Service Headquarters, Bridle Road, Bootle.

Yours faithfully,

K Kellaway PP

Clerk to the Authority

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MERSEYSIDE FIRE AND RESCUE AUTHORITY

AUDIT SUB-COMMITTEE

9 JUNE 2016

AGENDA

Members

Denise Roberts (Chair)
James Roberts
Paul Tweed
Lesley Rennie

1. Preliminary Matters

Members are requested to consider the identification of:

a) declarations of interest by individual Members in relation to any item of business on the Agenda

b) any additional items of business which the Chair has determined should be considered as matters of urgency; and

c) items of business which may require the exclusion of the press and public during consideration thereof because of the possibility of the disclosure of exempt information.

2. Minutes of Previous Meeting (Pages 7 - 10)

The minutes of the previous meeting held on 28th January 2016 are submitted as a correct record and for signature by the Chair.

3. Merseyside Fire & Rescue Authority - Audit Plan 2015/16 (Pages 11 - 34)

To consider the Audit Plan for Merseyside Fire & Rescue Authority for 2015/16, produced by the Authority's External Auditors – Grant Thornton.

A representative from Grant Thornton will present this report.

4. **Progress Report and Update Year Ended 31 March 2016** (Pages 35 - 50)

To consider the Progress Report and Update for Merseyside Fire and Rescue Authority for the year ended 31st March 2016, produced by the Authority's External Auditors – Grant Thornton.

A representative from Grant Thornton will present this report.

5. **2015/16 ANNUAL YEAR-END INTERNAL AUDIT REPORT** (Pages 51 - 64)

To consider Report CFO/036/16 of the Treasurer, concerning the Annual Internal Audit report for 2015/16.

6. **THE ANNUAL GOVERNANCE STATEMENT 2015/2016** (Pages 65 - 92)

To consider Report CFO/035/16 of the Treasurer, concerning Authority's Annual Governance Statement. This statement fulfils the Authority's statutory requirement to prepare a statement of internal control in accordance with proper practices, and to present an annual review of the effectiveness of the current system.

7. **2016/17 INTERNAL AUDIT PLAN** (Pages 93 - 98)

To consider Report CFO/037/16 of the Treasurer, concerning the proposed Internal Audit plan for 2016/2017 and to seek comments from Members on the plan.

8. **TREASURY MANAGEMENT ANNUAL REPORT 2015/16** (Pages 99 - 108)

To consider Report CFO/0034/16 of the Treasurer, concerning the activities of the Treasury Management operation and actual performance against the agreed Prudential Indicators in 2015/16. 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.

9. **CORPORATE RISK REGISTER UPDATE NOV-MARCH 2016** (Pages 109 - 132)

To consider Report CFO/045/16 of the Deputy Chief Fire Officer,

concerning the current risks contained within the Corporate Risk Register, the status of the risks and associated control measures - including reference to any new risks added to the Register or any risks that no longer apply and can be removed

10. FIREFIGHTER PENSION SCHEME - INTERNAL DISPUTE RESOLUTION PROCESS (Pages 133 - 154)

To consider Report CFO/038/16 of the Treasurer, concerning the proposed updated Internal Dispute Resolution Procedures (IDRP) in relation to the Firefighter Pension Scheme(s) Pensions matters in line with the requirements of the Pension Act 1995 and subsequent amendments.

11. FIRE PENSION SCHEME(S) - ADMINISTRATION (Pages 155 - 158)

To consider Report CFO/039/16 of the Treasurer, concerning administration arrangements for the Firefighter Pension Scheme(s).

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

Refreshments

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

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MERSEYSIDE FIRE AND RESCUE AUTHORITY

MEETING OF THE

AUDIT SUB-COMMITTEE

28 JANUARY 2016

MINUTES

Present: **Cllr Denise Roberts (Chair)** Councillors Mike Kearns and Lesley Rennie

Also Present:

Apologies of absence were received from: Cllr James Roberts and Cllr Paul Tweed

7. Chair's Announcement

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

The Chair then declared the meeting open and recording of the proceedings commenced.

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 Previous Meeting

The minutes of the previous meeting held on 21st July 2015, were approved as a correct record and signed accordingly by the Chair.

3. External Audit Update Report

John Padfield representing the Authority's External Auditors, Grant Thornton, presented a report concerning progress in delivering their responsibilities as External Auditor for the Authority.

Members were provided with an overview of the report which highlighted forthcoming changes to reporting deadlines for the sign off of accounts by the Authority and External Audit, which will both be brought forward (although this will not be a regulatory requirement until 2017/18). Members were advised that in order to meet these new deadlines consideration will be given to elements of Audit work which can be undertaken earlier in the year.

The update informed Members that the scope of the Value for Money (VFM) conclusion has been slightly amended to have more emphasis on ways of working with partners and 3rd parties, in addition to informed decision making and sustainable resource deployment. Another key consideration will be assessing the way the Fire Authority responds to the financial challenges.

Discussion took place regarding the move of the Fire and Rescue Policy from DCLG to the Home Office, the potential for the governance of Fire and Rescue Services to transfer to the Police and Crime Commissioner; and the possible affects these may have on the Fire and Rescue Service.

Members were informed that there are significant uncertainties surrounding these issues at present however the situation will continue to be monitored by External Audit.

Members resolved that:

The contents of the report be noted.

4. INTERNAL AUDIT PROGRESS REPORT – APRIL TO NOVEMBER

Members considered report CFO/010/16 of the Treasurer concerning the work of Internal Audit for the period April to November 2015.

Members were provided with an overview of the report which highlighted the number of audit days allocated to a review of the Authority's fundamental systems and specific projects.

Members were informed that the majority of audit work around specific projects will be undertaken in the final quarter of the financial year, allowing the projects to be sufficiently progressed prior to audit.

Members resolved:

That contents of the report be noted.

5. Treasury Management Interim Report 2015/16

Members considered report CFO/003/16 of the Treasurer outlining the Treasury Management activities and performance for April to November for the financial year 2015/16, in accordance with the CIPFA Code of Practice on Treasury Management and CIPFA Prudential Code for Capital Finance in Local Authorities.

Members were informed that investments and borrowing have continued in line with the agreed strategy and that investment returns have been above the benchmark.

Members questioned if the Authority invests in UK Local Authorities and it was confirmed that this is currently not the case.

Members resolved that:

The contents of the report be noted.

6. CORPORATE RISK REGISTER UPDATE JULY - OCT 2015

Members considered report CFO/005/16 of the Deputy Chief Fire Officer concerning the current risks contained within the Corporate Risk Register, the status of the risks and associated control measures, including reference to any new risks added to the register or any risks that no longer apply and can be removed

Members were provided with an overview of the report which highlighted some of the key risks:

- In relation to risks around maintaining sufficient staffing, members were informed that the recruit course has now concluded with the recruits operating a more flexible wholetime retained crewing system.

- In relation to risks around the relationship between the Authority and the Police and Crime Commissioner, Members were informed that the collaborative working continues to work well.

- Officers continue to monitor risk 4.3 from the Corporate Risk Register, concerning tackling of inequalities and changes to society.

- With regard to risks around increased flooding and more extreme weather conditions, Members were informed of the recent deployment of Merseyside Search and Rescue teams in the North West Region in response to flood conditions. Although the circumstances were challenging the deployment was welcomed.

Members raised concerns regarding risks associated with reduced operational staff numbers and the potential for increased collaboration with the Police.

It was reported that although there is a need to decrease the number of Firefighter posts by 2020-21, MFRS is committed to sustainable succession planning which has been factored into the financial management of the Service. With relation to increased collaboration with the Police it was confirmed that Officers are mindful of the drive locally and nationally towards greater collaboration.

Members commented favourably on the Fire Service's role in responding to flooding incidents nationally and on the resilience provided by the operational recruitment process.

Members resolved that:

The updated Corporate Risk Register, be approved.

Close

Date of next meeting Thursday, 9 June 2016

Signed:_____ Date:_____

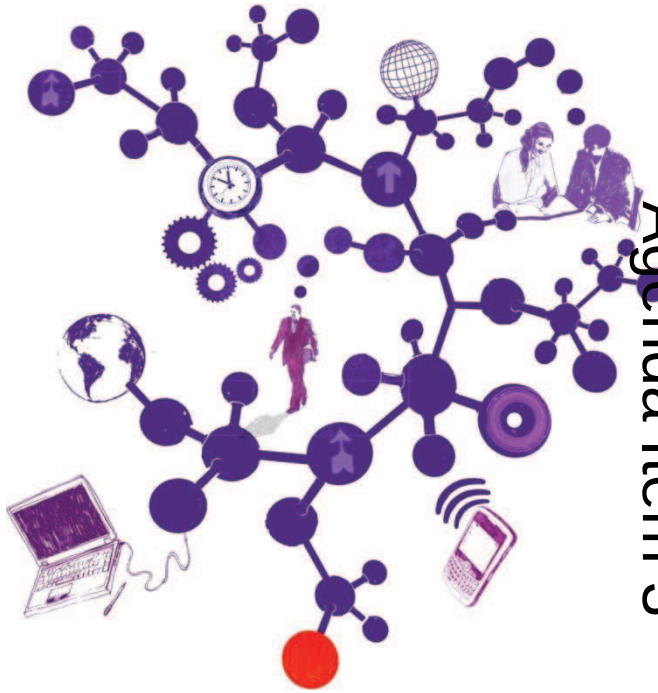
The Audit Plan for Merseyside Fire and Rescue Authority

Year ending 31 March 2016

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3 May 2016

Dear Denise

Audit Plan for Merseyside Fire and Rescue Authority for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Merseyside Fire and Rescue Authority, the members of the Authority), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This plan is designed to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Authority and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Controller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Authority's financial statements
- satisfy ourselves the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Michael Thomas
Engagement Lead

Chartered Accountants
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit 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 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.

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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Authority is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging going forward.
- The provisional LG finance settlement to 2019/20 indicates that the percentage reduction in RSG funding may be less than expected but actual spending in this period will be under pressure as costs increase.

2. Delivering the service

- The Authority has made significant progress in developing its Fire Station Merger Strategy.
- This is projected to deliver a reduction of 86 whole-time equivalent (WTE) posts, reduce the Authority asset base down from 26 stations to 22 and deliver additional savings from a reduction in premises overheads.
- The savings are to be achieved from a variety of factors including service transformation, new ways of working and the retirement profile of uniformed employees.

3. Devolution

- Plans are in place for the devolvement of power to the Liverpool City Region.
- The Authority is aware that there is the opportunity to influence the wider prevention, protection and response agenda within Merseyside which may result in the further development of the services provided.

4. Blue light collaboration

- Following the consultation on closer working between emergency services the Government moved ministerial responsibility for Fire & Rescue to the Home Office from January 2016, with a view to supporting closer working.
- At the same time it was announced that the Home Office was determined to introduce greater efficiency into the sector. The plans include the introduction of an independent inspectorate.
- This change has taken place against a greater backdrop of joint working, including ambulance and other services.
- The Authority is developing an approach in providing operational response to cardiac arrests, on behalf of NWAS.

5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require local authorities to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.

Our response

- We will consider the Authority's financial performance for 2015/16 through discussions with management and comparison with the budgeted outturn to inform our going concern assessment.
- We will consider the Authority's plans going forward for addressing its financial position as part of our work to reach our VFM conclusion.
- Our value for money work will further consider how the Authority has balanced the requirements of delivering services against continued resource constraints.
- We will share our knowledge of how other parts of the sector are responding to these challenges.

- We recognise that the Authority has been innovative in overcoming barriers to change and delivering its strategic objectives.
- We will continue to hold discussions with management and assess the impact of changes to the staffing model on both finances and service delivery as part of the work to enable us to reach our value for money conclusion.

- We will update our understanding of the devolution model for the Liverpool City Region as part of our value for money work.
- We will also consider your plans and role in the local devolution agenda and provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will review arrangements going forward under the Home Office in order to understand how this affects the fire service in respect of funding and additional or shared responsibilities.
- We will consider the collaborative arrangements as they develop as part of our work in reaching our value for money conclusion.
- We will discuss with management issues which could be barriers to successful collaboration eg cultural change and governance arrangements.

- We will work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- We aim to complete all substantive work in our audit of your financial statements by 31 July 2016 as a 'dry run'.

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Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Pensions

- Changes to the Fire Fighters' Pension with the introduction of a new scheme effective from April 2015.
- This will require additional accounting disclosures in the financial statements.
- We are aware that scheme members will not only include new starters, but also the transfer of staff from the 1992 and 2006 schemes.

4. Other requirements

- The Authority is required to submit a Whole of Government Accounts (WGA) consolidation pack which summarises the group accounts.

Our response

- We will keep the Authority informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Authority and the requirements of CIPFA guidance.

- We will review accounting disclosures for these arrangements against the requirements of the CIPFA Code of Practice.
- We will review your proposals for accounting for any new arrangements against the requirements of the CIPFA Code of Practice.

- We will carry out specified audit procedures on the Authority's WGA consolidation pack in line with the statutory requirements and to the agreed national deadline on behalf of the National Audit Office.

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Our audit approach

Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- Understanding the environment and the entity
- Understanding the business
- Understanding management's focus
- Evaluating the year's results

→ Inherent risks, Significant risks, Other risks, Material balances →

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material respects with the CIPFA Code of Practice on Local Authority Accounting using our global methodology and audit software

Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.



Voyager

Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Authority. For purposes of planning the audit we have determined overall materiality to be £1,374k (being 2% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £68,700.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Authority affect the balance and it is therefore considered to be material by nature.	Any errors identified by testing in excess of triviality would be deemed to have implications on the users' understanding of the financial statements.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing in excess of £10,000 would be deemed to have implications on the users' understanding of the financial statements.
Audit fees	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing would be deemed to have implications on the users' understanding of the financial statements.

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Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue 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.	**Work completed to date:** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fire Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition. • opportunities to manipulate revenue recognition are very limited. • the culture and ethical frameworks of local authorities, including Merseyside Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	**Work completed to date:** • Review of prior year accounting estimates, judgments and decisions made by management. • Review of journal control environment. • Testing of journal entries in accounting periods 1 - 10 **Further work planned:** • Review of current year accounting estimates, judgments and decisions made by management. • Testing of journal entries in accounting periods 11 – 12 • Review of unusual significant transactions.

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Significant risks (continued)

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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 315). In this section we outline the significant risks of material misstatement which we have identified.

Significant risk	Description	Substantive audit procedures
The expenditure cycle includes fraudulent transactions	Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially where the body is required to meet targets.	We have considered this risk and do not consider it to require additional audit procedures because, of your 2015/16 budgeted expenditure: • 62% relates to employee costs which are addressed by our procedures in response to the identified risk in this area (see page 12). • 33% relates to operating expenses and capital financing charges which are addressed by our procedures in response to the identified risk in this area (see page 11). • 5% relates to pensions expenditure which are addressed by our procedures in response to the identified risk in this area.(see page 13).
Valuation of property, plant and equipment	The Authority revalues its assets on a rolling basis over a five year period, with a full valuation every fifth year. The last full valuation was in 2014/15 The Code requires that the Authority ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	**Work planned:** • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work. • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the asset register. • Evaluation of 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.

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Significant risks (continued)

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to 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 315). In this section we outline the significant risks of material misstatement which we have identified.

Significant risk	Description	Substantive audit procedures
Valuation of pension fund net liability	The pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	**Work planned:** • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

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Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated) There is an element of estimation uncertainty for accruals which require estimate techniques and management judgment. There is an inherent risk that payables may not be posted in the correct financial year.	**Work completed to date:** • We have documented the processes and controls in place around the accounting for operating expenses. • We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding. • We have undertaken early substantive testing on a sample of operating expenses up to February 2016. **Work planned:** • Testing of the completeness of the accounts payable system interfaces with the ledger. • Substantive testing of a sample of creditor balances including accruals. • Documentation of the processes in place for month and year end accruals. • Review of post year end payments made to identify unrecorded liabilities. • If significant in value, testing of a sample of goods received that have not yet been invoiced, to identify any items which have not been accrued correctly. • Completion of sample testing of operating expenses to ensure they have been accurately accounted for and in the correct period.

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Other risks identified (continued)

Other risks	Description	Audit approach
Employee remuneration	Employee remuneration and benefit obligations and expenses understated The Authority has a large number of employees and related payroll transactions. This means the inherent risk, which includes year end accruals, is high.	**Work completed to date:** • We have documented the processes and controls in place around accounting for Employee Remuneration. • We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding. • We have undertaken early substantive testing on a sample of payments to employees covering the period April 2015 to February 2016. **Further work planned:** • Trend analysis of payroll expenditure to identify any usual or irregular movements for investigation. • Review of the monthly payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and the financial statements. • Completion of our substantive testing of payments to employees for accuracy. • Review of year end employee remuneration accruals and agreement to supporting documentation where significant. • Review of employee remuneration disclosures including senior officers remuneration and pensions to ensure they are in compliance with the CIPFA Code of Practice.

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Other risks identified (continued)

Other risks	Description	Audit approach
Firefighters Pensions Benefit Payments	Benefits improperly computed / claims liability understated Payments to retiring officers are low in volume but high in value and the service is reliant on effective controls both within and outside the organisation to ensure that payments made are valid and accurate.	**Work completed to date:** • We have documented processes and controls in place around the accounting for Fire Fighters' Pensions. • We have carried out a walkthrough test to confirm the operation of controls is in line with our understanding. **Further work planned:** • Agreement of pension disclosures in the financial statements to supporting evidence. • Testing a sample of new Fire Fighters' pensions coming into payment in the period 1st April 2015 to 31 March 2016 to ensure that both lump sum and recurring elements have been accurately accounted for and in the correct period.

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Other risks identified (continued)

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 the previous section but will include:

- Grant revenue
- Other revenues
- Cash and cash equivalents
- Financial Instruments
- Debt
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Provisions

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the authority.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

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Value for Money

Background

The Code requires us to consider whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria as set out here.

Sub-criteria	Detail
Informed decision making	• Acting in the public interest, through demonstrating and applying the principles and values of good governance • Understanding and using appropriate cost and performance information to support informed decision making and performance management • Reliable and timely financial reporting that supports the delivery of strategic priorities • Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions • Managing assets effectively to support the delivery of strategic priorities • Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	• Working with third parties effectively to deliver strategic priorities • Commissioning services effectively to support the delivery of strategic priorities • Procuring supplies and services effectively to support the delivery of strategic priorities.

