

Public Document Pack



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



J. Henshaw
LLB (Hons)
Clerk to the Authority

Tel: 0151 296 4000
Extn: 4113 Kelly Kellaway

Your ref:

Our ref HP/DM

Date: Date Not Specified

Dear Sir/Madam,

You are invited to attend a meeting of the **AUDIT COMMITTEE** to be held at **1.00 pm** on **THURSDAY, 6TH JUNE, 2019** in the Liverpool Suite - Fire Service Headquarters.

Yours faithfully,

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

Clerk to the Authority

Encl.

This page is intentionally blank

MERSEYSIDE FIRE AND RESCUE AUTHORITY

AUDIT COMMITTEE

6 JUNE 2019

AGENDA

Members

Anthony Boyle, Independent Person
Andrew Makinson
James Roberts
Adrian Jones
Brian Kenny (substitute)
Lisa Preston (substitute)

1. Preliminary Matters

Members are requested to consider the identification of:

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

2. Minutes of previous meeting (Pages 5 - 10)

The minutes of the previous meeting held on Thursday 14th February 2019 are submitted as a correct record and for signature by the Chair.

3. External Audit Plan 2018-19 (Pages 11 - 24)

To consider the attached report from the Authority's External Auditors – Grant Thornton, concerning the External Audit Plan 2018-19.

4. **treasury management 2018/19 annual report** (Pages 25 - 36)

To consider report CFO/019/19 of the Treasurer concerning the activities of the Treasury Management operation and actual performance against the agreed Prudential Indicators in 2018/19. This report meets the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Authority is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

5. **2018/19 annual year-end internal audit report** (Pages 37 - 52)

To consider report CFO/020/19 of the Treasurer concerning the Annual Year End Internal Audit report for 2018/19.

6. **THE ANNUAL GOVERNANCE STATEMENT 2018/2019** (Pages 53 - 66)

To consider report CFO/018/19 of the Treasurer concerning the Authority's Annual Governance Statement. This statement fulfils the Authority's statutory requirement to prepare a statement of internal control in accordance with proper practices, and to present an annual review of the effectiveness of the current arrangements.

7. **2019/20 Internal Audit Plan** (Pages 67 - 72)

To consider report CFO/017/19 of the Treasurer concerning the proposed Internal Audit plan for 2019/20 and to seek comments from Members on the plan.

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

Refreshments

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

MERSEYSIDE FIRE AND RESCUE AUTHORITY

14 FEBRUARY 2019

MINUTES

Present: Councillors Denise Allen, Joe De'Asha, Andrew Makinson and James Roberts

Also Present:

Apologies of absence were received from: Anthony Boyle and Cllr Chris Meaden

1. Chair's Announcement

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

The Chair confirmed to all present that the proceedings of the meeting would be filmed and requested that any members of the public present who objected to being filmed, make themselves known.

No members of the public voiced any objection therefore the meeting was declared open and recording commenced.

2. Preliminary Matters

Members considered the identification of declarations of interest, any urgent additional items, any additional announcements, 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;
- c) it was announced that the External Auditor was delayed and would arrive late to the meeting. Due to this it was asked if Members objected to her item being moved to the end of the agenda and if she fails to make the meeting the Treasurer would introduce it.
Members agreed to the movement of:
 - Item 3 'External Audit Progress Report – January 2019'; and

d) no items of business required the exclusion of the press and public during consideration thereof, due to the possible disclosure of exempt information.

3. Minutes of the previous meeting

The Minutes of the previous meeting of the Audit Committee held on 27th September 2018, were approved as a correct record and signed accordingly by the Chair.

4. External Audit Progress Report - January 2019

This item was moved to the end of the agenda.

Members considered the attached report from the Authority's External Auditors – Grant Thornton, concerning the External Audit Progress Report at January 2019.

Members were informed that planning for 2018/19 financial statements audit had started and the interim audit is due to commence in February 2019. It is expected that the plan summarising our approach to the key risks on the audit will be issued in March 2019.

Audit guidance for value for money in 2018/19 has been issued and remains consistent with prior years.

Members were advised that Grant Thornton's Audit Findings Report will go to the Policy and Resources Committee in July 2019.

Members enquired about the HMICFRS Inspection Findings report referenced in the Grant Thornton report and asked when they will see this report. Members were advised that a report on the HMICFRS findings will go to a future Authority meeting.

5. financial review 2018/19 - april to december

Members considered report number CFO/004/19 of the Treasurer, concerning the financial position, revenue and capital, for the Authority for 2018/19. The Authority receives regular comprehensive financial reviews during the year which provide a full health check on the Authority's finances. This report covers the period April to December 2018.

Members were given a brief overview of the report confirming to them that the revenue budget remains consistent with the approved original budget at £59.701m and that the approved revenue budget saving options are being delivered as expected.

Members were advised that revenue spend has forecast a 3% or £1.850m saving against the budget, due to a one-off saving and a new grant income.

As outlined in the January Budget strategy day, Members were asked to approve that this saving be used to increase debt repayments/Minimum Revenue Position, as part of a plan to free-up debt servicing budget in the future to allow re-investment in frontline services.

Members were informed that in quarter 3, £3.123m of amendments have been built into the capital programme, which was mainly due to a £3.500m increase in the TDA refurbishment scheme and a reduction in vehicle spend of £0.672m.

Members were advised that there has been a movement in reserves in quarter 3 of £0.739m. This is to fund works on the new Saughall Massie Fire Station that were originally planned for 2019/20 but will now be incurred in 2018/19 as building works are ahead of schedule.

It was also explained to Members that the performance of treasury management was consistent with the approved treasury management strategy for 2018/19. That no new loans have been taken out in the year to date and that at the end of December the Authority held a total of £29.4m of investments. All the investments are consistent with the approved investment strategy and within the individual institutional limit.

Members queried what the £191,000 planned capital spend on the MFRS Museum entailed. They were advised that the museum building and car park is in need of some refurbishing, however a report will come back to members for approval before the scheme can commence.

Members resolved that:

- a) an increase in the Minimum Revenue Provision (MRP) payment of £1.850m funded from the forecast revenue savings identified in this report, be approved;
- b) the Director of Finance be instructed to continue to work with budget managers to maximise savings in 2018/19;
- c) any additional savings identified before the year-end be used to increase MRP, as part of a strategy to free-up future debt servicing budget to reinvest in frontline service, be approved;
- d) the amendments to the capital programme, be approved; and

the current planned use of approved reserves, be noted.

6. INTERNAL AUDIT PROGRESS REPORT – APRIL TO DECEMBER 2018

Members considered report number CFO/005/19 of the Treasurer, concerning the work of Internal Audit for the period April to December 2018.

Members were reminded the 2018/19 Internal Audit Plan was approved at the meeting of the Audit & Scrutiny Committee on 7th June 2018. The Plan allocated 112 days out between a review of fundamental finance based systems and specific project based workstreams.

The following audits were all completed by January 2019: Medium Term Financial Plan, Budgetary Control, Procurement – National Resilience, Avon Review and Review Workshop Arrangements for Procurement of Small Value Items. All of these audits found that the work reviewed had substantial control and compliance measures in place.