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Value for Money (continued)

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

> *A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*

We have set out overleaf the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

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Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
1. Overall Vision for the service The Authority has made significant progress in developing its Fire Station Merger Strategy. This is projected to deliver a reduction of 86 whole-time equivalent (WTE) posts, reduce the Authority asset base down from 26 stations to 22 and deliver additional savings from a reduction in premises overheads. Following the provisional LG finance settlement it is inevitable that the Authority will need to make further changes to the number of stations or the way in which fire engines are crewed. The Authority will need to take a considered view and evaluate the change in response times arising from the options. ***Risk*** *The merger strategy may not deliver the performance outcomes required due to delays in the process.*	Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.	• Enquire from key officers the delivery of the merger strategy against plans. • Understand whether the IRMP needs to be developed further to take into account the financial challenges and the progress in developing the Fire Station Merger Strategy
2. Financial Strategy The current financial plan for 2015/16 to 2019/20 forecasts a potential gap of £14m due to reductions in RSG and baseline funding. The provisional LG finance settlement to 2019/20 indicates that the reduction in funding will be £3m lower than expected. However the overall funding reduction will mean that the Authority will need to achieve savings of £11m . ***Risk*** *Whilst the latest financial forecast shows the Authority is meeting its revised budget there are still considerable budget pressures. Failure to deliver savings will undermine the overall success of the Authority .*	Understanding and using appropriate cost and performance information to support informed decision making and performance management. Reliable and timely financial reporting that supports the delivery of strategic priorities.	• Review the Authority's progress in updating its financial position. Review the finance reports to the Authority, review the out-turn position for 2015/16 and the financial plans to 2019/20. • Confirm that progress has been made by the Authority in analysing areas of spend to identify savings. • Review the Authority's updated medium term financial plan and monthly financial monitoring reports and assess the assumptions used.

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Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
3. Corporate Governance and Devolution The Authority is also closely monitoring the Liverpool City Region devolution agreement and the implication of the agreement will be clearer as powers and functions are devolved from central government. The Authority is positioning itself to maximise the opportunities from the devolution plans. Closer working is anticipated between Merseyside Police and Fire services. ***Risk*** *The governance arrangements and working arrangements going forward are being developed and clarity is required .*	Acting in the public interest, through demonstrating and applying the principles and values of good governance. Working with third parties effectively to deliver strategic priorities	• Meet with key officers to discuss challenges and the Authority's response to the Liverpool City Region devolution.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter. We will include our conclusion as part of our report on your financial statements which we will give by 31 July 2016.

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Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Authority's financial statements .
Walkthrough testing	We have completed walkthrough tests of the Authority's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Authority in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	We have reviewed the Authority's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Authority's control environment or financial statements. We have tested journal entries posted in accounting periods 1-10, without issue arising.	We are satisfied that the journals control environment is robust and have determined our strategy for detailed testing of large or unusual entries at period end.

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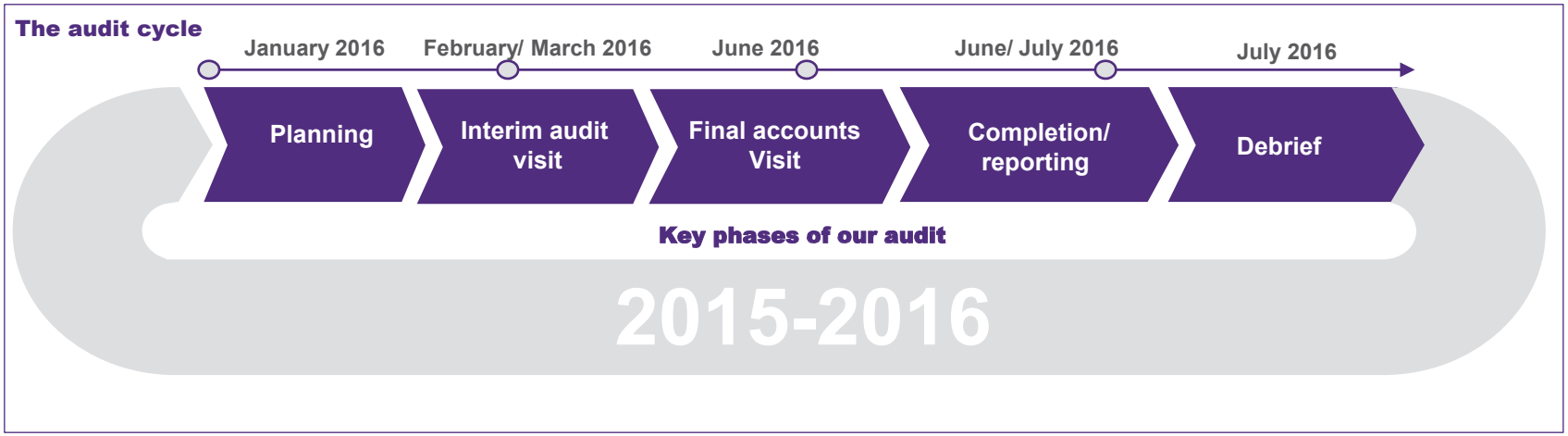
Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Employee Remuneration	We have: • Documented the processes and controls within the employee remuneration cycle • Completed a walkthrough of controls to confirm our understanding • Undertaken substantive testing of payments made to employees to date during the 2015-16 financial year for periods April 2015 to February 2016.	Contract Details were obtained for a sample of 10 employees. For each employee included in the sample we have checked that the monthly payments agree to the contract and the NI and pension Contributions are correct .
Operating Expenses	We have: • Documented the processes and controls within the operating expenses cycle • Completed a walkthrough of controls to confirm our understanding • Undertaken substantive testing of operating expenses for period April 2015 to February 2016	We have completed the walkthrough of controls and no issues have been identified. We have tested a sample of 10 payments and examined supporting documentation to determine whether the item is a valid expense. Our work has not identified any weaknesses which impact on our audit approach.
Other Revenue	We have undertaken substantive testing of revenues received for period April 2015 to February 2016	Our testing to date has not identified any issues that we need to bring to your attention.
Property Plant and equipment	We have undertaken substantive testing of additions to property plant and equipment for period April 2015 to February 2016	For each capital payment in our sample of 10 items we have checked that the payments agree with supporting documentation.

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Key dates



Date	Activity
January 2016	Planning
February / March 2016	Interim site visit
9 June	Presentation of audit plan to the Audit Committee
June/July 2016	Year end fieldwork
July 2016	Audit findings clearance meeting with the Treasurer
28 July 2016	Report audit findings to the Policy and Resources Committee
By 31 July 2016	Sign financial statements opinion
By 31 July 2016	Submission of the consolidated schedules for Whole of Government Accounts
November 2016	Annual Audit Letter

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Fees and independence

Fees

	£
Fire Authority audit	32,424
Total audit fees (excluding VAT)	**32,424**

Fees for other services

Service	Fees £
Non-audit services	0

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Authority and its activities, have not changed significantly.
- The Authority will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

Independence and ethics

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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Grant Thornton

Audit Committee Update for Merseyside Fire & Rescue Authority

Progress Report and Update Year ended 31 March 2016

June 2016

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

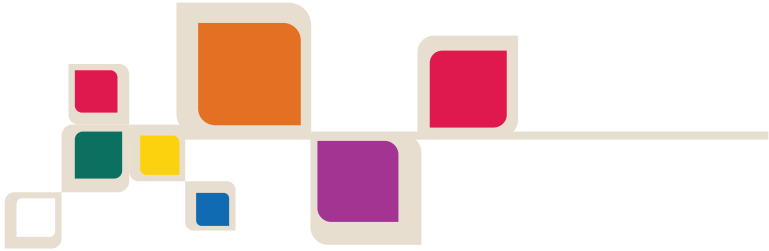
- Innovation in public financial management (December 2015); www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/
- Knowing the Ropes – Audit Committee; Effectiveness Review (October 2015); www.grantthornton.co.uk/en/insights/knowing-the-ropes--audit-committee-effectiveness-review-2015/
- Making devolution work: A practical guide for local leaders (October 2015) www.grantthornton.co.uk/en/insights/making-devolution-work/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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.

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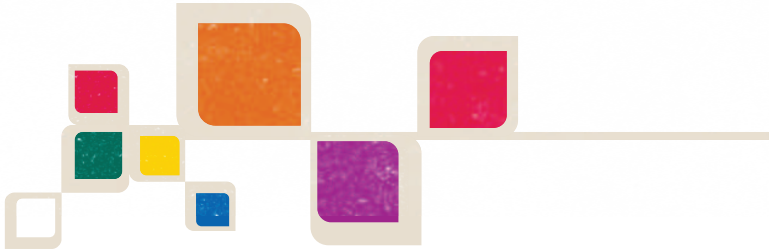
Progress to date



2015/16 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2015/16' by the end of April 2015.	April 2015	Yes	The 2015/16 fee letter was issued in April 2015
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Fire Authority setting out our proposed approach in order to give an opinion on the Fire Authority's 2015/16 financial statements.	June 2016	Yes	We continue to assess the risks facing your Authority and meet with Senior Officers to ensure that these risks are fully understood and our audit work is appropriate. If there are any changes to our plan between our initial risk assessment and the delivery of our opinion we will discuss this with the Treasurer before presenting to the Audit Committee.
Interim accounts audit Our interim fieldwork visits include: • updating our review of the Fire Authority's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	January – April 2016	Yes	We have reported the outcome of our interim work within the Audit plan. We will continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.
Final accounts audit Including: • audit of the 2015/16 financial statements • proposed opinion on the Fire Authority's accounts • proposed Value for Money conclusion.	June – September 2016	Not started	We will undertake work on your draft financial statements to provide an opinion by the statutory deadline. We are planning to complete our audit by 31st July as part of the transition to the earlier closedown and audit cycle from 2017.

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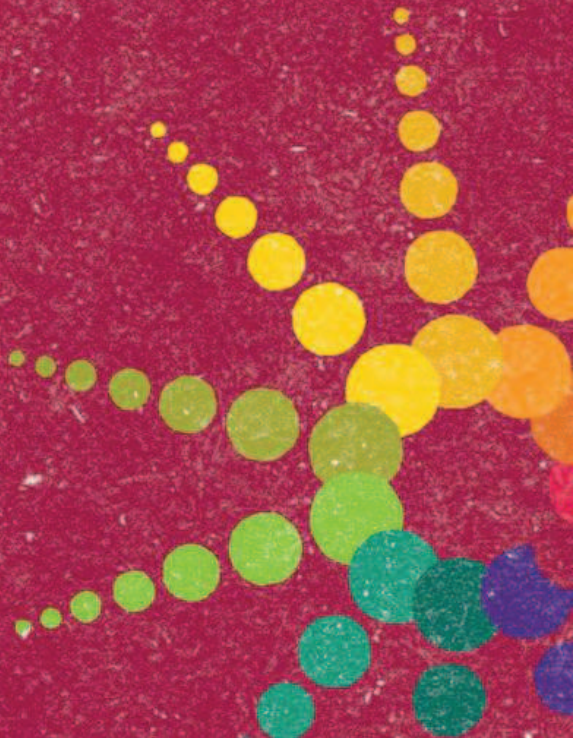
Progress to date



2015/16 work	Planned Date	Complete?	Comments
Value for Money (VfM) conclusion The scope of our work to inform the 2015/16 VfM Conclusion requires conclusions on whether: *"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".* This change of guidance was issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The three sub criteria for assessment to be able to give a conclusion overall are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	March – July 2016	In progress	We have completed our initial risk assessment and reported the results in our audit plan. Our work on the VfM Conclusion will include attending meeting with key Senior Officers and key document reviews. We are aiming to deliver this work ahead of the national timescales as a move towards the faster close from 2017.
Annual Audit Letter We will summarise all the work completed as part of our 2015/16 audit within one letter which will be issued after the opinion.	October 2016	Not started	We will summarise our findings from the 2015/16 audit and report to the Audit Committee later in the year.
Engagement with the Fire Authority since the last Audit Committee meeting	On-going	On-going	• Meetings with key Senior Officers to discuss the audit planning and significant risks facing the Fire Authority • Delivery of Grant Thornton publications and training material to Audit Committee members as requested

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Fire Sector Accounting and other issues



Machinery of Government Change – Fire and Rescue Policy transfer to Home Office

The Government is committed to closer collaboration between the police and fire and rescue services. The Home Office and Department for Communities and Local Government have been working closely together in support of this commitment. A consultation on Emergency Service Collaboration was published on 11 September and closed on 23 October 2015.

This Government is clear that greater joint working between the emergency services can deliver better local accountability, an improved service for communities and significant savings for taxpayers. Similarly the Government believes that central policy making, as well as local delivery, can benefit from a more joined up approach and that this can be best achieved by transferring responsibility for fire and rescue policy from the Department for Communities and Local Government to the Home Office.

The Government confirmed that responsibility for Fire and Rescue Policy for England will transfer from the Department for Communities and Local Government to the Home Office.

- Ministerial responsibility for Fire transferred from 5 January 2016 to Mike Penning, Minister of State at the Home Office and Minister of State at the Ministry of Justice.
- As of 1 April 2016 the group of staff working on the national fire policy function will transfer to the Home Office. This group comprises Fire Policy Division, National Resilience and Fire Programmes Division, the Chief Fire and Rescue Advisor's team and staff working on Firefighter Pensions.
- Melanie Dawes, the DCLG Permanent Secretary will remain Accounting Officer for fire budgets until 1 April when Mark Sedwill, Permanent Secretary at the Home Office, will take over this role.

Challenge questions

Are members aware of the implications of this legislative change and is this being reflected in the strategic and financial plans they are seeing?

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Provisional Local Government Finance Settlement – Fire and Rescue Services

On 17 December the Government announced the provisional local government finance settlement.

Key points in provisional settlement:

- Single-purpose fire and rescue authorities (outside London) will receive £1.38 billion of core spending power under the 2016-17 settlement.
- The reduction in core spending power for single purpose fire and rescue authorities will be 1.7per cent in 2016-17, with an overall reduction of 2.0 per cent from 2015-16 to 2019-20.
- The Government continues to fund existing national resilience capabilities (for example, specialist urban search and rescue capability; high volume pumps; mass decontamination equipment; detection, identification and monitoring equipment for chemical, biological and nuclear incidents; and a national mobilisation co-ordination function.) Around £20 million will be provided to the fire and rescue sector in 2016-17.
- We will allow fire and rescue authorities to spend 100% of their fixed asset receipts on the revenue costs of reform projects. This will support fire and rescue authorities seeking to collaborate more widely with other blue light emergency services, such as merging back office functions.
- We will bring forward legislation to enable Police and Crime Commissioners to take on responsibility for fire and rescue services, subject to local support and introduce a new statutory duty for the emergency services to collaborate by early 2017, subject to parliamentary approval, on areas such as procurement, new stations and vehicle maintenance.

Challenge questions

Do members understand the financial impact of the Local Government Finance Settlement on their Authority's delivery of services going forward?

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Supporting Public Service Transformation

Many fire and rescue authorities are considering how to transform or redesign their fire prevention and community safety services in a way that improves value for money for the taxpayer and makes best use of the latent capacity of their staff. Increasingly, this involves fire and rescue services supporting and delivering against the objectives of other public service providers, such as local authorities, the police and ambulance service and public and national health organisations, as well as range of voluntary and community based organisations.

Effective evaluation offers important insights into why some approaches are more successful than others and into how to deliver better services within constrained budgets. It provides decision makers – both in fire and rescue authorities and in their partner organisations – with the evidence they need to support new ways of service provision and to make the best possible case for securing the resources needed to deliver them.

The Public Transformation Network champions a 'whole place', multi-agency approach to public service reform. It helps local public sector partners remodel services so they are designed around the needs of people, not the needs of organisations. It has produced an introductory guide to evaluation which community safety practitioners and analysts in fire and rescue services may find helpful.

The guide is complemented by the Network's guidance on Cost Benefit Analysis for Local Partnerships which can be found at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/300214/cost_benefit_analysis_guidance_for_local_partnerships.pdf

The Network's evaluation guide sets out some guiding principles and key considerations to help local providers measure the impact of changes to services. It aims to help local providers to ensure the highest quality, credibility and accountability for services that have been redesigned and enable multi-agency partnerships delivering new services to demonstrate value for money and how redesigned services make a real difference to local communities. The guide can be found at: http://publicservicetransformation.org/images/articles/learning-zone/evaluation-analysis/EvaluationGuideFinalv2.0.pdf

The Network's website also hosts a number of webinars and useful resources on evaluation and other elements of public service reform, such as collaborative leadership and commissioning. Link to the website: www.publicservicetransformation.org

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Publication of Draft Investigatory Powers Bill

The Government has published a draft Investigatory Powers Bill which contains changes to the purposes for which fire and rescue services can acquire communications data.

In the draft Investigatory Powers Bill published on 4 November 2015, the Government plans to restrict the power of fire and rescue services to acquire communications data to only 'threat to life' situations. Currently, under RIPA powers, fire and rescue authorities can acquire communications data for three purposes:

1. for the purpose of preventing or detecting crime or of preventing disorder;

2. in the interests of public safety; and,

3. for the purpose, in an emergency, of preventing death or injury or any damage to a person's physical or mental health, or of mitigating any injury or damage to a person's physical or mental health.

However, data from the Home Office and from information collected from fire and rescue authorities in 2013 and more recently from Chief Fire Officers by the Department for Communities and Local Government, shows low use of these powers over the last five years. On this basis it is intended to limit fire and rescue authorities' investigatory powers to those described in 3 (above). Where fire and rescue authorities identify the need for data in respect of purposes 1 and 2 above, it is expected that fire and rescues services will work closely with the police to acquire such data.

The new Bill continues to allow a "first hour" exemption (the 'golden hour') for investigation of 999 calls typically used to seek information on hoax callers.

Challenge questions

Have members questioned officers on whether data handling procedures reflect the recent changes?

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Grant Thornton Publications

Reforging local government: Summary findings of financial health checks and governance reviews

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.



Our report is available at http://www.grantthornton.co.uk/en/insights/reforging-local-government/, or in hard copy from your Engagement Lead or Engagement Manager.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

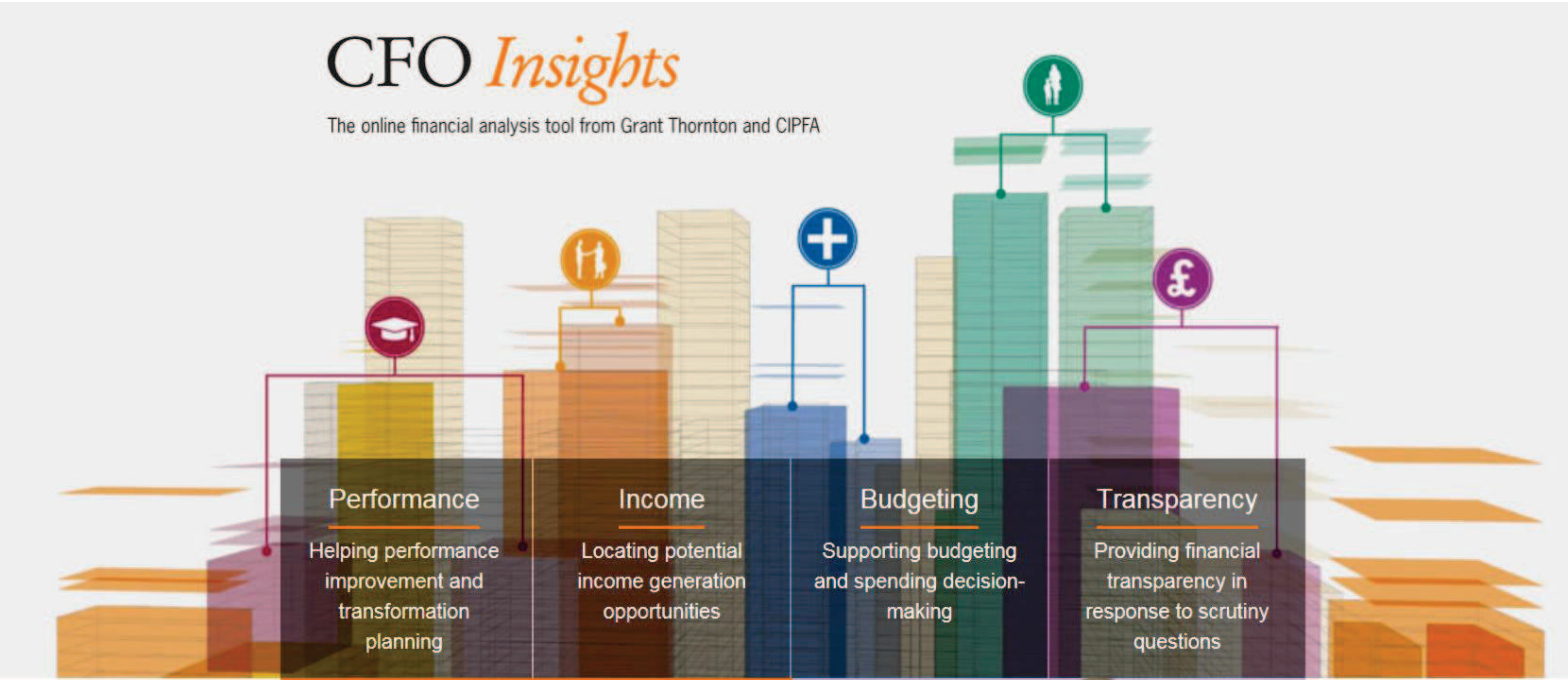
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CFO Insights – driving performance improvement

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio- economy context and service outcomes of every council in England, Scotland and Wales.

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The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.



We are happy to organise a demonstration of the tool if you want to know more.

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Innovation in public financial management

Grant Thornton reports

In December 2015 we issued a report, which drew on a survey of almost 300 practitioners worldwide, also includes insights from experts at the International Consortium on Governmental Financial Management (ICGFM) and the Massachusetts Institute of Technology's Centre for Finance and Policy.

The report is the latest in a decade-long series jointly published by Grant Thornton and the ICGFM and it covers four major topics that, globally, will impact on the future of public financial management:

Changing practices. Our research showed that the biggest issue ahead will be finding the political commitment to support more difficult innovations on the agenda – such as increasing public engagement.

The right PPP formula. 90% of respondents felt that substantial investment in infrastructure was required to drive economic growth. In this age of austerity, most governments are also seeking ways to attract outside investment – with the majority using some form of public-private partnership (PPP). Many countries remain inexperienced with such arrangements and the results of their application have been mixed. There has been little improvement since our 2011 survey, which shows that it takes a long time to develop the requisite skills and experience to make PPPs work.

Transparency with technology. Public financial managers are convinced of the importance of enhancing transparency and most are trying to be innovative in this area. However, most are using outdated digital tools. Fewer than half use social media to enhance openness. Even among the best, most transparency efforts are focussed on releasing data sets than data insights.

The new normal. Public financial management remains weighed down by the effects of the global financial crisis, but respondents also focussed on important developments since 2008, such as the Eurozone problems and the collapse of commodity prices. This suggests that public financial management is having to come to terms with not just the lessons one major financial crisis, but with how governments can live with less over the long term.

Our report, Innovation in public financial management, can be downloaded from our website:
http://www.grantthornton.global/en/insights/articles/innovation-in-public-financial-management/



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The report covers the three key aspects of our business, namely:

- Audit and assurance;
- Taxation; and
- Advisory services.

The report provides information on our audit methodology and sets out how we monitor the quality of our work and engage with external regulators.

It also covers our arrangements for governance and management and sets our most recent financial information.

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**AUDIT SUB-COMMITTEE**		
DATE:	**9 JUNE 2016**	**REPORT NO:**	**CFO/036/16**
PRESENTING OFFICER	**IAN CUMMINS, TREASURER**		
RESPONSIBLE OFFICER:	**IAN CUMMINS**	**REPORT AUTHOR:**	**IAN CUMMINS**
OFFICERS CONSULTED:	**SMG**		
TITLE OF REPORT:	**2015/16 ANNUAL YEAR-END INTERNAL AUDIT REPORT**		

APPENDICES:	**APPENDIX A:**	**2015/16 ANNUAL INTERNAL AUDIT REPORT**

Purpose of Report

1. To present to Members the Annual Year End Internal Audit report for 2015/16.

Recommendation

2. That Members note the contents of the report.

Introduction and Background

3. Internal Audit is an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources (Source: Code of Practice for Internal Audit in Local Government).

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).

5. In order to fulfil these functions the Authority has carried out a competitive tendering exercise in 2004, 2008 and 2011 in which each of the five Merseyside District Councils and others, were invited to bid to provide Internal Audit services for the Authority. The contract was awarded to Liverpool City Council's Internal Audit Service on all occasions. Although the contract expired on 31st March 2015, the Authority has agreed to continue to buy-in Internal Audit service's from Liverpool City Council for a further three years from April 2015.

6. Each year Internal Audit submit a plan for their work following consultation with the Treasurer and other key officers. This plan is set based upon an assessment of risks, previous findings and the relationship with External Audit work. The 2015/16 plan was considered by the Audit Sub Committee on 26th May, 2015 (CFO/039/15).

7. The Internal Audit outturn report for 2015/16 is attached as Appendix A. On the basis of the reviews undertaken Internal Audit have concluded that ***"it is our opinion that we can provide Substantial Assurance that the system of internal control in place at Merseyside Fire & Rescue Service for the year ended 31st March 2016 accords with proper practice. The 2015/16 fundamental systems audits have shown a substantial level of compliance and none of the audits have identified weaknesses that have required a corporate impact assessment of Major or Moderate. Based on the audit work carried out in 2015/16 we are not aware of any significant control weaknesses within the Service which impact on the Annual Governance Statement"***

8. Appendix A provides a brief overview of the key findings of each audit carried out in 2015/16.During 2015/16 Internal Audit have completed nine reviews of major systems with a further four audits at the review or planning stage. All of the completed audit reviews found a high level of assurance in the current system of control and governance and that any potential corporate risk to the Authority was negligible. Two audits have been deferred to 2016/17 and as a consequence the actual number of audit days used, 99, means 13 days will be carried forward into 2016/17 to cover the deferred audit work. The table below summaries the audit review and findings:

Audit Title	Control Environment	Compliance	Corporate Impact
Completed Audit Reviews:			
Payroll	Substantial	Substantial	Minor
Budgetary Control	Substantial	Substantial	Minor
General Ledger	Substantial	Substantial	Minor
Treasury Management	Substantial	Substantial	Minor
Medium Term Financial Plan	Substantial	Substantial	Minor
Creditors	Substantial	Substantial	Minor
Debt Management	Substantial	Substantial	Minor
Consultation / Equalities	Substantial	Substantial	Minor
Facilities Management Contract Management & Performance monitoring process	Good	Good	Minor
Audits At the Review Stage			
Ethical Governance*	*Review stage*	*Review stage*	*Review stage*
Property & ICT Asset Management	*Review stage*	*Review stage*	*Review stage*
Ancillary Fleet & Vehicle Asset Management Plan	*Review stage*	*Review stage*	*Review stage*
Audits At the Planning Stage			
Procurement	*Planning stage*	*Planning stage*	*Planning stage*
Deferred Audits			
IT applications	*Deferred*	*Deferred*	*Deferred*

Joint Working / Devolution Agenda	*Deferred*	*Deferred*	*Deferred*

**Report issued in draft*

9. Copies of any audit report can be made available to any member of the committee should they wish to review the contents and recommendations in greater detail.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

13. The cost of the Internal Audit Service from Liverpool City Council in 2015/16 was £35,500. The Authority had made adequate budget provision in 2015/16 to pay for these audit services.

Risk Management, Health & Safety, and Environmental Implications

14. None contained within this report.

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

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

BACKGROUND PAPERS

CFO/039/15 Annual Internal Audit Plan 2015/16" Audit Sub-Committee 26/05/15

Account & Audit Regulations 2015

Code of Practice for Internal Audit in Local Government, CIPFA 2003
f this report follows on from another, list the previous report(s)

GLOSSARY OF TERMS

APPENDIX A

REPORTING OFFICER:	Melanie Dexter – Audit Manager
DATE:	9th June 2016
SUBJECT:	Merseyside Fire and Rescue Service - Annual Internal Audit Report 2015/16

1 Purpose

1.1 This report summarises the work that Internal Audit has undertaken across Merseyside Fire & Rescue Service (the 'Service') during the 2015/16 financial year; the service for which is provided by Liverpool City Council, Internal Audit Service.

1.2 The purpose of the Annual Internal Audit Report is to meet the Chief Internal Auditor (CIA) annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS). It sets out the requirement for the CIA to report to senior officers and the 'Board' (for the service this is the Audit Sub-Committee) to help inform their opinions on the effectiveness of the framework of governance, risk and control in operation within the Authority. The PSIAS requirements are that the report must incorporate:

- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (the control environment);
- a summary of the audit work that supports the opinion; and
- a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

1.3 The audit work has been carried out in accordance with the 2015/16 risk-based audit plan. The plan is designed to give reasonable assurance that controls are in place and working effectively. Opinions are formed in respect of each individual audit and the audit opinion is separated between control environment (the controls in place) and compliance (whether or not the controls have been adhered to) so it is easier to identify where corrective action is needed. We have retained the corporate impact opinion which is a measure of the significance of the findings to the organisation as a whole. An explanation of the level of assurance and corporate impact ratings are detailed within this report.

1.4 We have liaised with senior management throughout the year to ensure that internal audit work undertaken continues to focus on the high risk areas and in the light of new and ongoing developments in the service; to help ensure the most appropriate use of our resources.

1.5 As a result of this liaison some changes were agreed to the plan during the year and were brought to the 28th January Audit Sub-Committee Meeting. Specifically 3 internal audits were deleted from the plan, but an additional 4 audits were added to the plan. The total number of audits actually undertaken in 2015/16 is 12 compared to 14 in the prior year.

1.6 A summary of the performance of Internal Audit against its performance measures is also included in this report.

1.7 The Annual Internal Audit Report is an important source of evidence for the Annual Governance Statement, and this report is timed to support the preparation of this Statement for the 2015/16 year.

1.8 We would like to thank those officers throughout the Authority who provided their assistance and cooperation in the course of our work throughout the year.

2 Opinion on the overall control environment

2.1 Internal Audit works to a risk based audit plan. The plan is designed to give reasonable assurance that controls are in place and working effectively. From the Internal Audit work undertaken in compliance with the PSIAS in 2015/16, it is our opinion that we can provide **Substantial Assurance** that the system of internal control in place at Merseyside Fire & Rescue Service for the year ended 31st March 2016 accords with proper practice.

2.2 The 2015/16 fundamental systems audits have shown a substantial level of compliance and none of the audits have identified weaknesses that have required a corporate impact assessment of major or moderate. Based on the audit work carried out in 2015/16 we are not aware of any significant control weaknesses within the Service which impact on the Annual Governance Statement.

2.3 We undertake individual internal audits with the overall objective of providing members, the Chief Fire Officer, the Treasurer and other officers with reasonable, but not absolute, assurance against material misstatement or loss and, accordingly, this opinion does not provide such an absolute assurance.

2.4 Internal Audit uses an overall opinion grading for audits and certain responsive work which is based on the ratings of the audit recommendations being made and is explained in more detail in section 5. The table below summarises the opinions given on internal audit work in 2015/16.

Fig 1 Summary of Opinions from the 2015/16 audit plan

Assurance Level	Control Environment	Compliance
Substantial	8	8
Good	1	1
Acceptable	0	0
Limited	0	0
None	0	0
Sub-total	**9**	**9**
Audits not yet reported	3	3

Assurance Level	Control Environment	Compliance
Total Audits Completed	**12**	**12**
Audits started not yet completed	1	1
Audits Deferred	2	2
Total	**15**	**15**

3 Summary of findings arising from Internal Audits in 2015/16

3.1 The opinion of the Chief Internal Auditor is informed significantly by the results of audits of the Authority's fundamental systems. These are the major systems which underpin the system of internal control and financial reporting. A summary of the outcomes of the audits for these systems for the year is set out below in Fig 2.

Fig 2 Completed fundamental systems audits from the 2015/16 audit plan

Audit Title	Control Environment	Compliance	Corporate Impact
Payroll	Substantial	Substantial	Minor
Budgetary Control	Substantial	Substantial	Minor
General Ledger	Substantial	Substantial	Minor
Treasury Management	Substantial	Substantial	Minor
Medium Term Financial Plan	Substantial	Substantial	Minor
Creditors	Substantial	Substantial	Minor
Debt Management	Substantial	Substantial	Minor
Ethical Governance*	*Review stage*	*Review stage*	*Review stage*
Procurement	*Planning stage*	*Planning stage*	*Planning stage*

* *Report issued in draft*

Payroll

3.2 The objective of the audit was to review the effectiveness of the key controls in place within the payroll system to form an opinion as to whether they are operating effectively to manage the relevant risks. The scope of the audit reviewed and tested the effectiveness of system controls, including those controls that ensure that employee records are created and terminated correctly; payroll expenditure is accurately recorded within the financial system; and monitoring arrangements are sufficient to prevent and detect payroll errors. The audit scope also included a review of the quality of data held on the system. Computer Assisted Audit Techniques (CAATs) were used to analyse payroll data over the selected period for specific tests such as potential duplicate employees and completeness of employee records.

Budgetary Control

3.3 The scope of the review was to examine the budget monitoring arrangements for the 2015/16 financial year to enable us to provide an overall opinion as to whether controls were adequate and effective. The audit included a review of key controls including the confirmation that procedures are in place to effectively control revenue expenditure and commitments and to ensure that these are reflected in the budget; that the frequency and adequacy of budget monitoring reports provided to cost centre managers is appropriate; that procedures are in place to ensure that significant variances are promptly identified, reported on and appropriate corrective action is taken; that the procedure for amending budgets is appropriate; and that there is regular reporting of the financial position to the Authority throughout the year.

General Ledger

3.4 The objectives of this audit were to review the effectiveness of the controls in place within the general ledger system for the 2015/16 financial year and to form an opinion as to whether they are operating effectively to manage the relevant risks. The main controls reviewed were the accuracy and completeness of financial data held on the system; controls covering unauthorised or inappropriate access to the system; the authorisation of journals; monitoring of the use of suspense accounts; and the bank reconciliation process. Where appropriate Computer Assisted Auditing Techniques (CAATs) were used in order to obtain greater coverage in the audit testing.

Treasury Management

3.5 The aims of this audit were to review the key controls in place within the Treasury Management system to form an opinion on whether they are operating effectively to ensure that associated risks are adequately mitigated. The main areas reviewed encompassed ensuring that reporting of Treasury activities was in line with the CIPFA Code of Practice; ensuring appropriate rationale behind investment decision making (including reviewing cash flow balances); the selection of institutions for investments is in line with the Authority's investment strategy and that the procedures for the authorisation of investments and loans are appropriate and were adhered to.

Medium Term Financial Plan

3.6 The purpose of this audit was to review the key controls in place with regards to the Medium Term Financial Plan and to form an opinion on whether they are operating effectively to ensure that associated risks are adequately mitigated. The main areas reviewed were ensuring that assumptions made are suitably robust; that the overall figures set out in the Plan are achievable; that the Plan allows the Service's key operational and financial aims and priorities to be met; and that the MTFP is reviewed and updated appropriately to take into account material changes.

Creditors

3.7 The audit examined the effectiveness of the key controls in place within the creditor system to form an opinion as to whether they are operating effectively to manage the relevant risks. To assist in this the review tested key controls in place that are designed to ensure all invoices are processed and paid on time; ensure all creditor details are correct and no duplicate accounts exist; ensure all payments are authorised prior to being processed; ensure the Authority is not overcharged for goods and services and ensure that the orders are not placed that exceed the budget limit. Where appropriate the use of CAATs testing was utilised to obtain a detailed level of analysis of the data.

Debtors

3.9 The scope of the audit involved reviewing the controls in place for the collection of sundry debts owed to MFRS. In particular the review focused on the following key controls: invoices are only raised when there is evidence of a debt owed and clearly show what the debt is for and who the payment should be made to. The procedures in place governing the recovery of debts owed were reviewed and assurance was sought to ensure debts are written off once recovery action has been exhausted.

Ethical Governance

3.10 The audit has been scoped to both examine the risks to the Authority and to review the key controls in respect to governance arrangements. The areas tested in the review included the arrangements for ensuring Members and Officers' are aware of the Code of Conduct; the arrangements for ensuring Members are aware of and comply with the correct procedure in respect of claiming for allowances; ensuring Members and Officers comply with the Code of Conduct in respect of gifts and hospitality and declarations of interest; and the maintenance of the policies and procedures for Members and Officers. The report is currently being reviewed by officers

3.11 A summary of all other audits completed during 2015/16 are shown in Fig 3 with a brief explanation for all audits. Assurance can also be taken when undertaking advisory work due to gaining an understanding of the relevant systems and how they operate.

Fig 3 Other Strategic/Client directed/Ad hoc audits completed from the 2015/16 audit plan

Audit Title	Control Environment	Compliance	Corporate Impact
Consultation / Equalities	Substantial	Substantial	Minor
Facilities Management Contract Management &	Good	Good	Minor

Audit Title	Control Environment	Compliance	Corporate Impact
Performance monitoring process			
Property & ICT Asset Management	*Review stage*	*Review stage*	*Review stage*
Ancillary Fleet & Vehicle Asset Management Plan	*Review stage*	*Review stage*	*Review stage*
IT applications	Deferred	Deferred	Deferred
Joint Working / Devolution Agenda	Deferred	Deferred	Deferred

Consultation / Equalities

3.12 The audit review examined the processes and procedures followed in the station merger / closure consultation exercises in order to provide assurance to the Authority that the consultation process took account of the views and opinions of all interested parties. In order to do this the procedures followed for consulting with interested parties over the planned closure / mergers of various fire stations to confirm the effectiveness of the process were reviewed.

Facilities Management Contract Management & Performance monitoring process

3.13 The overall objective of this work was to review contract management and performance monitoring arrangements operating for the new Facilities Management contract to ensure that they are at the level and standard expected. The scope covered the examination of the processes and procedures in place in order to give assurance to the Authority that they are effective and sufficient to ensure best value from the contract and the service provided.

Property & ICT Asset Management

3.14 The objective of this review is to ensure that there are adequate controls in place to safeguard property & ICT assets. The working papers are currently in review so it would be inappropriate to include an overall opinion at this stage.

Ancillary Fleet & Vehicle Asset Management Plan

3.15 The objective of this review is to ensure that there are adequate controls in place to safeguard assets owned, specifically that accurate records are maintained and that all vehicles and fleet, including ancillary fleet is utilised and managed effectively and efficiently. The working papers are currently in review so it would be inappropriate to include an overall opinion at this stage.

3.16 It is our intention to report the opinions for both these asset management audits to the next scheduled audit sub-committee meeting.

Contingency/Responsive/Advice and Assistance

3.17 No contingency/responsive time was allocated this financial year; this time is frequently used for grant certifications or to provide ad-hoc advice & assistance but it has not been required on this occasion.