The following audits have commenced and have been in progress since January 2019: Debtors, Creditors, PFI – review of Monthly Payment and Adjustment Process between Tripartite Authorities, Review FPS Pension Administration Controls, Review Data Protection Processes and Management of Ancillary Fleet.

Members were informed that most of the audit work is carried out in the last quarter of the year. This is to allow testing on how the systems have operated throughout the year and also provide some reliance for External audit on the robustness of the systems.

Members were advised that a year-end report on the actual performance of Internal Audit against the Plan and their findings, will come back to this committee in early summer 2019.

Members asked how many Audit days were used in previous years. They were advised that any unused days out of the 112 days can be carried forward, which was the case in 2016-17, when 13 days were carried forward into 2017/18, making 125 audit days available for the 2017/18 plan.

Members asked if 112 days were enough and were informed that the number of days had been reduced, as there used to be 130 audit days. It was added that if we required more than 112 audit days in the future, it would be discussed with the Auditors and Officers to be agreed.

Members resolved that:

the contents of this report, be noted.

7. CORPORATE RISK REGISTER SEPT-NOV 2018 UPDATE

Members considered report number CFO/002/19 of the Chief Fire Officer, concerning approval for the updated Corporate Risk Register for 2018/19 which incorporates the current status of those risks to November 2018.

Members were advised that the Strategic Leadership Team collaborate on the Corporate Risk Register reviewing the risks contained within it and any new risks that might affect MFRA. All risks are scored as either low (green), moderate (amber) or high (red) and are re-evaluated regularly. Currently the risks are amber or green, which is an achievement.

Members asked if any new risks had been added to this register and were informed that none had but previously one had regarding Brexit.

Members resolved that:

the updated Corporate Risk Register for 2018/19 which incorporates the current status of those risks to November 2018, be approved.

Close

Date of next meeting Thursday, 6 June 2019

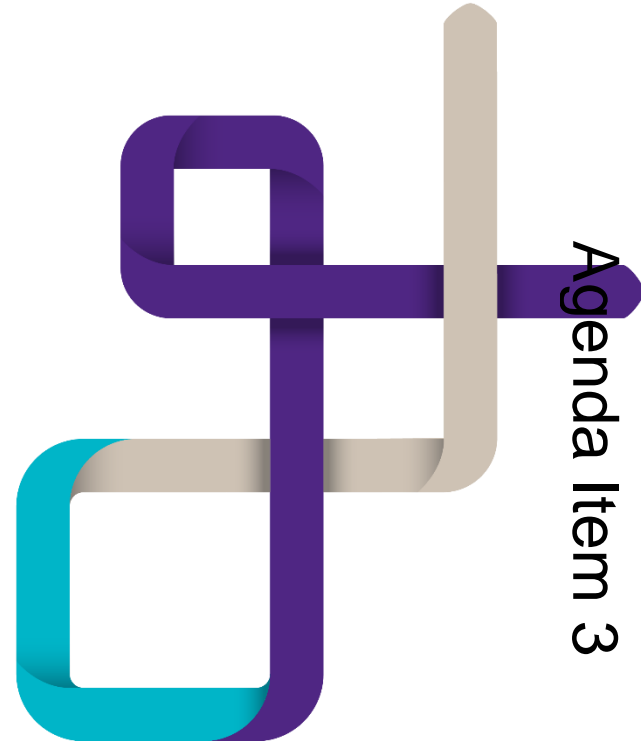
This page is intentionally left blank

External Audit Plan

Year ending 31 March 2019

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY





Your key Grant Thornton team members are:

Paul D Grady
Director

T: 020 7865 2714

E: Paul.D.Grady@uk.gt.com

Jillian Burrows
Senior Manager

T: 0161 953 6900

E: Jillian.A.Burrows@uk.gt.com

Lazaros Pilafas
In-Charge Auditor

T: 0151 224 7210

E: Lazaros.Pilafas@uk.gt.com

Section

1. Introduction & headlines
2. Key matters impacting our audit
3. Significant risks identified
4. Other matters
5. Materiality
6. Value for Money arrangements
7. Audit logistics, team & fees
8. Independence & non-audit services

Page

- 3
- 4
- 5
- 8
- 9
- 10
- 11
- 12

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

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

Introduction & headlines

DRAFT

Purpose

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

Respective responsibilities

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

Scope of our audit

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

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

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

Our audit approach is based on a thorough understanding of your business and is risk based.

Significant risks

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

- Income – Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue. We have rebutted this risk.
- Management Override of controls - Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.
- The risk that the valuation of property, plant & equipment in your accounts is materially misstated.
- The risk that your PFI disclosures are materially misstated.
- The risk that the valuation of your pension fund net liability is materially misstated.

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

Materiality

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

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk:

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

Audit logistics

Our interim visit took place in February 2019 and our final visit will take place in June 2019. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £24,966 (PY: £32,424) for the Authority, subject to the Authority meeting our requirements set out on page 11.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Page 13

Key matters impacting our audit

DRAFT

Factors

The wider economy and service transformation plans

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. Your financial position in 2018/19 remains in line with plan and reserves levels are being maintained. You have longer term plans for the use of reserves which are in line with financial prudence and responsible financial planning. Nevertheless, significant funding uncertainty remains over the medium term, including risks from the fair funding review.

For 2019/20 you have plans to invest in resilience and response with the recruitment of additional fire officers and the deployment of four new engines. This will require £1m of additional investment over the next two years which will be obtained through the early repayment of debt using revenue underspends in the current year and the expected reduction in the pensions deficit.

The government is continuing to push forward with its Fire reform agenda. A number of Fire & Rescue Authorities across the country are undergoing service transformations of varying degrees. In addition, there are a number of ongoing enquiries into the Grenfell Tower fire that could lead to changes in practices and working arrangements.

You have clearly developed plans to restructure the estate, maximise the number of available appliances and recruit the right level of staff. You have a significant capital programme over five years. You are working with the Police as part of a Joint Collaboration Board to improve public safety and community resilience.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

We do not anticipate that the above will have a significant impact on your accounts.

HMICFRS

Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services independently assesses the effectiveness and efficiency of police forces and fire and rescue services

Fire and rescue service assessments are an annual inspection programme of services. This assesses services on effectiveness, efficiency and how well they look after people.

The inspection at the Authority ended in December 2018. Detailed feedback is expected this month before the final report is issued in June 2019.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

Significant risks identified

DRAFT

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Merseyside Fire & Rescue Authority, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for the Authority.</p>	
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. You face external scrutiny of your spending and use of reserves, and this could place management under pressures in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business, as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Page 15

Significant risks identified

DRAFT

Page 16

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of land and buildings</p>	<p>You revalue your land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into your asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.
<p>Accounting for the PFI</p> <p>The risk of material error in the accuracy and presentation of the Private Finance Initiative (PFI) liability and associated disclosures</p>	<p>You lead a North West PFI project to replace 16 fire stations across Merseyside, Lancashire and Cumbria. Mersey Fire and Rescue Service built 7 new PFI stations, the last station opening in 2013.</p> <p>The net book value of the PFI assets stood at £17.4m at 31 March 2018, and the long term creditor relating to the PFI contract stood at £18.5m. Under IFRS13 the long term liability in relation to the PFI contract should have been included at fair value in the 2017/18 financial statements. This was not completed.</p> <p>We therefore identified the risk of material error in the accuracy and presentation of the Private Finance Initiative (PFI) liability and associated disclosures as a significant risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate your accounting policy for the PFI contract and whether the accounting treatment adopted in the financial statements is consistent with the accounting policy; • assess how management have accounted for the transactions, assessing whether the accounting treatment is in line with IFRS requirements; • evaluate the disclosure of the transactions in the financial statements to confirm that they accurately represent the arrangements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Significant risks identified

DRAFT

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none">• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and• obtain assurances from the auditor of Merseyside Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Page 17

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other work

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

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
 - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

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

Leigh Day

In early 2019 the courts ruled in favour of the claimants (Firefighters) and confirmed that the 2015 reformed pension scheme did discriminate based on age. Whilst this is likely to be appealed, due consideration will need to be given to how this is reflected in the Authority's financial statements. We will consider the appropriateness of the treatment of this issue during our audit of the financial statements.