3.18 The following two audits were not undertaken as it was considered in both instances that the time would be better spent in the forthcoming year when both areas were sufficiently developed, they will therefore be carried forward to the 2016/17 audit plan:

Fig 4 Audits deleted from the 2015/16 audit plan

Audit Title	Notes
ICT Applications	These audits will be rolled forward into 2016/17
Joint Working / Devolution Agenda	

Follow Up

3.19 It is our policy to follow up all recommendations that are given either a three star (essential/strategic) or a two star (high) priority rating. All recommendations made in 2014/15 were followed up within 6 months of the agreed implementation date and were found to have been implemented, with the exception of two recommendations for contract management as the report was only issued in late March. These will be followed up when due and will be reported accordingly.

4 Internal Audit service delivery

4.1 The key performance indicators for Internal Audit are set out in the table below, together with the outturn at the year end compared to target and those achieved in 2014/15.

Fig 5 Internal Audit Performance

Performance Measure	Target 2015/16	Actual 2015/16	Actual 2014/15
Completion of audit exercises consistent with the audit plan	90%	**80%** **(92%)**	88% (100%)
% of audit reports issued within time target	80%	**67%**	64%
Average score out of 5 for overall value added by IA work based on returned satisfaction questionnaires.	4.5	**4.5**	4.7

4.2 Actual performance for performance measure one (completion of audit exercises consistent to audit plan) appears poor compared to the previous year but this is because two planned audits were dropped from the agreed plan at the request of Service management. If these audits are excluded actual performance achieved is 92%, in line with the target.

4.3 Measure two (% of audits issued within time target) continues to require improvement; we may need to consider extending timescales for reporting as public sector teams tend to have fewer staff and larger workloads and hence time is spread more thinly.

Quality Assurance and Improvement Programme

4.4 The Public Sector Internal Audit Standards (PSIAS) require each Chief Internal Auditor to assess the Internal Audit service and ascertain any improvements that are required to be made. Whilst this requirement is new that activity has always been undertaken on a continuous basis using our corporate approach and therefore we have not changed the format.

Compliance with the PSIAS

4.5 Internal Audit has been assessed internally by the Chief Internal Auditor against the PSIAS and has concluded that Internal Audit complies with the PSIAS in all material respects. An external peer review will be carried out in line with the requirements of the PSIAS, during the forthcoming financial year as reported separately to the 28th January Audit Sub-Committee meeting.

4.6 The table below summarises budgeted and actual audit days for information, based on an agreed 112 days' work. Actual time is less than planned time as two of the audits have not taken place. It is our intention that the contracted 112 days per year are fulfilled over the two years if required.

Fig 6 Actual v Budgeted Days

Audit Title	Planned	Actual
Fundamentals	40	50
Strategic reviews/client directed/ad-hoc reviews	55	40
Contingency	4	0
Follow Up	5	1
Audit management	8	8
Total	112	99

5 Definitions of audit assurance

5.1 Internal Audit uses an overall opinion grading for audits and some responsive work. Where no issues surrounding the control environment are found, a substantial level of assurance will be given on the controls tested.

However where weaknesses with controls have been identified, depending on the potential impact of those weaknesses, a lower graded assurance level will be given.

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

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

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**AUDIT SUB COMMITTEE**		
DATE:	**9 JUNE 2016**	**REPORT NO:**	**CFO/035/16**
PRESENTING OFFICER	**IAN CUMMINS, TREASURER**		
RESPONSIBLE OFFICER:	**IAN CUMMINS**	**REPORT AUTHOR:**	**IAN CUMMINS**
OFFICERS CONSULTED:	**STRATEGIC MANAGEMENT GROUP**		
TITLE OF REPORT:	**THE ANNUAL GOVERNANCE STATEMENT 2015/2016**		

APPENDICES:	**APPENDIX A:**	**2015/16 ANNUAL GOVERNANCE STATEMENT**
	APPENDIX B:	**INFORMING THE AUDIT RISK ASSESSMENT FOR MFRA – GRANT THORNTON DOCUMENT**

Purpose of Report

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

Recommendation

2. That Members;
   a. approve the 2015/2016 Annual Governance Statement, and

   b. Consider the management responses to the Auditor's Risk Assessment questionnaire in Appendix B, and, determine if the responses are consistent with Members' views or whether there are any further comments the sub Committee wishes to make.

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 at Appendix A to this report is the 2015/16 AGS for MFRA which explains the processes and procedures in place to enable the Authority to carry out its functions effectively. The AGS also links into the Annual Statement of Assurance by providing assurance about the Authority's governance framework.

4. The CIPFA/SOLACE – Delivering Good Governance in Local Government Framework is deemed to represent best practice in relation to internal control. This framework recommends that the review of the effectiveness of the system of internal control should be reported as part of the AGS. The annual review of the effectiveness of the Authority's internal control system has been undertaken and, in accordance with the CIPFA guidance, incorporated in the attached AGS. The AGS identifies the ways in which the Authority has ensured that its control mechanisms are adequate during the year, including internal and external audit. The overall conclusion of the AGS is that the system of internal control is adequate (any control system can provide only reasonable assurance and not absolute assurance).

5. Under International Standards on Auditing (UK and Ireland) (ISA (UK&I)) auditors have specific responsibilities to communicate with 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 and the Audit Committee's oversight of the following areas:

    - fraud
    - laws and regulations
    - going concern.

6. Grant Thornton have asked the Authority's management team to complete a questionnaire in relation to the above risks which is attached as Appendix B to this report. As this ties in closely with the effectiveness of the internal control arrangements identified in the AGS the draft response has been appended to the AGS report. The Audit sub Committee is asked to consider the responses in Appendix B and determine if these responses are consistent with the sub Committee's understanding and whether there are any further comments the sub Committee wishes to make.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

9. 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

10. 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

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

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

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

13. Merseyside communities are safer, stronger and the firefighters who serve the County are safer and more effective because the Authority has effective leadership and makes decisions that deliver strong financial management and efficient and effective service delivery. Robust and comprehensive governance arrangements are integral to this performance.

BACKGROUND PAPERS

CFO/059/08 Code of Corporate Governance, Authority 18th March, 2008.

Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice – Guidance Notes for Practitioners for 2006/07 Accounts, C.I.P.F.A. 2006

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

Account and Audit (England) Regulations 2015

GLOSSARY OF TERMS

SOLACE Society of Local Authority Chief Executives and Senior Managers

CIPFA Charted Institute of Public Finance and Accountancy

AGS Annual Governance Statement

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APPENDIX A

2015-2016 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*". 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 six detailed principles of good governance which are:
   - Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area
   - Members and officers working together to achieve a common purpose with clearly defined functions and roles
   - Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
   - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
   - Developing the capacity and capability of members and officers to be effective
   - Engaging with local people and other stakeholders to ensure robust public accountability

1.4 This statement fulfils the Authority's statutory requirement to prepare a statement of internal control in accordance with proper practices, and to present an annual review of the effectiveness of the current system.

2.0 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

2.1 The governance framework comprises the systems and processes, culture and values, for the direction and control of the Authority and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3 The governance framework has been in place at the Authority for a number of years and in particular for the year ended 31st March 2016.

3.0 THE GOVERNANCE FRAMEWORK

3.1 Summarised below are some of the key elements of the systems and processes that underpin the Authority's governance arrangements:

3.2 Identifying and Communicating the Authority's Mission and outcomes for citizens and service users:

3.2.1 After consulting with the citizens of Merseyside and service users, assessing current risks and service priorities, the Authority prepares an Integrated Risk Management Plan (IRMP) that sets out the mission, aims and service objectives for the organisation. The Authority approved a 2015 – 2017 IRMP Supplement at its meeting on 26th February 2015. The IRMP Supplement established the service priorities for 2015/17.

3.2.2 The Authority's Mission reflects a clear focus on the core duties and functions in relation to Operational Preparedness, Operational Response and Prevention and Protection. The Authority's mission is to ***achieve; Safer Stronger Communities – Safe Effective Firefighters.*** To deliver this the Authority has established four key corporate aims:

- **Excellent Operational Preparedness**
  We will provide our firefighters with the training, information, procedures and equipment to ensure they can safely and effectively resolve all emergency incidents.

- **Excellent Operational Response**
  To maintain an excellent emergency response to meet risk across Merseyside with safety and effectiveness at its core.

- **Excellent Prevention and Protection**
  We will work with partners and our community to protect the most vulnerable.

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

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

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

3.3.1 IRMP and other service projects are incorporated into one document – the Service Delivery Plan. There is an ongoing system of monitoring and reporting on the achievement of projects in the Service Delivery Plan via regular reports to the Performance and Scrutiny Committee and the Strategic Management Group. District and Station Community Safety Plans have also been developed to give details of the activities taking place in each district. The reporting process applies traffic light status to each action point 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 comprises many systems, policies, procedures and operations, however the system can not 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 <u>Policy and decision making process</u>

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 2015/16 and approved by the Authority at its meeting on 11th June 2015 (CFO/045/15), 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 it's 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 Management Group (SMG), meet on a fortnightly basis to review and agree on issues that arise during the year. 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 continuingly 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
- Security & Information Governance
- Code of Corporate Governance
- Constitution
- Code of Conduct
- Full range of Equality and Diversity schemes
- 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

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

3.4.6 Internal Audit function

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

3.4.7 Risk Management Strategy

The Authority has a well established and embedded risk management strategy. The Audit Sub-Committee has corporate ownership of the risk register and receive quarterly updates on any new risks or changes to risks. As all Authority and service reports to SMG have a standing section on risk this allows SMG 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 2014/15 Annual Audit Letter and Audit Findings Report;

"The Authority continues to show strong financial resilience and good financial planning and management."

"The Authority has proper arrangements in place for securing financial resilience. The Authority has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. The Authority has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity."

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.

4.0 REVIEW OF EFFECTIVENESS

4.1 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 SMG 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.

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

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

4.3 The Authority and Its Committees

4.3.1 The Authority

The Authority considered at its Annual General meeting on 11th June 2015 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 Performance and Scrutiny Committee – to review/or scrutinise decisions made or actions taken in connection with the discharge of any of the Authority's functions. To have oversight of the IRMP and Service Delivery Plan priorities concerning the development of service delivery strategies. To monitor the progress of the Service against actions identified in the Service Delivery Plan and IRMP

- Task and Finish / Efficiency Review Groups – The Performance and Scrutiny Committee will agree to set up task and finish groups and/or efficiency review groups as required.

- The Audit Sub 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 Disciplnary Committee where an allegation which could constitute misconduct or gross misconduct is

made against the Chief Fire Officer, Deputy Chief Fire Officer 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 grievances appeals as identified in the Agreed Grievance Procedure. Consider whether to assent to applications for specific licences (explosives).

4.4 Management Review

4.4.1 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.

4.4.2 There is a comprehensive system of performance management and review embedded within the Authority management structure and processes. The 2015/16 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 targets throughout the year and any areas of concern with options to bring the project back on track were reported to management and the Performance and Scrutiny Committee. SMG 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.

4.4.3 The Risk Register was updated for new risks and the status of existing risks was re-assessed during the year. Risk management continued to be an integral part of the project management process and was a fundamental aspect of the business of the Authority.

4.4.4 The Authority employed appropriate professional staff:

- A Statutory Monitoring Officer (Section 5 LGHA) responsible for ensuring the legality of Authority actions and supporting the Committee decision making process. The Director of Legal Services fulfils this role and is a qualified and experienced lawyer. The Director of Legal Services is supported by a suitably robust and fit for purpose 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 Treasurer fulfils this role and is a qualified and experienced accountant. The Treasurer 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 Treasurer 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 SMG

4.4.5 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.

4.4.6 Grant Thornton approved an unqualified Statement of Accounts for 2014/15 and it is anticipated this will be repeated in 2015/16. 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.

4.5 Internal Audit

4.5.1 The Authority procured its internal audit service under a service level agreement from Liverpool City Council and the arrangement and service was in accordance with the CIPFA Code of Practice for Internal Audit in Local Government 2006. The internal audit plan for 2015/16, prioritised by a combination of the key internal controls, assessment and review on the basis of risk, was approved by the Authority during the year. All internal audit reports included an assessment of the internal controls and prioritised action plans, if relevant, to address any areas needing improvement. These reports were submitted to the relevant managers as appropriate and the Head of Finance. Finalised internal audit reports were submitted to the Audit sub Committee in addition to regular progress reports form the Internal Audit manager. The Annual Review of Internal Audit Report concluded that:

"it is our opinion that we can provide Substantial Assurance that the system of internal control in place at Merseyside Fire & Rescue Service for the year ended 31st March 2016 accords with proper practice. The 2015/16 fundamental systems audits have shown a substantial level of compliance and none of the audits have identified weaknesses that have required a corporate impact assessment of Major or Moderate. Based on the audit work carried out in 2015/16 we are not aware of any significant control weaknesses within the Service which impact on the Annual Governance Statement"

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

4.6 External Review

4.6.1 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.

4.6.2 External Audit will comment upon the Authority's 2015/16 statutory financial statements and make a VFM conclusion during the 2016/17 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 2015/16 the Auditor's Annual Audit Findings Report and Audit Annual Letter covering 2014/15 confirmed the Authority's overall performance continues to be strong and the Authority received an unqualified opinion on the 2014/15 financial statements.

SIGNIFICANT GOVERNANCE ISSUES

4.7 Following the announcement of the 2016/17 Local Government Finance Settlement the Authority faces a significant reduction in the level of government grant support in 2016/17 and in each year up to and including 2019/20. The reduction in Government support over this period has meant the Authority faces at least an £11.0m financial challenge, assuming all budget assumptions remain valid. The Authority approved a financial plan to meet this challenge at the Budget meeting on 26th February 2016.

4.8 Whilst no significant weaknesses have been identified in control systems at present, the following have been identified as critical internal control issues for the forthcoming year;

4.9 The Authority's proposals to deliver the approved savings required in the current financial plan involves significant rationalisation of front line and support services. The Authority has already reduced the number of front line appliances from 42 to 28 and has plans to merge a number of fire stations that will see the number fall from 25 to 22. In order to deliver the £11.0m required savings by 2019/20 the Authority will need to further reduce the number of firefighters, appliances and fire stations. The Authority will consult with the Merseyside community on its plans to deliver the operational changes during 2016 and approve the required changes as part of the IRMP planning process. The Authority will need to ensure its control frameworks deliver the required efficiencies and improvements.

4.9.1 The assumptions made in the medium term financial plan, particularly around inflation, pay awards, firefighter pension contributions and future government grants (whilst based on the best information available) are subject to potential change in such volatile times. The delivery of the savings in cash terms also assumes an estimate of the rate of staff turnover and in particular firefighter retirements. Taken together these factors result in a significant potential risk to the Authority's medium term financial plan. Reliable monitoring and forecasting processes are in place and the Treasurer will ensure any variation to assumptions made in the medium term financial plan are identified at the

earliest possible time. The Financial Review reports will keep Members informed on the impact of any variation to the assumptions in the financial plan and recommended corrective action. SMG will work to develop a range of contingency plans for managing risks.

4.10 The future governance arrangements of the Merseyside Fire and Rescue Service is currently being considered by the Authority. On 10th February 2016 the Police and Crime Bill was introduced to the House of Commons. The Bill 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 is currently in discussions with Merseyside Police and North West Ambulance Service on developing opportunities for greater collaboration. As part of the discussions the Authority and the Merseyside Police Crime Commissioner are evaluating possible governance arrangements. The Police and Crime Bill includes two different models for a Police and Crime Commissioner, where a case is made to take on responsibility for fire and rescue services; the 'governance model' and the 'single employer' model. Where the Police and Crime Commissioner does not take on responsibility for fire and rescue services but wishes to enhance collaboration opportunities the Bill enables them to seek representation on the Fire and Rescue Authority (FRA) under the 'representation' model.

4.11 In addition 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, with first elections taking place in May 2017. This may see the Merseyside Police and Crime Commissioner and Fire and Rescue Authority responsibilities at some future point transferring to the Liverpool City Region Mayor.

4.12 Over the coming year the Authority will work with the Merseyside Police, the Office of the Police and Crime Commissioner and the Liverpool City Region Mayor to establish the the future governance arrangement for Merseyside Fire and Rescue Service.

Signed…… Signed……
D. Roberts D. STEPHENS
CHAIR of Audit Sub-Committee CHIEF FIRE OFFICER

Signed ……
I. CUMMINS
TREASURER

Informing the audit risk assessment for Merseyside Fire & Rescue Authority

Year ended 31 March 2016

April 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit 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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Authority as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of Management and the Authority under auditing standards.

Background

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

This two-way communication assists both the auditor and the Authority 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 Authority , and supports the Authority 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 oversight of the following areas:

- fraud
- laws and regulations
- financial reporting and going concern.

This report includes a series of questions on each of these areas.

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Fraud

Issue

Matters in relation to fraud

ISA(UK&I)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 Authority and management. Management, with the oversight of the Authority , 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 Authority should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As 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 Authority regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Authority oversees the above processes. We are also required to make inquiries of both management and the Authority as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below.

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Fraud risk assessment

Question	Management response / Those charged with governance additional comments
Has the Authority assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?	The Authority has a zero-tolerance approach towards fraud and has a comprehensive counter-fraud culture, policies and procedures in place: A code of corporate governance Annually Financial Regulations, Standing Orders & Scheme of Delegation Anti Fraud & Corruption Policy & Strategy Fraud Response Plan Confidential Reporting Policy Procurement Strategy New Recruit Control Checklist New Recruit Probationary review procedure Code of Conduct for staff (includes emphasis on fraud) Bi-annual fraud awareness notification to all staff via payroll slip
What processes does the Authority have in place to identify and respond to risks of fraud?	
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks? What have you determined to be the classes of accounts, transactions and disclosures in the financial statements that are most at risk of fraud?	
Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?	Annual Governance Statement to members – a review of the governance framework that comprises the systems, processes, culture, values and system of internal control that manage the risks the Authority faces. Internal Audit plan to review the internal control system.
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)?	The Authority does not have responsibility for Housing Benefit or other social & welfare payments, the Audit Commission's had identified these areas as having significant risk of fraud. Approximately 70% of the Authority's spend is employee related and 10% related to the servicing of capital debt and therefore the potential for fraud is more restricted within MFRA. The Finance Department employ suitably qualified professionals to prepare the financial statements, and these staff on provided with substantive training to ensure any new standards are followed. This significantly reduces the risk of error in the financial statements. Comprehensive quarterly financial review reports are produced for Management & members, any variances to the approved financial plan will be reported.

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Fraud risk assessment

Question	Management response / Those charged with governance additional comments
How does the Authority exercise oversight of management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to the Audit Committee?	The Audit Sub Committee receive copies of all internal audit reports and investigations. If any fraud was discovered the Audit Sub Committee would receive a comprehensive report and have an opportunity to discuss the matter.
How does the Authority communicate and encourage ethical behaviour of its staff and contractors?	Staff; Code of conduct – Value based appraisal process. Contractors; Procurement stipulate conditions within Standing Orders / Contract documentation
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported? Have any reports been made under the Bribery Act?	Bi-annual notification to staff of confidential / fraud awareness policy via a message on payslips. No reports have been been made under the Bribery Act.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No. In recent years the Legal Team provided specific training to senior staff on the acceptance of gifts and hospitality. The ACE and Director of Legal Services meet regularly to review the Gifts and Hospitality register.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Authority as a whole or within specific departments since 1 April 2013?	No. The Service has established a Professional Standards Team who deal with any potential fraud allegations.
Have any of the Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which could affect the financial statements?	No reports of fraud have been made.

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Laws and regulations

Issue

Matters in relation to laws and regulations

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

Management, with the oversight of the Authority, is responsible for ensuring that the Authority'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 Authority as to whether the entity is in compliance with laws and regulations. Where we become aware of information 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.

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Impact of Laws and regulations

Question	Management response / Those charged with governance additional comments
What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?	As well as the policies and procedures outlined in the Fraud section, the Authority employees a qualified solicitor who fulfils the statutory Monitoring Officer role, who is supported by an experienced legal team to ensure all decisions are legal and regulations are complied with. Counsel advice and support is sought as and when required.
How does management gain assurance that all relevant laws and regulations have been complied with?	Use of the Authority's solicitor and counsel advice as required.
How is the Authority provided with assurance that all relevant laws and regulations have been complied with?	See above and an Authority solicitor is present at all committee meetings
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015, or earlier with an on-going impact on the 2015/16 financial statements?	No instances of non-compliance or suspected non-compliance with law and regulation
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	Authority employees a qualified solicitor who is supported by an experienced legal team. Any liable claim is met from a specific insurance policy or internal fund. Legal work with Finance to ensure all claims are provided for.
Is there any actual or potential litigation or claims that would affect the financial statements?	No, see previous comment. At the end of each year all outstanding claims are reviewed and if necessary reserves or provisions established to cover any potential settlement.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No reports from other regulatory bodies that indicate non-compliance.

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Financial Reporting and Going Concern

Issue
Matters in relation to financial reporting and going concern ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements. The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business. The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Authority is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Authority's financial resilience. Financial reporting and going concern considerations have been set out below.

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Financial Reporting Considerations

Question	Management response/ Those charged with governance additional comments
What has the Authority identified as the key events or issues that will have a significant impact on the financial statements for 2015/16?	No material change from 2014/15 SORP therefore continue with same approach as previous years in terms of preparation of Statements. Although it has no impact on the Authority's true financial position any adjustments to the existing pension accounts as a consequence of the latest valuations will be reflected in the financial statements.
How do the Authority's risk management processes link to financial reporting?	Consider financial implications of identified risks in the risk register and if necessary create reserves to cover risk. If risk results in a permanent costs then re-align the budget.
Has the Authority considered the appropriateness of the accounting policies adopted? Have there been any events or transactions that may cause the Authority to change or adopt new accounting policies?	Accounting policies reflect best practice and guidelines. No events have arisen to require revision to current policies.
Have there been any changes to the Authority's regulatory environment that may have a significant impact on the financial statements?	No changes to the Authority's regulatory environment
Have there been any significant transactions outside the normal course of business?	No significant transactions outside the normal course of business.
Is the Authority aware of any changes in circumstances that would lead to impairment of non-current assets?	No changes in circumstances that would lead to impairment of non-current assets.
Is the Authority aware of any new transactions, events and conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	No new transactions, events and conditions that require significant judgement.

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Going Concern Considerations

Question	Management response/ Those charged with governance additional comments
Does the Authority have procedures in place to assess the Authority's ability to continue as a going concern?	The Authority maintains a rolling 5 year financial plan in order to ensure it has sufficient financial resources to continue for the foreseeable future, this includes the establishment of a level of reserves to provide a contingency in case of unforeseen events and provide sufficient time for the service to re-engineer itself in light of the anticipated financial challenge ahead. The service also prepares a 3 year IRMP plan to constantly assess and re-engineer its service priorities.
Is management aware of the existence of other events or conditions that may cast doubt on the Authority's ability to continue as a going concern?	No doubt on the Authority's ability to continue as a going concern.
Are arrangements in place to report the going concern assessment to the Authority?	Regular reviews of the financial plan & IRMP are carried out throughout the year and reported to the relevant committees.
Are the financial assumptions supporting the going concern assessment (i.e. future levels of income and expenditure) consistent with the Authority's Plans and the financial information provided to the Authority throughout the year?	Yes, the 5 year financial plan, annual budget, and IRMP are considered at the Budget Authority meeting.
Are the implications of statutory or policy changes appropriately reflected in the Authority's Plans, financial forecasts and report on going concern?	Yes, the main issue is how the service meets the financial challenge while maintaining its statutory responsibilities. See previous comment on 5 year plan
Have there been any significant issues raised with the Authority during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	No significant issues raised with the Authority during the year which could cast doubts on the assumptions made.

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Going Concern Considerations

Question	Management response/ Those charged with governance additional comments
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	No negative cash flows
Does the Authority have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Authority's objectives? If not, what action is being taken to obtain those skills?	Yes there are appropriate skills in place.

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**AUDIT SUB-COMMITTEE**		
DATE:	**9 JUNE 2016**	**REPORT NO:**	**CFO/037/16**
PRESENTING OFFICER	**IAN CUMMINS, TREASURER**		
RESPONSIBLE OFFICER:	**IAN CUMMINS**	**REPORT AUTHOR:**	**IAN CUMMINS**
OFFICERS CONSULTED:	**SMG**		
TITLE OF REPORT:	**2016/17 INTERNAL AUDIT PLAN**		

APPENDICES:	**APPENDIX A: 2015/16 – 2017/18 AUDIT PLAN**

Purpose of Report

1. To notify Members of the proposed Internal Audit plan for 2016/2017 and to seek comments from Members on the plan.

Recommendation

2. That Members;
   a. consider any comments or opinions they might have on the proposed audit plan, and
   b. approve the 2016/17 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. In order to fulfil its statutory functions the Authority has contracted with Liverpool City Council's Internal Audit Service.

5. The Authority has utilised the services of the City Council's Internal Audit Service since 1986 and agreed to continue with them for at least the next three years (report CFO/114/14 16th December 2014, Authority meeting).

6. Each year Internal Audit submit a work plan following consultation with the Strategic Management Group, Treasurer, 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.

7. This Sub-Committee approved in report CFO/039/15 the 2015/16 internal audit plan that included the draft proposals for 2016/17 & 2017/18. The current updated plan is attached as Appendix A to this report and Members are asked to approve the 2016/17 plan. The 2016/17 plan includes two reviews deferred from 2015/16, ICT applications and Joint Working Devolution. The total audit days available has increased by 13 days to 125 as a consequence of the re-phasing of the 2015/16 work.

8. 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

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

12. 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

13. There are no Risk Management, Health & Safety, and Environmental Implications contained within this report.

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

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

BACKGROUND PAPERS

CFO/039/15 "2015/16 INTERNAL AUDIT PLAN" Audit Sub-Committee 26th May, 2015.

GLOSSARY OF TERMS

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APPENDIX A

STRATEGIC AUDIT PLAN

	15/16 Audit Days	16/17 Audit Days	17/18 Audit Days
Fundamental Systems	**40**	**40**	**40**
Strategic Reviews / Client directed / Ad hoc reviews			
Ancillary Fleet & Vehicle Asset Management Plan	10		
Property & ICT Asset Management Plan	10		
FM Contract Mgt & Performance Monitoring Process	10	10	
Joint Working Devolution Agenda ***(post plan - re-phased into 2016/17)***	5	5	
Consultation Process	5		
ICT Applications ***(post plan - re-phased into 2016/17)***	15	15	
Financial Management System Phase 2			5
New FPS Pension Administration Arrangements			5
Risk Management		10	
Youth Engagement		12	
Financial management & Integrated HR system		5	
New Electronic Expenses System		6	
Statement of Assurance		5	
Interoperability Arrangements			20
IT reviews			10
Counter Fraud			5
Strategic Reviews / Client directed / Ad hoc reviews	**55**	**68**	**45**
Contingency - Investigations/Responsive / Advice & Assistance	**4**	**4**	**14**
Follow up	**5**	**5**	**5**
Audit Management	**8**	**8**	**8**
Total Planned Days	**112**	**112**	**112**
2015/16 Actual (13 days to slip into 2016/17 to cover re-phased work)	**99**	**13**	
Planned Days		**125**	**112**

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**AUDIT SUB-COMMITTEE**		
DATE:	**9 JUNE 2016**	**REPORT NO:**	**CFO/034/16**
PRESENTING OFFICER	**IAN CUMMINS, TREASURER**		
RESPONSIBLE OFFICER:	**IAN CUMMINS**	**REPORT AUTHOR:**	**IAN CUMMINS**
OFFICERS CONSULTED:	**SMG**		
TITLE OF REPORT:	**TREASURY MANAGEMENT ANNUAL REPORT 2015/16**		

APPENDICES:	**APPENDIX A:**	**TREASURY MANANGEMENT 2015/16 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 2015/16. This report meets the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Authority is required to comply with both Codes through regulations issued under the Local Government Act 2003.

Recommendation

2. That Members note the Treasury Management Annual Report 2015/16 (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 2015/2016 – 2019/2020 Budget and Financial Plan report, CFO/014/15, considered by Members at the Authority meeting on 26th February 2015, set the Authority's treasury management strategy for 2015/16:

   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 borrowings 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/003/16, was considered by Members at the Audit Sub-Committee on 28th January, 2016. Treasury Management activity in 2015/16 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.

Annual Outturn Treasury Management report

8. The Treasury Management Annual Report 2015/16 is appended 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. Also 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 £20,180 in 2015/16. These were provided by Liverpool City Council.

14. The Authority's overall debt outstanding during the year reduced from £42.1m to £41.1m:-

	For Periods ending (2015/16)													
	Opening Position	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Closing Position
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
PWLB	42,100		0	0	0	0	0	-1,000	0	0	0	0	0	41,100
	42,100	0	0	0	0	0	0	-1,000	0	0	0	0	0	41,100

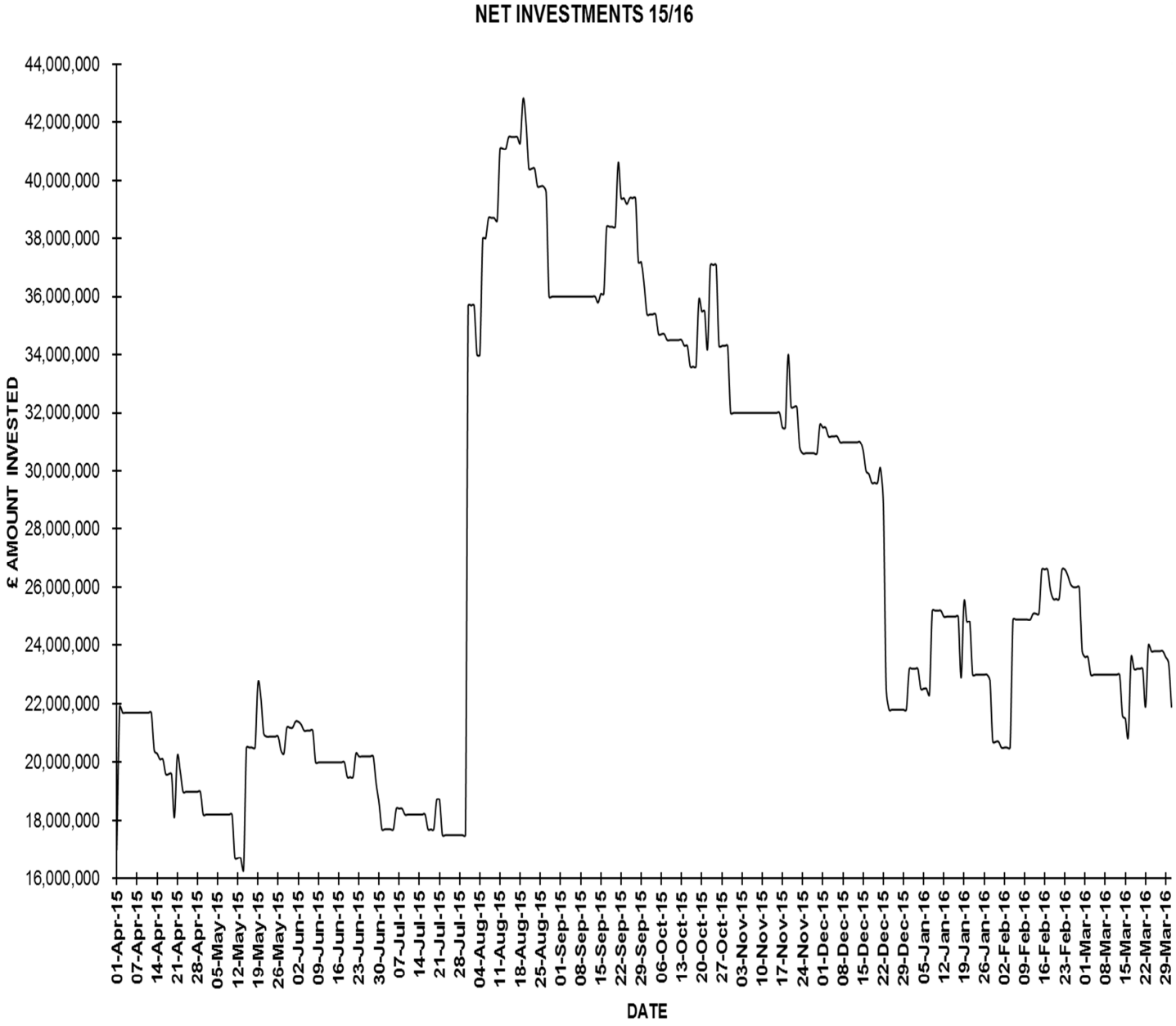
15. The reduction in debt of £1.0m was due to the repayment of a loan that matured in the year.

16. The Authority paid total interest of £2.1m 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 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
01/04/15	17.0
31/03/16	21.9

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



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 £24.8m was paid in July but the 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 £21.9m of investments at the year-end.

20. The investments are held in institutions that reflect the approved investment strategy. The table overleaf outlines the £21.9m of investments held as at 31st March 2016;

ANALYSIS OF INVESTMENTS END OF 2015/16

Institution	Credit Rating	MM Fund*	Bank / Other	Building Society
		£	£	£
Aberdeen Liquidity Fund	AAA	1,500,000		
Standard Life Investors (Ignis)	AAA	3,000,000		
LGIM (Legal & General)	AAA	1,400,000		
Handelsbanken	A		2,000,000	
HBOS FTD	A		2,000,000	
HBOS FTD	A		2,000,000	
Santander UK	A		2,000,000	
Nationwide B Soc	A			2,000,000
Newcastle B Soc	Unrated			1,000,000
Nottingham B Soc	Unrated			1,000,000
Principality B Soc	Unrated			1,000,000
Progressive B Soc	Unrated			1,000,000
Skipton B Soc	Unrated			1,000,000
West Brom B Soc	Unrated			1,000,000
Totals		**5,900,000**	**8,000,000**	**8,000,000**
Total Current Investments				**21,900,000**

**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 £0.203m which was £0.169m below the amount budgeted for, reflecting the continuing national low interest rates levels being paid on investments.

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 availability of funds when required, and a poor return on investments.

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

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

BACKGROUND PAPERS

CFO/014/15 2015/2016-2019/2020 Budget and Financial Plan report, Authority 26th February, 2015

CF0/006/16 Interim Treasury Management report, Audit Sub-Committee 28th January, 2016.

GLOSSARY OF TERMS

APPENDIX A

TREASURY MANAGEMENT ANNUAL REPORT 2015/16

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 2015/16.

2. The strategy for the year was identified in the Treasury Management Strategy Statement 2015/16. 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. Market expectations for the first increase in Bank Rate moved considerably during 2015/16, starting at late 2015 but soon moving back to the middle of 2016 and by the end of the year to 2017. Economic growth was disappointing and there were fears over China's economic growth and impact on emerging market countries, the collapse in oil prices and Eurozone growth uncertainties. Bank Rate, therefore, remained unchanged at 0.5% for the seventh successive year.

4. It was expected that the economic fundamentals of continued growth, falling unemployment and eventually rising inflation would indicate upward pressure on long term rates. This upward pressure was subdued by moderate growth and lower inflation due to falling oil prices. There has also been considerable volatility because of uncertainties over Greek debt and Chinese markets. Long term PWLB rates rose during the first quarter but fell back again in the second quarter to their original level before resuming upward movement in the third quarter before falling back again in the final quarter of the year. The overall movement during 2015/16 was that longer term Public Works Loans Board (PWLB) rates fell by 0.16% from 3.28% at the start of the year to 3.12% at the end of the year.

5. The strategy indicated that the overall structure of interest rates whereby short term rates are lower than long term rates was expected to remain throughout 2015/16. In this scenario, the strategy would be to reduce investments and borrow for short periods and possibly at variable rates when required.

CAPITAL BORROWINGS AND DEBT RESCHEDULING

6. The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority did not envisage that any new long term borrowing would be required in 2015/16 and no new borrowing was arranged. Market conditions continued to be unfavourable for any debt rescheduling.

ANNUAL INVESTMENT STRATEGY

7. The investment strategy for 2015/16 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.

8. Extreme caution was taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with high rated or nationalised banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. The average rate of return achieved on average principal available in 2015/16 was 0.77%. This compares with an average seven day deposit (7 day libid) rate of 0.36%.

9. 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

10. The external debt indicators of prudence for 2015/16 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£65 million
Operational boundary for external debt:	£45 million

Against these limits, the maximum amount of debt reached at any time in the financial year 2015/16 was £42.1 million.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

11. The treasury management indicators of prudence for 2015/16 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 2015/16 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 2015/16 was as follows:

Maturity Period	Upper Limit	Lower Limit	Maximum Actual	Minimum Actual
Under 12 months	50%	0%	5%	2%
12 months and within 24 months	50%	0%	5%	2%
24 months and within 5 years	50%	0%	4%	2%
5 years and within 10 years	50%	0%	9%	8%
10 years and above	90%	0%	82%	80%

c) Total principal sums invested for periods longer than 364 days

The limit for investments of longer than 364 days was set at £2 million for 2015/16. No such investments were placed during 2015/16.

PERFORMANCE INDICATORS

12. 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.

13. 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 2015/16.

- Investments – Internal returns compared to the 7 day LIBID rate. The return in the financial year 2015/16 was 0.41% above the benchmark.

TREASURY MANAGEMENT ADVISORS

14. 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.

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

CONCLUSION

16. Treasury Management activity in 2015/16 has been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**AUDIT SUB-COMMITTEE**		
DATE:	**9 JUNE 2016**	**REPORT NO:**	**CFO/045/16**
PRESENTING OFFICER	**DEPUTY CHIEF FIRE OFFICER**		
RESPONSIBLE OFFICER:	**DEB APPLETON**	**REPORT AUTHOR:**	**JACKIE SUTTON**
OFFICERS CONSULTED:	**STRATEGIC MANAGEMENT GROUP**		
TITLE OF REPORT:	**CORPORATE RISK REGISTER UPDATE NOV-MARCH 2016**		

APPENDICES:	**APPENDIX A: CORPORATE RISK REGISTER 2015/16**

Purpose of Report

1. To inform Members of the current risks contained within the Corporate Risk Register, the status of the risks and associated control measures - including reference to any new risks added to the Register or any risks that no longer apply and can be removed.