Going concern

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

Materiality

DRAFT

The concept of materiality

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

Materiality for planning purposes

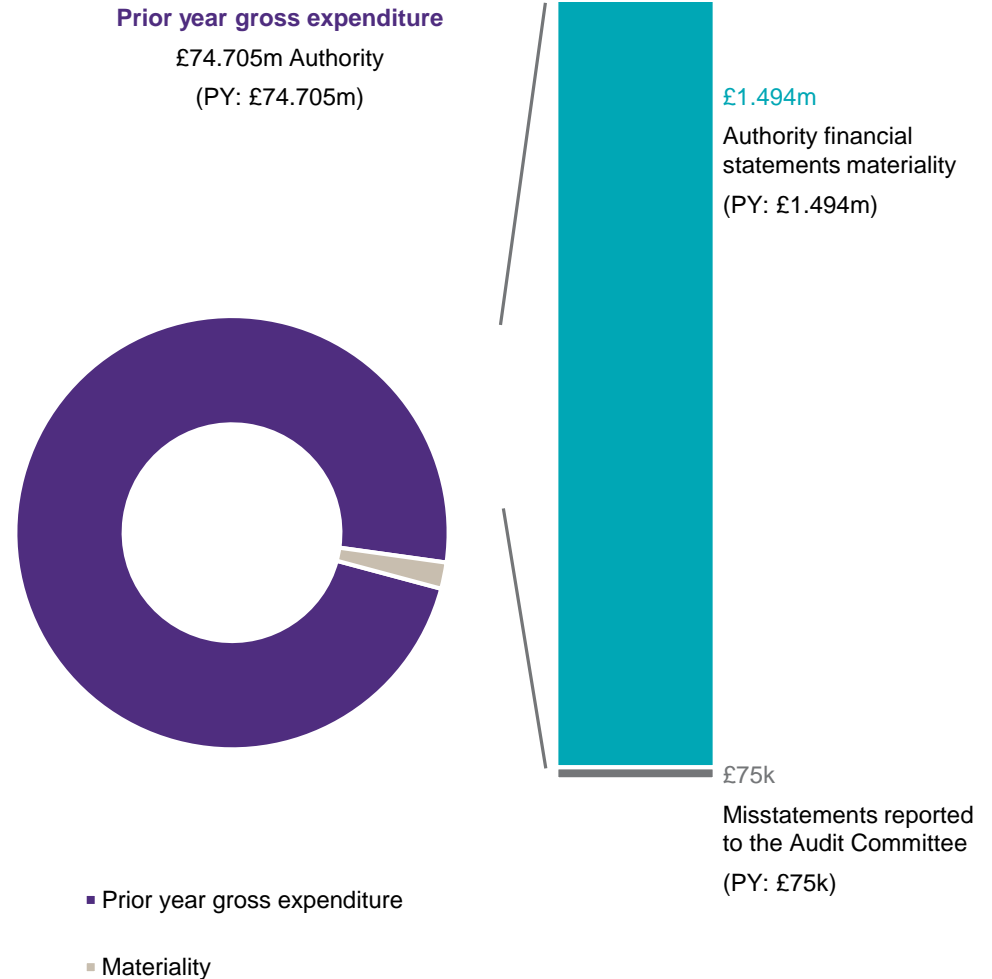
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.494m (PY £1.494m), which equates to 2.00% of your prior year gross expenditure for the year.

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

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £75,000 (PY £75,000).

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



Value for Money arrangements

DRAFT

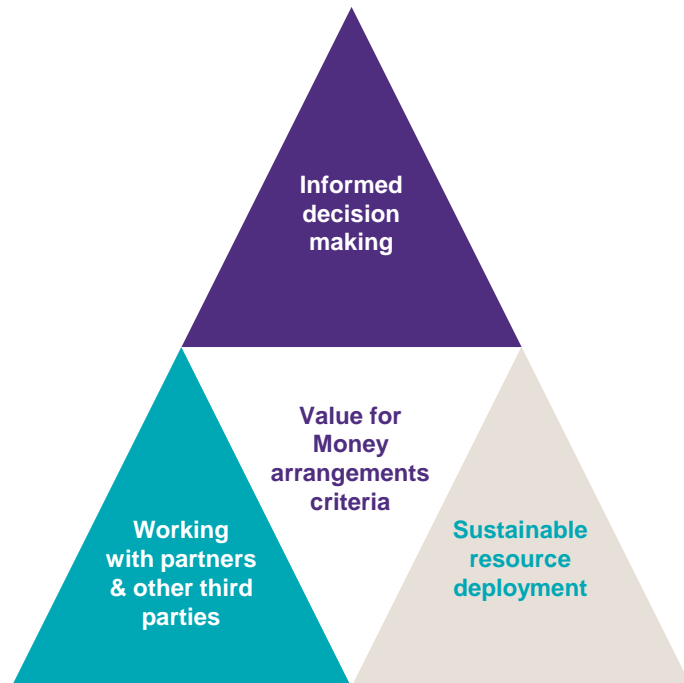
Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



Significant VFM risks

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



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

You are operating against a backdrop of:

- Funding reductions
- Changes in legislative and policy requirements
- Changes to the regulatory bodies and frameworks

At the same time you are investing in new fire vehicles and increasing the number of fire officers over the coming years. You have a significant capital programme, £43m over five years, which is key to your medium and long term financial sustainability. You have longer term plans for the use of reserves which are in line with financial prudence and responsible financial planning. Nevertheless, significant funding uncertainty remains over the medium term, including risks from the fair funding review.

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

Audit logistics, team & fees

DRAFT



Paul Grady, Engagement Lead

Paul leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards. Paul will be the main point of contact for the Chair, Chief Fire Officer and committee members. He will share his wealth of knowledge and experience across the sector, providing challenge and sharing good practice. Paul will sign our audit opinion.

Jillian Burrows, Senior Audit Manager

Jillian plans, manages and leads the delivery of the audit. She is the key point of contact for your Finance team and is your the first point of contact for discussing any significant issues. Jillian will work with the senior members of the finance team, ensuring early delivery of testing and agreement of accounting issues on a timely basis. Jillian will attend Audit Committees, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all.