Recommendation

2. That Members approve the updated Corporate Risk Register.

Introduction and Background

3. It is good practice to regularly review the internal and external risks to the ongoing delivery of service by the Authority.

4. To that end, a Corporate Risk Register has been produced which focusses on the Mission and Aims of the Authority and aligns each risk to a specific aim. The resultant risks have been scored against the original risk and re-scored following mitigation. The purpose of this report is to ask Members to review the updated register to consider any implications for the Authority.

March 2016 Update

5. In line with the requirements of the National Framework 2012 for Fire and Rescue Services a supplement to the existing Integrated Risk Management Plan 2013/15 has been approved by the Authority to cover the two year period 2015/17. This addresses MFRA's commitment to meeting its legal duties and statutory obligations.

6. In March 2016 risk owners were asked to review their risks for the new financial year 2016/17. They were asked to assess if risks assigned to them are still

relevant and current, if the mitigation put in place is still adequate and if risk scores are still appropriate. This review is repeated each time the register is updated.

7. Members are asked to note the risk control measures implemented for the following risks;

- Risk 1.1 Insufficient staff to maintain current levels of operational planning, training and management of intelligence – there are currently no problems with flexible working patterns and retained resilience is in place for operational staff. Resilience exists within other departments where staff will refocus on priority work streams in the event of insufficient staffing

- Risk 2.6 Potential impact if MFRA does not build on relationship with PCC on Community Risk Management (CRM) working and partnerships. CRM are fully engaged with the Collaboration Project investigating ways of working with the Police to impact on common priorities.

- Risk 3.1 Loss of strategic assets – Fire Control fall back arrangements have been established with Surrey Fire and Rescue Service in addition to the secondary control at the Training and Development Academy.

- Risk 6 Technology Risks – a number of changes have been made to the identified Corporate Risks and their impact to better reflect the current situation.

- Risk 6.3 Infrastructure sharing with partners. Security from virus and hacking, loss of data (laptops, CD's, etc.) the impact from this risk has been amended to "data compromised, loss of data, complaints, legal actions, fines". To mitigate this risk ICT and the Senior Information Risk Owner works closely together with appropriate guidance issued to staff.

- Risk 6.6 The Head of ICT and Director of Strategy and Performance believe that the replacement of the Government Protective Marking Scheme with the Government Security Classifications has removed this risk as no guidance has been given by Government on the Business Impact Levels associated with the GSC. The Business Impact Levels are what previously limited the storage of RESTRICTED information on the network. Members are asked to consider closing this risk.

Equality and Diversity Implications

8. There are no equality and diversity implications arising from this report.

Staff Implications

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

Legal Implications

10. There are no specific legal implications arising from this report.

Financial Implications & Value for Money

11. Management of Corporate Risk and the application of suitable mitigation strategies being in place, affords the Authority security that should a risk become an issue then suitable remedies are in place to mitigate any impact.

Risk Management, Health & Safety, and Environmental Implications

12. The assessment and mitigation of risk is essential in ensuring a safe working environment for all MFRA employees and its agents and consideration of its actions on the environment is paramount.

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

13. Knowledge of and response to a risk occurring is an essential component of ensuring that the Authority continues to deliver an effective and efficient service to the communities of Merseyside.

BACKGROUND PAPERS

CFO/005/16 Corporate Risk Register update July-Oct 2015

GLOSSARY OF TERMS

MFRA **M**erseyside **F**ire and **R**escue **A**uthority

MFRS **M**erseyside **F**ire and **R**escue **S**ervice

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CORPORATE RISK REGISTER 2015/16

Aims:- 1) Excellent Operational Preparedness 2) Excellent Operational Response
3) Excellent Prevention & Protection 4) Excellent People

October –March 2016

Mission :- Safer Stronger Communities: Safe Effective Fire-fighters

RISK	STRATEGIC CORPORATE RISK	RISK No.	SPECIFIC CORPORATE RISKS	SUB RISK No.	AIMS AFFECTED	IMPACT	RISK SCORE	MITIGATION	MITIGATED SCORE	RISK/ACTION OWNER
1.	**Budget /Financial Risks**	**1.1**	Insufficient staff to maintain current levels of operational planning, training and management of intelligence	**1.1.1**	**1,2,3,4**	Increased risk to all MFRS staff safety - increased numbers of injuries.	**15**	**OCTOBER – MARCH 2016 UPDATE** Resilience exists within departments, other staff will refocus on priority workstreams in the event of insufficient staffing.	**12**	**AM Operational Preparedness**
				1.1.2	**1,2,3,4**	increased risk of property loss	**12**		**10**	
				1.1.3	**1,2,3,4**	Reducing ability to respond or maintain competent workforce.	**15**	**OCTOBER – MARCH 2016 UPDATE** This is currently not an issue with flexible work patterns and retained resilience in place, backed up with ongoing development and organisational succession planning through the Gateway development programme	**10**	**Director of POD**
				1.1.4	**1,2,3,4**	Reduced ability to maintain FF safety	**15**	**OCTOBER – MARCH 2016 UPDATE** Safe Person Assessments and Learn-pro on-line modules are being undertaken by operational crews as part of their core work and responsibilities. Practical application knowledge and understanding is tested through a station audit process.	**10**	**AM Operational Response/ Preparedness**

1.	**Budget/Financial Risks**							Operational assurance continues to be carried out dynamically on the incident ground - to highlight areas of good practice and areas of improvement. All incidents are subject to debrief and all H&S information is captured and acted upon.		
		1.2	Insufficient staff to maintain current prevention and protection work. Inability to maintain performance (e.g. Care Act)	**1.2.1**	**1,2,3,4**	Increased fires, deaths and injuries	**15**	**<u>OCTOBER – MARCH 2016 UPDATE</u>** Staffing levels have remained consistent over the period. Community interventions are targeted at those identified as vulnerable in line with the current Home Safety Strategy.	**10**	**AM Community Risk Management**
		1.3	Insufficient FF's to maintain current levels of response and current number of fire stations	**1.3.1**	**1,2,3,4**	Increased risk of property loss in the community	**15**	**<u>OCTOBER – MARCH 2016 UPDATE</u>** Work continues by response directorate to provide a more flexible Service to meet demand. The reintroduction of Additional Voluntary Hours agreement with rep bodies has eased pressure on staffing and unavailability of appliances. The new day crewing model with recruit firefighters – has provided resilience to daytime availability and assisted in areas of transition such as West Kirby.	**10**	**AM Operational Response**

1.	**Budget/Financial Risks**			**1.3.2**	**1,2,3,4**	Increased fires, deaths and injuries	**15**	**OCTOBER – MARCH 2016 UPDATE** Service delivery; The number of Home Fire Safety Checks being carried out from operational fire stations has been increased and the number being carried out in the identified target group of over 65's has also improved from 38.4% in August 2015 to 71.6% in March 2016	**10**	**AM Operational Response**
		1.4	Pay increases-impact on ability to maintain a balanced budget	**1.4.1**	**1,2,3,4**	1% increase in pay equates to approximately £1M of extra budget requirement.	**15**	**OCTOBER – MARCH 2016 UPDATE** Pay settlements for all staff were agreed for 2015/16 at 1% in line with the MFRA 5 year financial plan.	**10**	**Treasurer**
		1.5	Insufficient support staff to maintain services to front line and maintain good governance.	**1.5.1**	**1,2,3,4**	Reduced ability to maintain fleet, PPE, pay FF's and maintain the buildings.	**15**	**OCTOBER – MARCH 2016 UPDATE** Work is on-going to identify savings and new ways of working that will help preserve support services, including potential collaboration with the Police and North West Ambulance Service. Communication is also taking place to reassure staff about this work, explaining that it potentially presents opportunities and will not be rushed.	**10**	**SMG**

Aims: 1) Excellent Operational Preparedness. 2) Excellent Operational Response. 3) Excellent Prevention & Protection. 4) Excellent People										
2.	**Legal & Legislative Risks**	**2.1**	National Framework	**2.1.1**	**1,2,3**	Damage to MFRS reputation. Impact on public and partner goodwill.	**15**	**OCTOBER – MARCH 2016 UPDATE** Work continues to provide the highest quality service while meeting the demands of the Government cuts.	**8**	**SMG**
				2.1.2	**1,2,3**	Inability to respond to major national resilience incidents	**15**		**8**	**SMG**
				2.1.3	**1,2,3**	Increased fires, deaths and injuries	**15**		**12**	**SMG**
		2.2	Corporate Manslaughter Act	**2.2.1**	**1,2,3,4**	Sanctions, fines and or arrests resulting from death of Personnel	**25**	**OCTOBER – MARCH 2016 UPDATE** No sanctions, fines or arrests made in this period	**12**	**SMG**
		2.3	Changes introduced by the Localism Act 2011	**2.3.1**	**1,2,3,4**	Judicial Review – other legal challenges	**15**	**OCTOBER – MARCH 2016 UPDATE** No Judicial Review challenges during this period	**8**	**Director of Legal, Procurement & Democratic Services**
		2.4	Single Equality Act not maintaining compliance with the Public Sector Equality Duty	**2.4.1**	**4**	Potential impact on reputation	**15**	**OCTOBER – MARCH 2016 UPDATE** Work has continued against the E&D Action Plan with a review taking place in April to determine the focus for 2016/17.	**8**	**Director of Strategy & Performance**
		2.6	Police Crime Commissioner	**2.6.1**	**2,3**	Potential impact if MFRA does not build on relationship with PCC on Prevention and Protection working and partnerships	**15**	**OCTOBER – MARCH 2016 UPDATE** CRM is fully engaged with the Collaboration Project and is investigating ways of working with Police Partners to impact on common priorities.	**12**	**AM Community Risk Management**

2.	**Legal & Legislative Risks**	**2.7**	Increased Litigation costs	**2.7.1**	**4**	Staff shortages resulting in dissatisfaction of staff and customers, causing increases in claims.	**15**	**OCTOBER – MARCH 2016 UPDATE** No claims received.	**12**	**Director of Legal, Procurement & Democratic Services**
				2.7.2	**4**	Increasing insurance and settlement cost provision	**12**	**OCTOBER – MARCH 2016 UPDATE** Insurance costs have reduced largely due to tender process and change in type of insurance for motor.	**6**	**Director of Legal, Procurement & Democratic Services**
				2.7.3	**2,4**	Increased incidents/costs/ injuries whilst travelling to incidents under blue lights/speeding	**12**	**OCTOBER – MARCH 2016 UPDATE** There were 15 road traffic collisions on firecalls in 2014 and this increased to 26 in 2015	**6**	**Director of Legal, Procurement & Democratic Services**
				2.7.4	**2,4**	Potential for increased litigation arising from shared premises with partners.	**12**	**OCTOBER – MARCH 2016 UPDATE** No claims received.	**6**	**Director of Legal, Procurement & Democratic Services.**
		2.8	Authority may lose autonomy post-election	**2.8.1**	**2,3**	(Possible merged at national or regional level or with other Blue Light Services).	**12**	**OCTOBER – MARCH 2016 UPDATE** Collaboration programme continues to develop outline business case for opportunities identified. No formal indication as to the preferred governance model has been given by either PCC or Mayoral candidates. PCC election May 2016	**6**	**AM Strategic Change and Resources**

Aims: 1) Excellent Operational Preparedness. 2) Excellent Operational Response. 3) Excellent Prevention & Protection. 4) Excellent People										
3.	**Loss of Strategic sites/Assets**	**3.1**	Loss of strategic sites/assets and inability to provide services to Merseyside	**3.1.1**	**1,2,3,4**	Inability to respond to major local and national resilience incidents	**20**	**OCTOBER – MARCH 2016 UPDATE** Provisions established for secondary Fire Control. Further Fire Control fall back arrangements being developed with Surrey FRS. Retained and recall provisions in place for specialist Teams and Officers. Ability to request assistance through Section 13/16 and National Co-ordination Advisory Framework (NCAF) arrangements. Business contingency plans in place. Elements of training can be undertaken on various station locations depending on locations affected.	**8**	**Head of Technology, Treasurer, AM Operational Preparedness**
		3.2	Loss of FSHQ, FIRE CONTROL, TADA and fire stations	**3.2.1**	**1,2,4**	Inability to respond, delay in providing core services	**20**		**8**	
		3.3	Black Start causes loss of power at strategic sites	**3.3.1**	**1,2,3,4**	Inability to provide core services temporarily whilst fall-back site is brought online	**20**		**8**	**Head of Technology, Treasurer, AM Operational Preparedness**
		3.4	Protective security- potential risks resulting from non-compliance with FRS Protective Security Strategy.	**3.4.1**	**1,2,3,4**	Potential security risk in relation to all FRS assets, particularly in relation to Personnel, information and premises risk.	**20**	**OCTOBER – MARCH 2016 UPDATE** Implementation of Protective Security actions continues with the Government Security Classifications (protective marking of information assets) being introduced and personnel and physical security arrangements continuing to be implemented and reviewed.	**12**	**Director of Strategy & Performance**
		3.5	Station Change Programme. Mergers and closures of Merseyside stations	**3.5.1**	**1,2,3,4**	Programme management direction and led by PO's.	**20**	**OCTOBER – MARCH 2016 UPDATE** All three station mergers schemes remain in the planning stage. The cost of construction and the	**6**	**AM Strategic Change and Resources**

			in light of cuts.					remediation of sites are greater than initially forecast which presents financial risk in escalating costs. Amended budget has been approved by Authority for Prescot scheme. Any further variance will be reported to Authority for approval prior to progression of work.		
		3.6	Potential elevated target risk for terrorist action in regards to cyber crimes	**8.1.1**	**1,2,3,4**	Loss of Fire Control ICT services and information assets	**25**	**OCTOBER – MARCH 2016 UPDATE** See 6.9	**6**	**Head of ICT**
Aims:		**1) Excellent Operational Preparedness.**		**2) Excellent Operational Response.**		**3) Excellent Prevention & Protection.**		**4) Excellent People**		
4.	**Environmental And Political**	**4.1**	Increase in Environmental incidents resulting in the inability to respond	**4.1.1**	**1,4**	HSE and legislative impacts from illegal discharges (impact from fire-fighting activity)	**15**	**OCTOBER – MARCH 2016 UPDATE** Extant arrangements to deal with runoff water from firefighting operations are in place by way of arrangements to warn and inform Environment Agency and United Utilities when significant water runoff is anticipated. Incident ground risk assessment will include impact of contained water at fires. HAZMATS incidents are managed in accordance with environmental protection principles with spills being contained where possible. The same principle applies to decontamination water runoff.	**10**	**AM Operational Response**

		4.2	Insufficient water pressure resulting in the inability to fight fires effectively.	**4.2.1**	**1,2**	Potential for major consequences, FF injuries	**25**	**OCTOBER – MARCH 2016 UPDATE** Service Instructions in place. Availability of Hose Layers and High Volume Pump's to support water supplies. Supplementary water supply plans for known areas of poor water supply being developed to assist fire-fighting activities. Additional High Volume Pump resources are available via extant NCAF arrangements.	**4**	**AM Operational Preparedness**
		4.3	Tackling inequalities and changes to society	**4.3.1**	**1,2,3**	Increased economic costs from increases in arson	**15**	**OCTOBER – MARCH 2016 UPDATE** Arson Reduction Advocates work closely with IIT and partner agencies to identify and deal with those involved with arson activity and support and provide guidance to those who could potentially be at risk of arson. IIT investigations have resulted in the prosecution of arsonists. RTC presentations are provided to a variety of high risk groups across Merseyside.	**12**	**AM Community Risk Management**
				4.3.2	**1,2,3**	Increased economic costs from increases in fraud	**15**		**12**	
				4.3.3	**1,2,3**	Increased road traffic collisions (RTC).	**15**		**12**	
				4.3.4	**1,2,3**	Increased antisocial behaviour (ASB)	**15**		**12**	
4.	**Environmental And Political**	**4.4**	Changing demographics in Merseyside brings about a changing in vulnerability profile and higher unemployment	**4.4.1**	**2,3,4**	Vulnerable areas may increase and move compromising community safety work.	**15**	Use of Exeter Data (over 65s) and partner data sets continues to support a 'status report' delivery of Home Safety to the most at risk groups in our communities.	**12**	**AM Community Risk Management**

		4.5	Reputation	**4.5.1**	**1,2,3,4**	Negative changes to the Community perception of MFRS may be detrimental to Prevention, protection and partnership activities.	**15**	**OCTOBER – MARCH 2016 UPDATE** The promotion of the services provided by MFRS and a proactive and responsive approach to providing information about incidents attended in the traditional and social media maintains a focus on developing and protecting the Service's reputation.	**12**	**Director of Strategy and Performance**
		4.6	Increased flood risk	**4.6.1**	**1,2**	Ability to respond to major flooding incidents from spate conditions.	**15**	**OCTOBER – MARCH 2016 UPDATE** All frontline crews are trained and equipped in still water response. A specialist team is available to support major flood incidents with resilience provided by retained personnel. Operational planning and intelligence department continue to liaise with local authorities and other Local Resilience Forum partners to develop flood response plans within Merseyside. Met Officer weather warnings are distributed to all MFRS staff with the ability to activate increased service level alerts as per Service Instruction 0815 Service Increased Alert Level Procedure. Fire Control fall back arrangements being developed with Surrey FRS to	**10**	**AM Operational Preparedness & Operational Response**
		4.7	Extreme Weather	**4.7.1**	**1,2**	Spate conditions will impact on ability to respond	**15**		**10**	**AM Operational Preparedness & Operational Response**

								support call handling during spate conditions. Ability to request assistance through 13/16 and NCAF arrangements. Implementation of Increased Activity Level procedures by Fire Control (reduced attendance at certain incident types based on nature of call and due to current response activity/appliance availability).		
		4.8	Civil Unrest	**4.8.1**	**1,2,3**	Inability to respond effectively to civil unrest	**15**	**OCTOBER – MARCH 2016 UPDATE** Joint training exercises continue to be carried out with Merseyside Police at Operational and Tactical levels.	**10**	**AM Operational Preparedness & Operational Response**
		4.9	Health & Safety audits, failures and investigations	**4.9.1**	**1,2**	H&S audits, failures and investigations from HSE resulting in sanctions and or fines	**15**	**OCTOBER – MARCH 2016 UPDATE** The Health and Safety management system is fully compliant with HS(g) 65 and best practice management models. This has been assured via achievement of the OHSAS 18001 accreditation via independent audit.	**10**	**AM Operational Preparedness & Operational Response**
Aims:	**1) Excellent Operational Preparedness.**		**2) Excellent Operational Response.**		**3) Excellent Prevention & Protection.**		**4) Excellent People**			
5.	**Loss of Key staff**	**5.1**	Sudden Mass Absenteeism Pandemic, Strike, CBRNE incident	**5.1.1**	**1,2,3,4**	Loss of Key staff, Inability to provide core services	**15**	**OCTOBER – MARCH 2016 UPDATE** Business Continuity Plans in place, recall to duty available in addition to resilience contracts.	**10**	**AM Operational Preparedness & Operational Response**