Lazaros Pilafas, Audit Incharge

Lazaros is responsible for the delivery of the audit, acting as first port of call for the finance team in light of any technical financial matters. Lazaros monitors the deliverables with your finance team, highlighting any significant issues and adjustments to senior management. Lazaros will ensure the audit is delivered effectively and efficiently, and will supervise and co-ordinate the on-site audit team.

Audit fees

The planned audit fees are £24,966 (PY: £32,424) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, you must ensure that:

- all audit queries in our interim and final work are responded to in a timely manner and all required samples provided to enable completion of the interim audit prior to the end of March.
- the draft accounts are provided to us by 31 May and are fully accurate with minimal errors. Supporting schedules to all figures in the accounts and other working papers are provided to us by 31 May and in accordance with the agreed upon information request list. This must include all notes, the narrative report and AGS.
- the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples. All supporting schedules are clearly presented and agree to figures in the accounts.
- key management and accounting staff identified in our information request list are available throughout the duration of our audit visits to help us locate information and to provide explanations.
- all audit queries are resolved promptly and fully and within agreed timescales.

If any of the above requirements are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Independence & non-audit services

DRAFT

Auditor independence

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

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

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

Other services provided by Grant Thornton

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

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

Page 22

DRAFT



© 2018 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

This page is intentionally left blank

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	6TH JUNE 2019	REPORT NO:	CFO/019/19
PRESENTING OFFICER	IAN CUMMINS, DIRECTOR OF FINANCE		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	SLT		
TITLE OF REPORT:	TREASURY MANAGEMENT 2018/19 ANNUAL REPORT		

APPENDICES:	APPENDIX A: TREASURY MANAGEMENT 2018/19 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 2018/19. 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 2018/19 (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 2018/2019 – 2022/2023 Budget and Financial Plan report, CFO/004/18, considered by Members at the Authority meeting on 22nd February 2018, set the Authority's treasury management strategy for 2018/19:

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

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

The strategy covers:

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

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

Interim Treasury Management report

7. The interim treasury management report, CFO/078/18, was considered by Members at the Policy and Resources Committee on 13th December, 2018. The report confirmed that to date treasury management activity in 2018/19 had been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.

Annual Outturn Treasury Management report

8. The Treasury Management Annual Report 2018/19 is attached as Appendix A to this report and demonstrates that treasury management activity has been carried out in-line with the approved Treasury Management Strategy and therefore within the borrowing and treasury management limits set by the Authority throughout the year. Treasury Management practices have maintained full compliance with the relevant Codes and Statutes.

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

Equality and Diversity Implications

10. None arising from this report.

Staff Implications

11. None arising from this report.

Legal Implications

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

Financial Implications & Value for Money

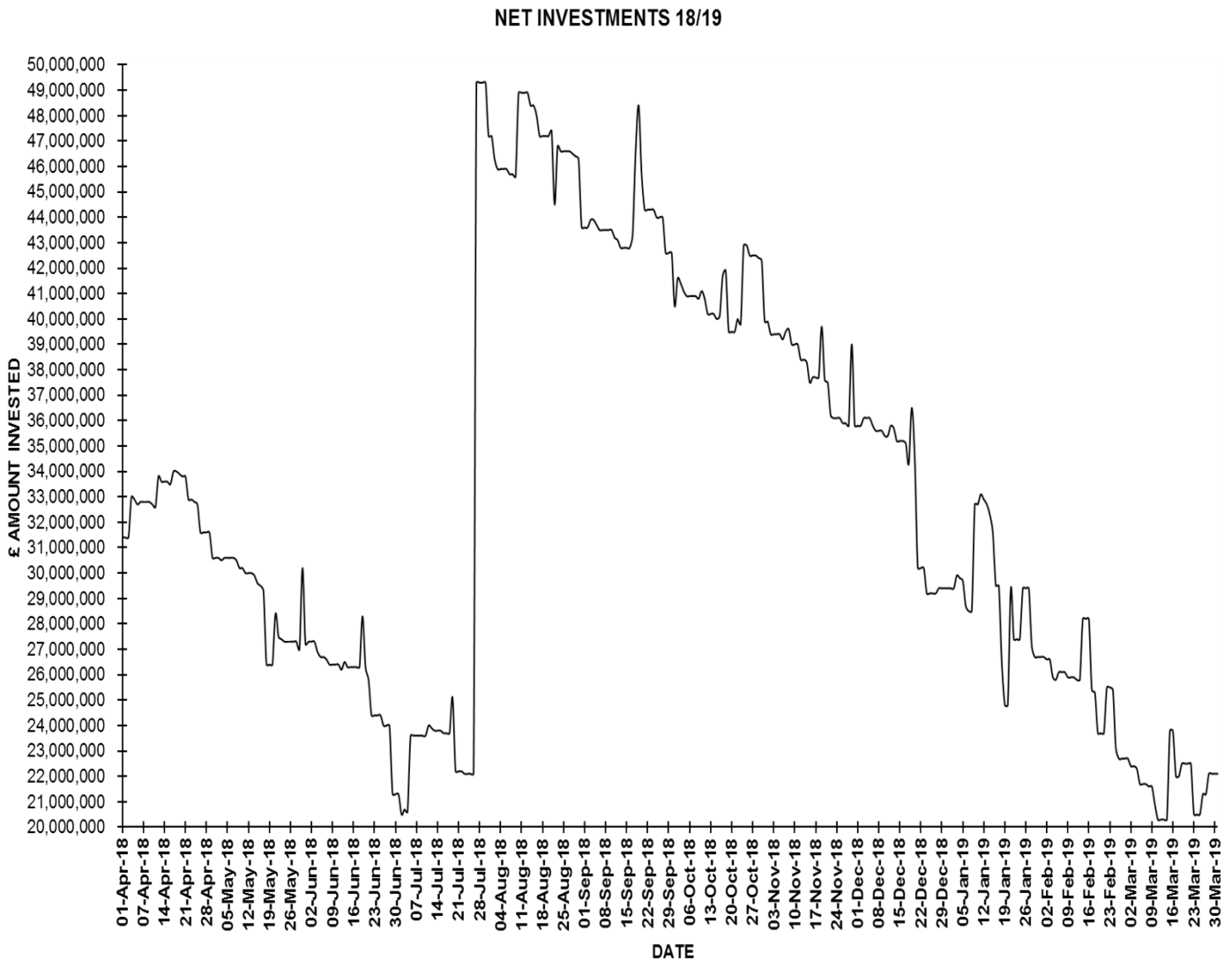
13. The cost of Treasury Management Services was £21,837 in 2018/19 and was provided by Liverpool City Council.
14. The Authority's overall debt outstanding during the year reduced from £38.1m to £37.6m:-

	For Periods ending (2018/19)													Closing Position
	Opening Position	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
PWLB	38,100		0	0	0	0	0	0	0	0	-500	0	0	37,600
	38,100	0	0	0	0	0	0	0	0	0	-500	0	0	37,600

15. The reduction in debt of £0.5m was due to the repayment of a £0.5m loan that matured in the year.
16. The Authority paid total interest of £2.0m on all the debt during the year which was consistent with the budget. The reason for no new loans being taken out in the year (and as a consequence lower interest payments) is due to the current strategy of using available cash to fund capital investment rather than seek new loans while investment interest rates are so low.
17. The movement on the level of opening and closing investments is summarised below:

	£'m
01/04/18	31.4
31/03/19	22.1

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



18. The reason why the level of investments increased in the year is that the Authority receives significant grant income in advance of actual expenditure. For example the firefighter pension grant of £27.3m was paid in July but actual pension payments are spread throughout the year.
19. A combination of the grants received in advance of expenditure and the cash available as a consequence of the current reserve strategy meant the Authority had £22.1m of investments at the year-end.
20. The investments are held in institutions that reflect the approved investment strategy. The table overleaf outlines the £22.1m of investments held as at 31st March 2019;

GLOSSARY OF TERMS

TREASURY MANAGEMENT ANNUAL REPORT 2018/19

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 2018/19.
2. The strategy for the year was identified in the Treasury Management Strategy Statement 2018/19. The strategy covers the following areas:
 - (a) prospects for interest rates;
 - (b) capital borrowing and debt rescheduling;
 - (c) annual investment strategy;
 - (d) external debt prudential indicators;
 - (e) treasury management prudential indicators.
 - (f) performance indicators;
 - (g) treasury management advisors

PROSPECTS FOR INTEREST RATES

3. Investment returns remained low during 2018/19. The expectation for interest rates within the treasury management strategy for 2018/19 was that the Bank Rate would rise from 0.50% to 0.75%. At the start of 2018-19, and after UK GDP growth had proved disappointingly weak in the first few months of 2018, the expectation for the timing of this increase was pushed back from May to August 2018. Investment interest rates were therefore on a gently rising trend in the first half of the year after April, in anticipation that the Monetary Policy Committee (MPC) would raise the Bank Rate in August. This duly happened at the MPC meeting on 2 August 2018. It was not expected that the MPC would raise the Bank Rate again during 2018-19 after August in view of the fact that the UK was entering into a time of major uncertainty with Brexit due in March 2019. Value was therefore sought by placing longer term investments after 2 August where cash balances were sufficient to allow this.
4. Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.
5. Continued uncertainty in the aftermath of the 2008 financial crisis has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.
6. PWLB rates and gilt yields have continued to experience exceptional levels of volatility linked to geo-political, sovereign debt crisis and emerging market developments. Long Term PWLB rates peaked during October 2018 at 2.99% before falling sharply to a low of 2.47% by the close of the financial year

7. The overall structure of interest rates has for some time meant that short term rates have remained lower than long term rates. In this scenario, the strategy has continued to be to reduce investments and borrow for short periods and possibly at variable rates when required. However, this needs careful review to avoid incurring higher borrowing costs in the future when the authority may not be able to avoid new borrowing to finance capital expenditure and/or refinance maturing debt.

CAPITAL BORROWINGS AND DEBT RESCHEDULING

8. The borrowing requirement comprises the expected movements in the Capital Financing Requirement and reserves plus any maturing debt which will need to be re-financed. The Authority did not envisage that any new long term borrowing would be required in 2018/19 and no new borrowing was arranged. Market conditions continued to be unfavourable for any debt rescheduling.

ANNUAL INVESTMENT STRATEGY

9. The investment strategy for 2018/19 set out the priorities as the security of capital and liquidity of investments. Investments are made in accordance with central government regulations and CIPFA Code of Practice. Investments are made in sterling with an institution on the counterparty list and for a maximum of one-year duration.
10. Extreme caution was taken in placing investments to ensure security of funds rather than rate of return. The use of deposit accounts with high rated or nationalised banks and AAA rated money market funds has enabled reasonable returns in a low interest rate environment. The credit ratings and individual limits for each institution to be used by the Authority in 2018/19 are outlined below:

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

The average rate of return achieved on average principal available in 2018/19 was 0.82%. This compares with an average seven day deposit (7 day libid) rate of 0.51%.

11. The Investment Strategy specified that investments are only made with banks with a high credit rating. UK banks must have at least an "A" long term rating for inclusion on the Authority's counterparty list. The money markets are continually monitored for information regarding the creditworthiness of financial institutions and notifications are received of any changes to credit ratings made by any of the rating agencies. An institution is immediately suspended from the Authority's list of institutions should any doubt arise about its financial standing regardless of whether its credit rating is downgraded.

EXTERNAL DEBT PRUDENTIAL INDICATORS

12. The external debt indicators of prudence for 2018/19 required by the Prudential Code were set in the strategy as follows:

Authorised limit for external debt:	£74 million
Operational boundary for external debt:	£57 million

Against these limits, the maximum amount of debt reached at any time in the financial year 2018/19 was £38.1 million.

13. **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2017/18) plus the estimates of any additional capital financing requirement for the current (2018/19) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allows the Authority some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Authority's gross borrowing position against the CFR. The Authority has complied with this prudential indicator.

	31 March 2018	31 March 2019	31 March 2019
	Actual	Estimate	Actual
	£'m	£'m	£'m
Capital Financing Requirement	64.3	64.5	58.3
Less: PFI	(18.5)	(18.1)	(18.1)
Less:MRD	(0.3)	(0.3)	(0.3)
Borrowing CFR	45.5	46.1	39.9
Existing Debt Portfolio	38.1	37.6	37.6
Over(-)/Under borrowing	7.4	8.5	2.3
Borrowing as a % of CFR	83.7%	81.6%	94.2%

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

14. The treasury management indicators of prudence for 2018/19 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 2018/19 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 2018/19 was as follows:

Maturity Period	Upper Limit	Lower Limit	Maximum Actual	Minimum Actual
Under 12 months	50%	0%	2%	1%
12 months and within 24 months	50%	0%	1%	0%
24 months and within 5 years	50%	0%	9%	8%
5 years and within 10 years	50%	0%	0%	0%
10 years and above	90%	0%	90%	89%

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

The limit for investments of longer than 365 days was set at £2 million for 2018/19. No such investments were placed during 2018/19.

PERFORMANCE INDICATORS

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

16. The indicators for the treasury function are:

Borrowing - Average rate of long term borrowing for the year compared to average available. No new long term borrowing was arranged in 2018/19.

Investments – Internal returns compared to the 7 day LIBID rate. The return in the financial year 2018/19 was 0.31% above the benchmark.

TREASURY MANAGEMENT ADVISORS

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

- Technical support on treasury matters, capital finance issues.
- Economic and interest rate analysis.
- Debt services which includes advice on the timing of borrowing.
- Debt rescheduling advice surrounding the existing portfolio.
- Generic investment advice on interest rates, timing and investment instruments.

- Credit ratings/market information service comprising the three main credit rating agencies.

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

CONCLUSION

19. Treasury Management activity in 2018/19 has been carried out in compliance with the relevant Codes and Statutes and within the borrowing and treasury management limits set by the Authority under the prudential code.