		5.2	Industrial Action resulting in the Inability to provide suitable response,	**5.2.1**	**1,2,3,4**	Inability to attend incidents, provide core services	**15**	**OCTOBER – MARCH 2016 UPDATE** **Operational response** The service remains confident it is able to provide appropriate fire cover during periods of industrial action through the usage of resilience contracts.	**12**	**All AM's, Director of POD**
		5.3	Change resulting in loss of Key staff and increasing workloads to set strategy and deliver services	**5.3.1**	**1,2,3,4**	Loss of key skills, lack of momentum going forward, reduced ability to respond to changes.	**15**	**OCTOBER – MARCH 2016 UPDATE** Service remains confident this is not an issue with ongoing development at all levels, and succession planning ensuring a skills through flow	**12**	**POD**
		5.4	Reduction in size of Corporate Communications/media handling staff down to 2 members of staff.	**5.4.1**	**1,2,3,4**	Reducing promotion of safety messages and service/brand reputation protection.	**15**	**OCTOBER – MARCH 2016 UPDATE** The period reported on was a particularly busy one for major incidents, requiring significant communications resource. This was coupled with a complete change of staff in the team. The implications of this are currently under consideration by the director to resolve the capacity issues presented by high levels of demand.	**12**	**Director of Strategy & Performance**

Aims: 1) Excellent Operational Preparedness. 2) Excellent Operational Response. 3) Excellent Prevention & Protection. 4) Excellent People										
6.	**Technology Risks**	**6.1**	Management of 3rd Party Technology Suppliers Software & Applications Training requirements.	**6.1.1**	**1,2,3,4**	Software & Applications training – to be replaced with Loss or reduction in the quality of services provided	**12**	**OCTOBER – MARCH 2016 UPDATE** During the reporting period, a review of the provision of the development and management of corporate applications led to the changes in the way these services are delivered and governed. A Governance structure that involves Strategy and Performance and ICT managers will strengthen the Service's approach to procuring, developing and managing corporate applications.	**6**	**Head of ICT** **Director of Strategy & Performance** **FMIS Manager**
		6.3	Infrastructure sharing with partners. Security from Virus and hacking , loss of data (Laptops, CD etc.).	**6.2.1**	**1,3,4**	Data compromised, loss of data , Safeguarding of Information To be replaced with - Data compromised, loss of data, complaints, legal action, fines	**15**	**OCTOBER – MARCH 2016 UPDATE** Close working with ICT and the Senior Information Risk Owner means that any security concerns are discussed and resolved with guidance being given to staff as appropriate on avoiding security issues in the future.	**12**	**Head of ICT** **Director of Strategy & Performance**
6.	**Technology Risks**	**6.2**	The ability, both financially and resource wise to keep abreast of technology refresh going forward – to be replaced with: The inability to keep pace with technology changes.	**6.3.1**	**1,2,3,4**	Pace of technology Change and ability to adapt. to be replaced with: Loss or reduction in the quality of services provided	**15**	**OCTOBER – MARCH 2016 UPDATE** Adopting an ITIL; Continuous Service Improvement meetings take place attended by senior ICT Managers. The purpose of the ICT Continual Service Improvement meeting is to ensure that cost-justifiable ICT capacity in all areas of ICT exists and is matched to the current and future agreed needs of the business in a timely manner. A key role is to monitor new developments and initiatives in ICT	**12**	**Head of Technology**

								and make appropriate recommendations to the ICT & IM Steering Group MFRA consider individual technology projects and after a Proof of Concept will implement subject to a business case.		
		6.4	Poor data/information management resulting in loss of data, legal redress from Information Commissioner.	**6.4.1**	**1,2,3,4**	Possible Fines, Poor/incomplete Data Loss of Data. To be replaced with – Data compromised, loss of data, complaints, legal action, fines	**15**	**OCTOBER – MARCH 2016 UPDATE** All information security related policies and service instructions are reviewed and updated as appropriate and staff training is given. Research is currently on going into an online information security training system.	**12**	**Director of Strategy & Performance**
6.	**Technology Risks**	**6.5**	The Emergency Services Mobile Communication Programme (ESMCP) and transition to the emergency services network	**6.5.1**	**1,2,3**	Radio voice services cannot be guaranteed for the Transition	**16**	**OCTOBER – MARCH 2016 UPDATE** We have little control over any programme decisions at this stage. A watching brief is in place and any opportunities to influence the ESMCP project will be taken. Risks include The Mobile Network Operators are unable to meet their commitment to deliver 4G to 98% of the population by end of 2015. Target date is now end of 2017. The programme is proposing to go live September 2017 for the North West region which is a tight time scale. Risk mitigation is that the Airwave	**9**	**Head Of Technology**

								contract has been extended and Motorola has now bought Airwave as a company. DCLG will work close with FRS & Airwave to ensure that our current voice communication network remains in place and effective. The Emergency Services Mobile Communication Programme (ESMCP) will replace the communication service delivered by Airwave with a national mobile communication service for all 3 emergency services		
		6.6	Restrictions on storing sensitive information on the MFRA network – Members are asked to consider closing this risk	**6.6.1**	**1,2,3,4**	Consideration will be given when protectively marking information and efforts will be made not to mark information artificially high whilst taking account of any associated risks. Where a marking of RESTRICTED (or the equivalent in the Government Security Classifications is necessary a risk assessment will be carried out before it is stored on the network.	**15**	**<u>OCTOBER – MARCH 2016 UPDATE</u>** The Head of ICT and Director of Strategy and Performance believe that the replacement of the Government Protective Marking Scheme with the Government Security Classifications has removed this risk as no guidance has been given by Government on the Business Impact Levels associated with the GSC. The Business Impact Levels are what previously limited the storage of RESTRICTED information on the network.	**12**	**Head of ICT** **Director of Strategy & Performance**
		6.7	Withdrawal and	**6.7.1**	**1,2,3,4**	Robust transitional	**15**	**<u>OCTOBER – MARCH 2016 UPDATE</u>**	**12**	

			transition arrangements from SOPHTLOGIC to new MIS for Community Fire Protection.			arrangements are required to ensure the Authority can carry out its statutory duty as the Enforcing Authority under the RRO (Fire Safety) 2005.		The working relationship with Sophtlogic is good as evidence from the move away from the HR and Fleet Modules. For a second year reduced Sophtlogic Contract has once again been put in place for 2016/2017 to cover MIS for Community Fire Protection whilst other alternative solutions are explored. For this reason this the risk has been reduced.		**Head of ICT**
		6.8	Potential for Claims against critical suppliers for poor performance. Possibly terminate the Contract leaving the Authority short of vital resource	**6.8.1**	**1,2,3,4**	This is possible rather than probable. From a financial and reputational perspective, it would not be in supplier's interest to terminate but it would have a major impact.		**<u>OCTOBER – MARCH 2016 UPDATE</u>** All contract implementations and handover periods monitored closely. Robust procurement and contract management arrangements		**Treasurer**
		6.9	Increase potential for Cyber Attack as we move to the Cloud			Loss or reduction in the quality of services provided	**15**	It must be appreciated releasing full details of security measures is a Security Risk in itself. The Authority, however, can say that regular penetrations tests and ICT Health checks have taken place as part of the Internal Audit process and the need to comply with Code of Connection agreements. ICT deploys a number of security measures to protect our networks and information. Measures to	**12**	**Head of ICT**

								protect from external attacks include: applying updates and patches to applications, software and operating systems; deploying firewalls; filtering traffic; deploying access control solutions; using anti-malware solutions to block malicious code (including viruses, trojans, worms, spyware, ransomware, adware, etc); network segregation solutions; and e-mail filtering solutions. A monthly information security report is produced by the ICT Dept. The Information Security Forum as a reference will review this report and escalate to the ICT and Information Management Strategy Forum. Regular e-mails advising all staff of the risks on various types of Cyber Attack are communicated by the SIRO. As part of the DevOps process it is planned to have ICT Security Experts attend key Development Sprints.		
Aims:	**1) Excellent Operational Preparedness.**		**2) Excellent Operational Response.**		**3) Excellent Prevention & Protection.**			**4) Excellent People**			

7.	**Procurement**	**7.2**	Poorly Managed contracts/Partnerships the Financial impacts, onerous T&Cs	**7.2.1**	**1,2,3,4**	Negative impact on service delivery, legal issues, poor quality Partnerships undertaken	**12**	**OCTOBER – MARCH 2016 UPDATE** Formal contract management processes in place for all contracts over £100K. Key contracts are subject to further contract management where appropriate	**8**	**Director of Legal, Procurement & Democratic Services**
		7.3	Key suppliers of goods and services ceasing to trade	**7.3.1**	**1,2,3,4**	Immediate impact on availability of goods and services required to operate efficiently, legal issues, alternative sources of supply needed	**15**	**OCTOBER – MARCH 2016 UPDATE** Procurement are in the process of setting up alerts on key suppliers to notify us when there are any significant changes to finances	**12**	**Director of Legal, Procurement & Democratic Services**

Increasing Impact B		Increasing Likelihood A				
		1	2	3	4	5
		Remote	Unlikely	Possible	Likely	Frequent
1	Slight	Manage for continuous improvement	Manage for continuous improvement	Manage for continuous improvement	Manage for continuous improvement	Manage for continuous improvement
2	Minor					Develop Reduction measures
3	Significant			Develop Reduction measures	Compulsory Risk reduction	
4	Major		Develop Reduction measures	Compulsory Risk reduction		
5	Massive	Develop Reduction measures	Compulsory Risk reduction			

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MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**AUDIT SUB COMMITTEE**		
DATE:	**9 JUNE 2016**	**REPORT NO:**	**CFO/038/16**
PRESENTING OFFICER	**IAN CUMMINS, TREASURER**		
RESPONSIBLE OFFICER:	**IAN CUMMINS**	**REPORT AUTHOR:**	**IAN CUMMINS**
OFFICERS CONSULTED:	**STRATEGIC MANAGEMENT GROUP**		
TITLE OF REPORT:	**FIREFIGHTER PENSION SCHEME - INTERNAL DISPUTE RESOLUTION PROCESS**		

APPENDICES:	**APPENDIX A:**	**LOCAL GOVERNMENT PENSION SCHEME IDRP**
	APPENDIX B:	**CURRENT FIREFIGHTERS' PENSION SCHEME IDRP**
	APPENDIX C:	**PROPOSED FIREFIGHTERS' PENSION SCHEME IDRP AND STAGE 1 & 2 FORMS**

Purpose of Report

1. To request that Members approve the proposed updated Internal Dispute Resolution Procedures (IDRP) in relation to the Firefighter Pension Scheme(s) Pensions matters in line with the requirements of the Pension Act 1995 and subsequent amendments.

Recommendation

2. That Members approve the IDRP process for the Firefighter Pension Scheme(s) outlined in Appendix C and therefore adopt a two stage IDRP in line with best practice.

Introduction and Background

3. All occupational pension schemes are required to have arrangements for an Internal Dispute Resolution procedure (IDRP). The IDRP offers a means of formally raising, and hopefully resolving, grievances about the way in which a member's pension rights have been managed.

4. The law allows trustees or managers to operate a two-stage procedure with a 'specified person' undertaking the first-stage decision or adopt a simpler single-stage process if that is more appropriate for their scheme.

5. The Authority has a two stage IDRP for the Local Government Pension Scheme (LGPS) which is attached as Appendix A. The nominated MFRA

person to hear stage 1 of the process is the MFRA Pensions Scheme Manager, (the Deputy Chief Fire Officer). This report is recommending no changes to the current arrangement for LGPS IDRP.

6. The Authority approved the current Firefighter Pension Scheme(s) (FPS) IDRP at its meeting on 28th May 2009 (report CFO/095/09). This report had taken account of the non-statutory guidance for Fire and Rescue Authorities on the IDRP procedure in the Firefighters' Pension Scheme Circular FPSC 1/2009.

7. Whilst the Circular stated a single stage IDRP was permitted under the pension Regulations it did put forward a two stage process. Report CFO/095/09 and the current FPS IDRP process are attached as Appendix B.

8. After reviewing the Authority's current arrangements the Pension Scheme Manager, considers it appropriate that the IDRP moves to a two stage process which appears to be consistent with the methodology adopted by other Fire and Rescue Authorities. Currently all FPS benefit information is managed by the Finance Department in partnership with the pension administrator, Lancashire County Council's "Your Pension Service". To ensure an independent scrutiny of any pension benefit payment dispute that has been referred to the IDRP the Pension Scheme Manager is proposing that Stage 1 complaints will be dealt with by the Director of People and Organisational Development. If the matter is not resolved and the complainant wishes to proceed to Stage 2 it is proposed that this will be considered by the Pensions Scheme Manager. Ultimately if the complainant is still not happy then they can refer the matter to the independent Pensions Ombudsman for consideration.

Equality and Diversity Implications

9. None associated with this report.

Staff Implications

10. None associated with this report.

Legal Implications

11. The requirements for dispute resolution arrangements can be found in Sections 50, 50A and 50B of the Pensions Act 1995, as inserted by section 273 of the Pensions Act 2004 (as amended) and the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008.

Financial Implications & Value for Money

12. None associated with this report.

Risk Management, Health & Safety, and Environmental Implications

13. None associated with this report.

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

14. None associated with this report.

BACKGROUND PAPERS

CFO/095/09 "Pension Scheme – Internal Dispute Resolution Procedure" Authority 28th May 2009

GLOSSARY OF TERMS

MFRA Merseyside Fire and Rescue Authority is the physical and legal entity. When writing reports MFRA is the "object".

IDRP Internal dispute resolution process

FPS Firefighters' Pension Scheme(s)

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Appendix A

Merseyside Pension Fund Local Government Pension Scheme - IDRP

Stage 1 of the Appeals process

In the first instance you must write to the adjudicator appointed by the body who made the decision about which you wish to appeal.

For MFRA this is your employer and you must write to the Deputy Chief Fire Officer at the address below:

Deputy Chief Fire Officer,
Service Headquarters
Bridle Road
Merseyside
L30 4YD

If the complaint is against the Merseyside Pension Fund, please write to:

Merseyside Pension Fund,
Castle Chambers,
43 Castle Street,
Liverpool
L2 9SH

You must do this within **six months** of the date of the notification of the decision or the act or omission about which you are complaining.

This is a formal review of the initial decision or act or omission and is an opportunity for the matter to be reconsidered. The Scheme Manager will consider your complaint and notify you of his or her decision.

Stage 2 of the Appeals process

If you are dissatisfied with the decision in Stage 1, (or their failure to make a decision) you may apply to Merseyside Pension Fund to have it reconsidered.

If you disagree with the Stage 1 decision, you have a **further six months** to appeal to the Stage 2 referee.

All correspondence should be addressed to:

The Pensions Referee,
Merseyside Pension Fund,
Castle Chambers,
43 Castle Street,
Liverpool
L2 9SH

Please Note:
At both Stage 1 and 2, you should receive a decision within **two months** of your appeal.

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APPENDIX B

REPORT TO:	**MERSEYSIDE FIRE & RESCUE AUTHORITY**
DATE:	**28th MAY 2009**
REPORT NO.	**CFO/095/09**
REPORTING OFFICER:	**CLERK TO THE AUTHORITY**
CONTACT OFFICER:	**DAVE WRIGHT, CLERK TO THE AUTHORITY, EXTN. 4108**
OFFICERS CONSULTED:	
SUBJECT:	**PENSION SCHEME – INTERNAL DISPUTE RESOLUTION PROCEDURE**

APPENDIX A TITLE INTERNAL DISPUTE RESOLUTION PROCEDURE – PENSIONS ACT 1995

ATTACHED – HARD COPY

Purpose of Report

1. To request the Authority to consider adoption of a revised procedure, taking into account updated regulations.

Recommendation

2. That the Occupational Pensions Schemes Internal Dispute Resolution Procedure attached as Appendix A is adopted by the Authority.

Information & Background

3. The Authority has, since 1997, been required to adopt formal internal dispute resolution procedures for dealing with disputes under the Firefighters' Pension Schemes.

4. The Authority adopted the procedure and forms suggested in Fire Service Circular 2/1997 in 1997.

5. The relevant pensions legislation and regulations have recently changed slightly, and the Authority is accordingly requested to adopt the revised

procedure attached as Appendix A, which the Clerk recommends as compliant with the relevant updated legislation.

6. The main differences in the revised draft procedures are :-

   (a) The addition of a requirement to notify the complainant of the availability of The Pensions Advisory Service (TPAS) on the initiation of the complaint.
   (b) Removal of a reconsideration/appeal process to the Appeals Committee (as no reconsideration is now required).

   (c) More explicit provisions as to those disputes which are not covered by the procedure.

   (d) Addition of a time limit for applications (i.e. within 6 months of the decision the subject of the dispute).

Equality & Diversity Implications

7. The revised Policy applies equally to all members of the Scheme and has been the subject of an equalities impact assessment.

Financial Implications & Value for Money

8. None arising out of this report.

Health & Safety and Environmental Implications

9. None arising from this report.

Contribution to Achieving the Vision:

"To Make Merseyside a Safer, Stronger, Healthier Community"

10. The adoption of an updated policy will result in a more streamlined process that will enable opinions to continue to be aired and considered, minimising the internal processes that can divert time and attention away from substantive activity towards achieving the Authority's vision.

BACKGROUND PAPERS

None.

APPENDIX (CFO/095/09)

INTERNAL DISPUTE RESOLUTION PROCEDURE - PENSIONS ACT 1995

Application

1. On receipt of a written application for a decision :-

   (a) Check whether application is made under S.50 of the Pensions Act 1995 or H2 of the Firefighters' Pension Scheme Order 1992, Rule 2 of Part 6 of Schedule 1 to the Firefighters' Compensation Scheme (England) Order 2006; Rule 4 of Part 8 of Schedule 1 to the Firefighters' Pension Scheme (England) Order 2006 (appeals relating to medical evidence/issues), and if so, notify applicant that the IDRP Procedure does not apply to those issues.

   (b) If under S.50 of the 1995 Act, check application contains full name, address, date of birth and National Insurance Number of complainant; that the complainant is a person with an interest in the Scheme; the full name and address of any representative acting on behalf of the complainant and whether the address is the address to be used for service of the documents in connection with the disagreement and a statement as to the nature of the disagreement with sufficient details to show why the complainant is aggrieved. Also check to ensure application is signed by the complainant or his representative. If any of the above have not been complied with the application should be returned to the applicant indicating that the application will not be accepted until it is returned complete with all such details.

2. As soon as reasonably practicable on receipt of an application under the procedure :-

   (a) Inform the applicant that TPAS (the Pensions Advisory Service) is available to assist members and beneficiaries of the Scheme in connection with any difficulties with the Scheme, and

   (b) Give the applicant the contact details for TPAS.

Decision

3. Chief Fire Officer (or his nominee) to make a decision on the application and notify the applicant (and representative) in writing of decisions within a reasonable period of receipt of the properly completed application.

4. The written notification of decision should include :-

4.1. A statement of the decision;

4.2. Reference to any legislation relied on;

4.3. Reference to such parts of any scheme rules relied upon and, where a discretion has been exercised, reference to such parts of the Scheme rules by which such discretion is conferred.