This page is intentionally left blank

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	06 JUNE 2019	REPORT NO:	CFO/020/19
PRESENTING OFFICER	IAN CUMMINS, DIRECTOR OF FINANCE		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:			
TITLE OF REPORT:	2018/19 ANNUAL YEAR-END INTERNAL AUDIT REPORT		

APPENDICES:	APPENDIX A: ANNUAL INTERNAL AUDIT REPORT AND OPINION
--------------------	---

Purpose of Report

1. To present to Members the Annual Year End Internal Audit report for 2018/19.

Recommendation

2. That Members note the contents of the report.

Introduction and Background

1. Internal Audit is an independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper economic, efficient and effective use of resources (Source: Code of Practice for Internal Audit in Local Government).
2. The Authority has a statutory duty to ensure that it maintains an adequate and effective system of Internal Audit of its accounting records and control systems (Accounts and Audit Regulations 2015).
3. In order to fulfil these functions the Authority buy-in Internal Audit service's from Liverpool City Council. Each year Internal Audit submit a plan for their work following consultation with the Director of Finance and other key officers. This plan is set based upon an assessment of risks, previous findings and the relationship with External Audit work. The 201819 plan was considered by the Audit and Scrutiny Sub-Committee on 7th June, 2018 (CFO/026/18).
4. The Internal Audit outturn report for 2018/19 is attached as Appendix A. On the basis of the reviews undertaken Internal Audit have concluded that ***“it is our opinion that we can provide Substantial Assurance that the system of internal control in place at Merseyside Fire & Rescue accords with proper practice....The 2018/19 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 2018/19 we are not aware of any significant control weaknesses within the Service which impact on the Annual Governance Statement”

5. Appendix A provides a brief overview of the key findings of each audit carried out in 2018/19. During 2018/19 Internal Audit have completed nine audits of major systems, an additional five are at the reporting stage, and with a further two are at the 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. The table below summaries the audit review and findings:

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Creditors	Substantial	Substantial	Minor
Debtors	Substantial	Substantial	Minor
Procurement (National Resilience)	Substantial	Substantial	Minor
Governance (Avon Review)	Substantial	Substantial	Minor
Payroll*	<i>Draft</i>	<i>Draft</i>	<i>Draft</i>
Medium Term Financial Plan	<i>In Review</i>	<i>In Review</i>	<i>In Review</i>
Budgetary Control	<i>In Review</i>	<i>In Review</i>	<i>In Review</i>
Treasury Management	<i>Fieldwork</i>	<i>Fieldwork</i>	<i>Fieldwork</i>
PFI – review of monthly payment and adjustment process between tripartite authorities.	<i>Substantial</i>	Substantial	<i>Minor</i>
Review workshop arrangements for procurement of small value items*	<i>Good</i>	Substantial	<i>Minor</i>
Management of ancillary fleet*	<i>Acceptable</i>	Acceptable	<i>Moderate</i>
Compliance with Protective Security Strategy	<i>Advisory memo</i>	<i>Advisory memo</i>	<i>Advisory memo</i>
Review of firefighters pensioners administration control	<i>In Review</i>	<i>In Review</i>	<i>In Review</i>
Review of data protection processes	<i>In Review</i>	<i>In Review</i>	<i>In Review</i>
Counter Fraud Policies	<i>Fieldwork</i>	<i>Fieldwork</i>	<i>Fieldwork</i>
Special Services charging process	<i>Deferred</i>	<i>Deferred</i>	<i>Deferred</i>
MFRS applications	<i>Deferred</i>	<i>Deferred</i>	<i>Deferred</i>

6. 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

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

10. The cost of the Internal Audit Service from Liverpool City Council in 2018/19 was £35,500. The Authority had made adequate budget provision in 2018/19 to pay for these audit services.

Risk Management, Health & Safety, and Environmental Implications

11. None contained within this report.

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

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

BACKGROUND PAPERS

CFO/026/18 Annual Internal Audit Plan 2018/19” Audit Sub-Committee 7th June 2018.

Account & Audit Regulations 2015

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

GLOSSARY OF TERMS

This page is intentionally left blank



Liverpool
City Council

Internal Audit Service

Merseyside Fire & Rescue Service -
Annual Internal Audit Report and Opinion
2018/19



Contents		Page
1	Introduction	3
2	Internal Audit Opinion 2018/19	4
3	Summary of Audit Work Completed	4
4	Recommendation Implementation	8
5	Quality Assurance and Improvement Programme Results	8
6	Organisational Independence	9
7	Statement on Conformance with PSIAS	9
8	Definitions of Audit Assurance	11

Reporting Officer:	Melanie Dexter – Audit Manager
--------------------	--------------------------------

1 Introduction

- 1.1 This report summarises the work that Internal Audit has undertaken across Merseyside Fire & Rescue Service during the 2018/19 financial year, the service for which is provided by Liverpool City Council, Internal Audit.
- 1.2 The purpose of the Annual Internal Audit Report is to meet the Chief Audit Executive's (CAE) annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS). It sets out the requirement for the CAE (for the service this is the Head of Internal Audit) to report to senior officers and the 'Board' (for the service this is the Audit Committee) to help inform their opinions on the effectiveness of the framework of governance, risk and control in operation within the Authority. The PSIAS requirements are that the report must incorporate:
- An annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (the control environment);
 - a summary of the audit work that supports the opinion; and
 - a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme (QAIP).
- 1.3 The audit work has been carried out in accordance with the 2018/19 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 audits and the audit opinion is separated between control environment (the controls in place) and compliance (whether or not the controls have been adhered to) so it is easier to identify where corrective action is needed.
- 1.4 We have liaised with senior management throughout the year to ensure that internal audit work undertaken continues to focus on the high-risk areas and in the light of new and ongoing developments in the service, to help ensure the most appropriate use of our resources.
- 1.5 The Annual Internal Audit Report is an important source of evidence for the Annual Governance Statement, and this report is timed to support the preparation of this Statement for the 2018/19 year.
- 1.6 We would like to thank those officers throughout the Authority who provided their assistance and cooperation in the course of our work throughout the year.

2 Internal Audit Opinion 2018/19

- 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 2018/19, it is our opinion that we can provide **Substantial** Assurance that the system of internal control in place at Merseyside Fire & Rescue accords with proper practice. This opinion is based on the individual assurance levels we have provided for each of the audit reviews undertaken during the year, and includes consideration of the wider sources of assurance provided to the Authority.
- 2.2 The 2018/19 fundamental systems audits completed to date have shown a substantial level of compliance and none of the audits have identified weaknesses that have required a corporate impact assessment of major or moderate. Based on the audit work carried out in 2018/19 we are not aware of any significant control weaknesses, which impact on the Annual Governance Statement.
- 2.3 We undertake individual internal audits with the overall objective of providing members, the Chief Fire Officer, the 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 8. The table below summarises the opinions given on internal audit work in 2018/19.

Fig 1 Summary of Opinions provided in 2018/19

Assurance Level	Control Environment	Compliance	
Substantial	6	7	
Good	1	1	
Acceptable	1	-	
Limited	-	-	
None	-	-	
Advisory	1	1	
Sub-total	9	9	
Audits not yet reported	5	5	
Total Audits Completed	14	14	
Audits at fieldwork stage			2
Audits Deferred			2
Total			18

3 Summary of Audit Work Completed

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

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

Fig 2 Completed fundamental systems audits from the 2018/19 audit plan

Audit Title	Control Environment	Compliance	Corporate Impact
General Ledger	Substantial	Substantial	Minor
Creditors	Substantial	Substantial	Minor
Debtors	Substantial	Substantial	Minor
Procurement (National Resilience)	Substantial	Substantial	Minor
Governance (Avon Review)	Substantial	Substantial	Minor
Payroll*	<i>Draft</i>	<i>Draft</i>	<i>Draft</i>
Medium Term Financial Plan	<i>In Review</i>	<i>In Review</i>	<i>In Review</i>
Budgetary Control	<i>In Review</i>	<i>In Review</i>	<i>In Review</i>
Treasury Management	<i>Fieldwork</i>	<i>Fieldwork</i>	<i>Fieldwork</i>

Definition

*Draft - Draft report issued and awaiting management response prior to final opinion being issued

General Ledger, Creditors, Debtors

3.3 Our audit of each of these key financial was finalised in May 2019, and we were able to provide opinions of substantial/substantial/minor for all of these reviews. No significant control weaknesses were identified and a strong control environment continues to be maintained.

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

Procurement - National Resilience Initiative

3.5 The objective of this audit was to review the processes and controls that have been established as part of the new National Resilience Initiative. Testing focussed upon staff costs within both Merseyside Fire and Rescue and other fire services, training costs, central support costs, transport and financial reporting. Testing identified that controls are generally satisfactory in those areas examined. One recommendation was made in relation to the review of secondment agreements and we have been informed that this review is already in progress.

Avon Review (Governance)

3.6 In July 2017, a Secretary of State report was published under section 10 of the Local Government Act (LGA) 1999, which identified failings in the areas of governance, leadership and culture at Avon Fire and Rescue Authority. The scope of this audit was therefore to examine existing arrangements within Merseyside Fire and Rescue Authority (MFRA), based upon the directions issued to the Avon inspector, and to report on any areas of weakness. Our findings concluded that we could offer substantial assurance that controls were operating effectively. We identified a minor issue in relation to the Officers’ Code of Conduct, in that, although it referred to the Nolan Principles, it did not explain them. We therefore made a recommendation to address this.

Payroll

3.7 In addition to reviewing payroll key controls, additional substantive testing was performed to ensure that honoraria, sickness and maternity leave are reflected accurately in payments/deductions made to employees. The draft audit report with recommendations is currently with the payroll manager for consideration.

Medium Term Financial Plan/budgetary control

3.8 These reviews have examined whether the Authority’s medium term financial position reflects savings requirements and that appropriate proposals have been developed to achieve them. We have also considered the budget monitoring arrangements to provide an overall opinion as to whether the controls in place are adequate and effective in order to underpin an effective budgetary control process. The audit is currently in review so it would be inappropriate at this stage to provide an overall opinion until it has been agreed by management.

Treasury Management

3.9 A service level agreement exists between MFRA and Liverpool City Council covering the provision of treasury management services. We therefore place assurance on the audit work undertaken of the LCC Treasury Management system where the systems overlap. Sample testing is also performed of MFRA transactions and documentation as part of the audit.

Fig 3 Other Strategic/Client directed audits completed in 2018/19

Audit Title	Control Environment	Compliance	Corporate Impact
PFI – review of monthly payment and adjustment process between tripartite authorities.	Substantial	Substantial	Minor
Review workshop arrangements for procurement of small value items*	Good	Substantial	Minor
Management of ancillary fleet*	Acceptable	Acceptable	Moderate

Audit Title	Control Environment	Compliance	Corporate Impact
Compliance with Protective Security Strategy	Advisory memo	Advisory memo	Advisory memo
Review of firefighters pensioners administration control	<i>In Review</i>	<i>In Review</i>	<i>In Review</i>
Review of data protection processes	<i>In Review</i>	<i>In Review</i>	<i>In Review</i>
Counter Fraud Policies	<i>Fieldwork</i>	<i>Fieldwork</i>	<i>Fieldwork</i>
Special Services charging process	<i>Deferred</i>	<i>Deferred</i>	<i>Deferred</i>
MFRS applications	<i>Deferred</i>	<i>Deferred</i>	<i>Deferred</i>

Definition

*Draft - Draft report issued and awaiting management response.

PFI Unitary Charge

- 3.10 The audit provided a substantial level of assurance that systems and procedures are in place to provide assurance that the recovery of the unitary charge from Lancashire and Cumbria is accurate and paid within the specified time scale.

Workshops - Corporate Cards

- 3.11 The scope of the audit was to examine the controls in place that are designed to ensure expenditure incurred on corporate cards is accurately recorded both on the fleet management system and the financial ledger and that the usage and administration of the corporate cards within the department is appropriate and achieves value for money. Testing identified effective post transaction checks. However, there are limited controls in advance of purchase; we have therefore made recommendations in this regard.

Management of Ancillary Fleet

- 3.12 The scope of the review was to assess whether the ancillary fleet is utilised and managed effectively and efficiently and to establish whether current operating practices represent best value. We noted a number of good practices adopted during our audit such as the transport asset management plan 2017/2022. However, a formally approved ancillary vehicle management strategy does not exist, which limits the scope to measure and monitor the efficiency and effectiveness of the vehicles, and the role of the ancillary vehicles in the delivery of the Authority's commitment to providing best value for money.

Compliance with Protective Security Strategy

- 3.13 Internal Audit were asked to review the process followed by the Authority to establish how compliance with the Fire and Rescue Protective Security Strategy 2012 is assessed. Although this document, along with a Framework and Toolkit is still on the Chief Fire Officers Association website the Cabinet Office updated the Framework in early 2014. We therefore have used the more recent framework to perform the review.

Annual Internal Audit Report 2018/19

- 3.14 We have detailed on both areas of compliance and any areas where there are potential gaps / improvements required. As this was a piece of advisory work, no opinion has been given.

Firefighters Pensioners Payroll

- 3.15 The scope of the audit is to ensure that new recruits are entered on the correct pension scheme, contributions are allocated correctly, variances are investigated, overtime is correctly classified and payments to leavers are correct. The audit is currently in review so it would be inappropriate at this stage to provide an overall opinion until it has been agreed by management.

Data Protection Processes

- 3.16 This review focusses upon determining if roles and responsibilities, policies and procedures have been developed and implemented in line with Data Protection Act 2018 requirements. Testing encompasses reviewing, and ensuring privacy notices are in place and consent obtained where appropriate, and that data is collected and stored in line with minimum legislative requirements. This audit is currently also in review so it would be inappropriate at this stage to provide an overall opinion.

Counterfraud Policies

- 3.17 Internal Audit is currently reviewing the authority's counter fraud policies to advise on whether any updates are necessary.

Contingency/Responsive/Advice and Assistance

- 3.18 No contingency/responsive time was allocated this financial year.

4 Recommendation Implementation

- 4.1 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. Whilst five of this year's audits contained recommendations, only two contained recommendations requiring follow up, and the implementation dates for these are yet to fall due. There are three recommendations outstanding relating to three former audits; the implementation dates have been extended for two and we are awaiting information for the other.

5 Quality Assurance and Improvement Programme

- 5.1 It is a requirement of PSIAS for the Chief Audit Executive to develop and maintain a QAIP that covers all aspects of internal audit activity.
- 5.2 The Internal Audit Service has had long-standing governance arrangements in place for quality assurance and improvement that pre-date the introduction of the PSIAS and the QAIP. In the main, the development of the QAIP involved bringing together the existing arrangements in a formalised framework.
- 5.3 The QAIP is made up of internal and external assessments. It is a requirement of the PSIAS for the results of assessments against the QAIP to be reported in the Annual Report.
- 5.4 Based on the results of the internal assessments we can conclude that Internal Audit complied with the main requirements of the standards. Areas for improvement were

Annual Internal Audit Report 2018/19

identified and actions have been put in place against these. The annual review of both the Charter and the QAIP is scheduled to take place in July 2019.