4.4. A statement that OPAS (The Pensions Advisory Service) is available to assist members and beneficiaries of the Scheme in connection with any difficulties which they have failed to resolve and the address at which it may be contacted; and

4.5. A statement that the Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to a scheme and the address at which they may be contacted.

Out of Scope Disputes

4.6. This procedure shall not apply :-

4.6.1. to a dispute if proceedings in respect of it have been commenced in any Court or tribunal, the Pensions Ombudsman has commenced an investigation in respect of it as a result of a complaint made or dispute referred to them, or if it is a dispute in respect of which a notice of appeal has been issued in respect of an appeal against an opinion or a medical issue, or appeal to a medical referee;

4.6.2. if the complaint is not with the managers of the relevant occupational pension scheme;

4.6.3. if the complaint is not made by one or more persons with an interest in the relevant occupational pension scheme for this purpose a person has an interest in the relevant occupational pension scheme if :-

(a) They are a member of the Scheme;

(b) They are a widow, widower or surviving non-dependent beneficiary of a deceased member of the Scheme;

(c) They are a surviving non-dependent beneficiary of a deceased member of the Scheme;

(d) They are a prospective member of the Scheme;

(e) They have ceased to be within any of the categories of persons referred to in paragraphs (a) to (d), or

(f) They claim to be such a person as is mentioned in paragraphs (a) to (e) and the dispute relates to whether they are such a person.

4.6.4. to a dispute relating to a decision made more than 6 months (i.e. 183 days) prior to the date upon which notification of a dispute is given to the Authority under this procedure. In the case of a person with an interest in the relevant Scheme as mentioned in paragraph 4.6.3 (e) above, the time limit for making an application is the end of the period of 6 months beginning immediately after the date upon which they ceased to be a person with an interest as mentioned in paragraphs 4.6.3 (a) to (d).

In the case of a person with an interest in the relevant Scheme as mentioned in paragraphs 4.6.3 (f) above, who is claiming to be a person as is mentioned in paragraph 4.6.3 (e), the time limit for making an application is the end of the period of 6 months beginning immediately after the date upon which they claim that they ceased to be a person with an interest as mentioned in paragraph 4.6.3 (a), (b), (c) or (d).

4.6.5. Where, after an application for the resolution of a pension dispute has been made, the dispute becomes a dispute falling within a category in paragraph 4.6.1. above, then this procedure shall cease to apply.

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APPENDIX C

Firefighters' Pension Scheme

Internal Dispute Resolution Procedure – Guidance Note to applicants

Internal Dispute Resolution procedure (IDRP) is available to all members of occupational pension schemes or their dependants. They offer a means of formally raising, and hopefully resolving, grievances about the way in which their pension rights have been managed.

How does IDRP apply to firefighters?

Firefighters' pension rights are set out in the Firemen's Pension Scheme Orders. The IDRP requirements have not been written into the Orders but must operate alongside. In October 1996, a CFBAC Joint Pension Committee Working Party was set up to decide and recommend how fire authorities should comply with the IDRP Regulations. Recommendations agreed between employer's side and trade union representatives were issued in Fire Service Circular 2/1997.

The FPS offers various appeal routes according to the nature of the grievance. It is important that you should select the most appropriate route. The IDRP is only once part of your appeal rights.

If you have a pension problem it may be helpful if, initially, you raise it with the relevant person in Merseyside Fire and Rescue Service (e.g. the Payroll and Pensions Manager in the Finance Department responsible for pension's administration). The problem may be a simple error which can be corrected immediately, or may be the result of a misunderstanding which can be clarified by explanation. If you are still dissatisfied, then one of the various formal appeal routes can be used.

Who can make a complaint under IDRP?

The following persons can use IDRP –

(a) Active, deferred and pensioner members of FPS, NFPS or LGPS
(b) Widows, widowers or surviving dependants of deceased FPS members
(c) Prospective members of the FPS, i.e. persons who under their contract of employment can or will become members,
(d) Pension credit members, i.e. ex-spouses of firefighter's with pension rights under the FPS granted a pension by a pension sharing order made on divorce or annulment of marriage
(e) Persons who ceased to be within any of the categories (a) to (d) within six months before the date of any application under IDRP, and
(f) Persons whose claims to be in one of the categories (a) to (e) above are the subject to the dispute.

The application can be made by –

- The applicant in person or by a nominated representative
- Personal representatives where the person has died
- A member of the person's family or some other suitable representative in the case of a minor or a person incapable of acting for him or herself.

Optants-out

A regular firefigher who has opted out of the FPS has IDRP rights.

IDRP exclusions

IDRP will not apply where –

- A notice of appeal has been issued by the complainant under Rule H2 of the Firemen's Pension Scheme Order 1992 (appeal against opinion on a medical issue), or
- Proceedings have begun in any court or tribunal, or
- The Pensions Ombudsman has commenced an investigation into a complaint made or dispute referred to him.

IDRP Procedure

The IDRP process allows a person to make an application to have a decision regarding pension rights reconsidered.

There are two stages to the process. A person dissatisfied with a decision made at Stage One can move onto Stage Two for a further reconsideration.

IDRP Stage One

Your Stage One application for a decision in respect of a disagreement must be given in writing and must contain all the information required by the IDRP Regulations.

To help you with this an application form is available for you to complete. If you supply all the information prompted by the form then you will have complied with the Regulations. When you (or your representative if you prefer) have completed the form, it should be signed and sent, with any relevant attachments (i.e. any documents which you believe relevant and which may support your case) to the Director of People and Organisational Development (as the Stage One decision maker) at the address at the end of this guidance note.

To comply with the IDRP Regulations, the Director of People and Organisational Development will, in writing-

- Acknowledge receipt of your Stage One application for a decision
- State that he/she intends to make a decision on the matters raised by your application within 2 months from the date the application was received
- Explain that in the event that he/she cannot give a decision within 2 months he/she will send you (and/or your representative) an interim reply setting out the reasons for the delay and the expected date for the issue of a decision
- Will gather such facts and evidence as felt appropriate to give a fair decision in respect of your grievance

Having considered the case and arrived at a decision, the Director of People and Organisational Development will give you that decision in writing. The decision will refer to any legislation, including Firemen's Pension Scheme Orders, relied upon for the decision. If a discretion allowed by the FPS has been exercised, there will be reference to this and to the provisions of the FPS which allow the discretion. There will also be a statement to the effect that the Pensions Advisory Service is available to assist members and beneficiaries of the Scheme in connection with any difficulty with the Scheme which remains unresolved, together with a contact address for the Pensions Advisory Service.

This concludes Stage One of the IDRP process.

IDRP Stage Two

If you remain dissatisfied after you have received the decision of the Director of People and Organisational Development you have six months from the receipt of that decision to apply for a reconsideration of the disagreement under Stage Two of the IDRP process.

At Stage Two, the decision of the Director of People and Organisational Development would be reconsidered by the Scheme Manager (Deputy Chief Fire Officer).

Your Stage Two application, like the Stage One, must be given in writing and must contain all the information required by the IDRP Regulations. Again, an application form is available for you to complete. If you supply all the information prompted by this form then you will have complied with the Regulations.

The form should be signed and sent to the Scheme Manager (Deputy Chief Fire Officer), (see address at the end of the document) with:

- A copy of the Stage One decision made by the Director of People and Organisational Development, and
- Any documents you believe relevant and which may support your case

The Scheme Manager will, in writing

- Acknowledge receipt of your Stage Two application for reconsideration of the Director of People and Organisational Development
- Tell you that he/she will consider your application for the issue of a decision on the matters raised by your application within 2 months from the date of your application was received
- Explain that in the event that he/she cannot give a decision within 2 months he/she will send you (and/or your representative) an interim reply setting out the reasons for the delay and the expected date for the issue of a decision

The Scheme Manager will consider the case and arrive at their decision. This will be set out in a letter to you, giving details if the decision and an explanation as to whether, and if so to what extent, that decision either confirms or replaces the decision made by the Director of People and Organisational Development. As with the Stage One decision, the Stage Two decision will include a reference to any legislation, including the Firemen's Pension Scheme Orders, relied upon for the decision. If a discretion allowed by the FPS has been exercised there will be a reference to this and to the provisions of the Scheme will allow the discretion.

This completes Stage Two of the IDRP process.

If you remain dissatisfied following the completion of Stage Two of the IDRP process you may wish to consider contacting one of the following Services:

The Pensions Advisory Service

The Pensions Advisory Service (formerly known as the Occupational Pensions Advisory Service or "OPAS") has been in existence since 1983. Its objectives include giving free, confidential advice to individual members of the public who are experiencing difficulties with their pension scheme authorities have either ignored or failed to resolve.

Although the Advisory Service will offer help before, during and after Internal Dispute Resolution Procedures (explained above), before getting involved they will normally expect a person to have taken up his/her grievance at least informally with the pension scheme administrators.

The Pensions Advisory Service can negotiate and conciliate but does not provide an arbitration service or initiate legal action. An adviser can refer a case to the Advisory Service's Office for specialist guidance. If the Office feels it appropriate they may recommend that the complainant should put his or her case to the Pensions Ombudsman.

The Pensions Advisory Service can be contacted at:
11 Belgrave Road, London, SW1V 1RB
Telephone: 0845 6012923 (local call rate) Enquiries@pensions advisoryservice.org.uk
www.pensionsadvisoryservice.org.uk

The Pensions Ombudsman

The Pensions Ombudsman can investigate a pension scheme member's complaint of maladministration or a dispute of fact or law between a scheme member and the pension scheme managers or employer. However, the Ombudsman cannot help if court proceedings have begun and will normally expect the case to have first been put through Internal Dispute Resolution Procedures (explained above). Also, a complainant who writes to the Ombudsman directly will usually be requested to have the case dealt with first by the Pensions Advisory Service (see above). You should normally contact the Ombudsman within 3 years of the act or omission that you are complaining about or disputing although he does have the discretion to extend this period where appropriate.

The Pensions Ombudsman can be contacted at:

11 Belgrave Road,
London,
SW1V 1RG
Telephone: 020 7834 9144
www.pensions-ombudsman.org.uk

Other Addresses:
Director of People and Organisational Development
SHQ Bridle Road,

Merseyside L30 4YD

0151 296 4320

Deputy Chief Fire Officer
SHQ Bridle Road,
Merseyside L30 4YD

0151 296 4104

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Firefighters' Pension Scheme: Internal Disputes Resolution Procedure (IDRP)

Stage One Application

This application may be submitted by a person (or nominated representative) who is (a) an active, deferred or pensioner member of the Firefighters' Pension Scheme, or the New Firefighters' Pension Scheme; (b) a widow, widower or surviving dependant of a deceased member of the FPS or NFPS; (c) a surviving non-dependant beneficiary of a deceased member of the FPS or NFPS; (d) a prospective member of the NFPS; (e) persons who have ceased to be within any of the categories in (a) to (d); or (f) persons who claim to be a person mentioned in (a) to (e) and the dispute relates to whether he is such a person..

To the Director of People and Organisational Development

1. I wish to apply for a decision to be made, under section 50 of the Pensions Act 1995, in respect of the disagreement set out in this application.

2. I understand that an application may not be made where, in respect of a disagreement:
    - A notice of appeal has been issued under Rule H2 of the Firefighters' Pension Scheme 1992**,** Part 8, rule 4 of the New Firefighters' Pension Scheme 2006 or Part 6, rule 2 of the Firefighters' Compensation Scheme 2006 (appeal to a board of medical referees against a decision on an issue of a medical nature), or
    - Proceedings in respect of this dispute have begun in any court or tribunal, or
    - The Pensions Ombudsman has commenced an investigation into a complaint or a dispute referred to him.

3. The nature of the disagreement is set out in the attached page(s). **Complete in all cases (in Block capitals)**

Full Name of Scheme Member	
Role and employment reference	
Address of Scheme Member	
Member's Date of Birth	
Member's National Insurance Number	

Complete if complainant is not a Scheme member (in Block Capitals)

Full Name of Complainant	
Address for Correspondence	

Relationship of complainant to Scheme Member (if relevant)	

Stage One Application

Nature of disagreement

Give a statement of the nature of the disagreement with sufficient details to show why aggrieved. If necessary, continue details on to another page and attach the application form with any supporting documents.

Signature of complainant (or representative) ……..Date ……..

Firefighters' Pension Scheme: Internal Disputes Resolution Procedure (IDRP)

Stage Two Application

If a person is dissatisfied with the decision of the Director of People and Organisation Development at Stage 1 of the IDRP, an application may be submitted by that person (or nominated representative) for the decision to be confirmed or replaced by the decision of Scheme Manager (Deputy Chief Fire Officer).

To the pensions Scheme Manager

1. I am applying for reconsideration of the decision of …….made under section 50 of the Pensions Act 1995. I understand that you will either confirm the decision or replace it.

2. I understand that an application may not be made where, in respect of the matter: A notice of appeal has been issued under Rule H2 of the Firefighters' Pension Scheme 1992**,** Part 8, rule 4 of the New Firefighters' Pension Scheme 2006 or Part 6, rule 2 of the Firefighters' Compensation Scheme 2006 (appeal to a board of medical referees against a decision on an issue of a medical nature), or
    - Proceedings in respect of this dispute have begun in any court or tribunal, or
    - The Pensions Ombudsman has commenced an investigation into a complaint or a dispute referred to him.

3. I attach a copy of the notice of the decision referred to in paragraph 1 and a statement of the reason(s) for dissatisfaction with that decision.

Complete in all cases (in Block capitals)

Full Name of Scheme Member	
Role and employment reference	
Address of Scheme Member	
Member's Date of Birth	
Member's National Insurance Number	

Complete if complainant is not a Scheme member (in Block Capitals)

Full Name of Complainant	
Address for Correspondence	

Relationship of complainant to Scheme Member (if relevant)	

Stage Two Application

Nature of disagreement

Give a statement of the nature of the disagreement with the decision made by the Director of People and Organisational Development.. If necessary, continue details on to another page and attach the application form with any supporting documents.

Signature of complainant (or representative) ……Date ……..

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	**AUDIT SUB-COMMITTEE**		
DATE:	**9 JUNE 2016**	**REPORT NO:**	**CFO/039/16**
PRESENTING OFFICER	**IAN CUMMINS, TREASURER**		
RESPONSIBLE OFFICER:	**IAN CUMMINS**	**REPORT AUTHOR:**	**IAN CUMMINS**
OFFICERS CONSULTED:	**SMG**		
TITLE OF REPORT:	**FIRE PENSION SCHEME(S) - ADMINISTRATION**		

APPENDICES:	

Purpose of Report

1. To request that Members nominate the Deputy Chief Fire Officer post as the officer to act on the Authority's behalf as the Firefighter Pension Scheme (FPS) and Local Government Pension Scheme (LGPS) "Scheme Manager".

2. To request that Members support the termination of the current outsourced contract for the administration of the FPS and agree to discharge this function to Lancashire County Council.

Recommendation

3. That Members approve;
   a. The Deputy Chief Fire Officer as the delegated officer to act as the Scheme Manager for Firefighters' Pension Scheme(s) and the Local Government Pension Scheme, and
   b. That the administration of the Firefighter Pension Scheme function is discharged to Lancashire County Council.

Introduction and Background

4. Depending on the role undertaken Authority employees can join one of two public pension schemes, either the Firefighter Pension Scheme (FPS), or the Local Government Pension Scheme (LGPS). The Authority must ensure that the pension administration arrangements for both schemes meet the standards set in the various scheme Regulations and that the service received meets the needs of any current, retired or deferred members.

5. As a qualifying "Scheduled Body" MFRA's non-firefighter employees have an automatic right to join the LGPS. The LGPS is a national scheme and is administered locally for participating employers through regional pension funds. Merseyside Pension Fund (MPF) is responsible for the administration of the

LGPS within the geographical area of Merseyside and hence acts on behalf of the MFRA. MPF is funded by an administration charge to the LGPS.

6. The FPS administration is currently provided to MFRA via a contract with Lancashire County Council's Your Pension Service (YPS) to administer the FPS on its behalf. YPS also provide the FPS administration service for Lancashire and Cumbria fire and rescue authorities.

7. The Government is working with LGPS administering authorities to encourage greater collaboration and the pooling of investments to significantly reduce administration costs. A number of funds are exploring radically different and collaborative ways of working. Lancashire County Pension Fund (LCPF) and the London Pension Fund Authority (LPFA) have agreed to create a partnership to pool LGPS assets and provide an end to end service in the management of pension schemes. The company will be initially known as the Lancashire and London Pensions Partnership (LLPP) and be based in Lancashire. Lancashire County Council have advised the Authority that the LLPP will become the vehicle for the delivery of shared services such as those currently provided by YPS for the administration of the FPS for MFRA.

8. Therefore as the current MFRA FPS administration contract is with YPS, MFRA must either:-
    a. Novate the current YPS contract to the new company LLPP, or
    b. Terminate the YPS contract and either:
        i. MFRA agree that Lancashire County Council discharge the FPS administration function on its behalf, or
        ii. MFRA re-procure the service and undertake a full procurement exercise.

9. The most simple and efficient route to take is for the Authority to enter into a discharge of function arrangement with Lancashire County Council for the administration of FPS on behalf of MFRA (option b.i. above). The charge for the service will remain unchanged at £100k p.a. Members are asked to approve option b.i. Lancashire and Cumbria fire and rescue authorities have agreed to discharge the administration of the FPS function to Lancashire County Council.

10. To assist with the administration of the FPS and the LGPS the pension Regulations provide for some discretionary decisions (for example the buy back by an employee of pension contributions lost through industrial action). Most of these discretions are required to allow the Scheme Manager or local body the ability to administer the scheme efficiently and effectively. The Authority is the Scheme Manager for the FPS, however it can if it so decides agree to nominate an officer to act on its behalf. The Authority had previously designated the post of Deputy Chief Executive (DCE) to act as the Scheme Manager. As Members are aware the post of DCE has been deleted and therefore this report is seeking Members approval to amend the nominated post to act as the Scheme Manager to the Deputy Chief Fire Officer post with immediate effect.

Equality and Diversity Implications

11. None directly arising from this report.

Staff Implications

12. None directly arising from this report.

Legal Implications

13. MFRA has the power to arrange for the discharge of its functions by Lancashire under section 101 of the Local Government Act 1972.

Financial Implications & Value for Money

14. Currently MFRA have a contract with YPS for FPS administration services. The charge for this service is £100k p.a. If Members support the termination of the YPS contract and agree to discharge FPS administration to Lancashire County Council the cost of the service will remain unchanged.

Risk Management, Health & Safety, and Environmental Implications

15. None directly arising from this report.

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

16. None directly arising from this report.

BACKGROUND PAPERS

None.

GLOSSARY OF TERMS

MFRA	**M**erseyside **F**ire and **R**escue **A**uthority is the physical and legal entity. When writing reports MFRA is the "object".
FPS	**Firefighter Pension Scheme**
LGPS	**Local Government Pension Scheme**
MPF	**Merseyside Pension Fund**
YPS	**Your Pension Service**
LCPF	**Lancashire County Pension Fund**
LPFA	**London Pension Fund Authority**

LLPP	**Lancashire and London Pensions Partnership**
DCE	**Deputy Chief Executive**