- 5.5 External assessments are required to be undertaken at least every five years. During 2016/17 Internal Audit were subject to an external assessment by Glasgow City Council. The assessment concluded that Internal Audit complies with the main requirements of the standards. Of these recommendations made, all have been fully implemented.
- 5.6 During the year, the Internal Audit Service also retained ISO accreditation (to a new ISO standard) following an audit of the quality system arrangements. This was based on an external assessment.
- 5.7 Based on the results of the QAIP for 2018/19 the Head of Internal Audit can confirm that internal audit activity conforms to the International Standards for the Professional Practice of Internal Auditing and with the requirements of PSIAS and the Code of Ethics.

6 Organisational Independence

- 6.1 PSIAS require the Head of Internal Audit to confirm to the Audit Committee the organisational independence of the internal audit activity.
- 6.2 The arrangements in place to ensure organisational independence of the Internal Audit Service are outlined in the Internal Audit Charter. The Charter establishes the framework within which Liverpool City Council's Internal Audit Service operates to best serve MFRA and to meet its professional obligations under applicable professional standards.
- 6.3 Underpinning the Internal Audit Charter, operational procedures are in place to govern day-to-day audit activity and this includes arrangements to ensure independence and objectivity.

7 Statement of Conformance with PSIAS

- 7.1 Internal Audit has been assessed internally by the Chief Audit Executive, and through and external peer review, as conforming to PSIAS.
- 7.2 The table below summarises budgeted and projected actual audit days, when accounting for time required to finalise the four audits that are currently in review and the two audits in progress, based on an agreed 112 days' work.

Fig 5 Actual v Budgeted Days

Audit Title	Planned	Actual
Fundamentals	40	45
Strategic reviews/client directed/ad-hoc reviews	45	58
Contingency	14	0
Follow Up	5	1
Audit management	8	8
Total	112	112

8 Definitions of audit assurance

- 8.1 Internal Audit uses an overall opinion grading for audits and some responsive work. Where no issues surrounding the control environment are found, a substantial level of assurance will be given on the controls tested. However, where weaknesses with controls have been identified, depending on the potential impact of those weaknesses, a lower graded assurance level will be given.
- 8.2 The grades, which are summarised in the table below, are based on the ratings of the audit recommendations being made. The corporate impact rating sets the audit findings in context based on the overall risk to the Service.

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

This page is intentionally left blank

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	6TH JUNE 2019	REPORT NO:	CFO/018/19
PRESENTING OFFICER	IAN CUMMINS, DIRECTOR OF FINANCE		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	STRATEGIC LEADERSHIP TEAM		
TITLE OF REPORT:	THE ANNUAL GOVERNANCE STATEMENT 2018/2019		

APPENDICES:	APPENDIX A: 2018/19 ANNUAL GOVERNANCE STATEMENT
--------------------	--

Purpose of Report

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

Recommendation

2. That Members approve the 2018/2019 Annual Governance Statement.

Introduction and Background

3. The Annual Governance Statement (AGS) is the formal statement that recognises, records and publishes a Council or Authority's governance arrangements. Attached as Appendix A to this report is the 2018/19 AGS for MFRA which explains the processes and procedures in place to enable the Authority to carry out its functions effectively. The AGS also links into the Annual Statement of Assurance by providing assurance about the Authority's governance framework.
4. The CIPFA/SOLACE – Delivering Good Governance in Local Government Framework is deemed to represent best practice in relation to internal control. This framework recommends that the review of the effectiveness of the system of internal control should be reported as part of the AGS. The annual review of the effectiveness of the Authority's internal control system has been undertaken and, in accordance with the CIPFA guidance, incorporated in the attached AGS. The AGS identifies the ways in which the Authority has ensured that its control mechanisms are adequate during the year, including internal and external audit. The overall conclusion of the AGS is that the system of internal control is adequate (any control system can provide only reasonable assurance and not absolute assurance).

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

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

Risk Management, Health & Safety, and Environmental Implications

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

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

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

BACKGROUND PAPERS

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

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

GLOSSARY OF TERMS

SOLACE Society of Local Authority Chief Executives and Senior Managers

CIPFA Chartered Institute of Public Finance and Accountancy

AGS Annual Governance Statement

This page is intentionally left blank

2018-2019 MERSEYSIDE FIRE AND RESCUE AUTHORITY **ANNUAL GOVERNANCE STATEMENT**

1.0 SCOPE OF RESPONSIBILITY

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

2.0 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems and processes, culture and values, for the direction and control of the Authority and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at the Authority for a number of years and in particular for the year ended 31st March 2019.

3.0 THE GOVERNANCE FRAMEWORK

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

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

3.2.1 After consulting with the citizens of Merseyside and service users, assessing current risks and service priorities, the Authority prepares an Integrated Risk Management Plan (IRMP) that sets out the mission, aims and service objectives for the organisation. The Authority approved a new IRMP, 2017/20, on 23rd February 2017. The IRMP established the service priorities for 2017/20. The Authority is currently consulting on a draft supplement to the Integrated Risk Managed Plan (IRMP) 2017-20. If approved, the alternative proposals contained within the supplement will extend the current plan to 2021, aligning it to our medium term financial plans.

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

- **Excellent Operational Preparedness**

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

- **Excellent Operational Response**

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

- **Excellent Prevention and Protection**

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

- **Excellent People**

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

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

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

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

3.4 The Internal Control Environment:

3.4.1 The Authority's internal control mechanism 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 Policy and decision making process

The Authority has meaningful democratic control over its activities via an **approved committee structure** with agreed Terms of Reference that are reviewed once a year by the Authority at its Annual General Meeting. The Authority has a **written Constitution** that was reviewed in 2018/19 and approved by the Authority at its meeting on 14th June 2018 (CFO/037/18), which is published and sets out how the Authority operates, how decisions are made, and the procedures which are followed to ensure these are efficient, transparent and accountable to local citizens. The Constitution is reviewed every year by the Authority at its AGM.

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

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

3.4.3 Management Structure

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

3.4.4 Established Policies, Procedures & Regulations

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

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

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

3.4.6 Internal Audit function

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

3.4.7 Risk Management Strategy

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

3.4.8 Financial Management

The Authority produces a five year financial plan that takes into account Revenue, Capital, Reserves and Prudential Borrowing forecasts. The Authority has a history of strong and effective financial management, as confirmed in the Grant Thornton 2017/18 Annual Audit Letter and Audit Findings Report;

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

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

4.0 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 SLT and other senior managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 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 14th June 2018 the format and structure of its democratic decision process by approving the powers and make-up of the approved committees. The full and detailed list of committee responsibilities can be found in the Constitution document on the Authority's web site, but are summarised as follows;

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

Committee where an allegation which could constitute misconduct or gross misconduct is made against the Chief Fire Officer, Deputy Chief Fire Officer or the Monitoring Officer.

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

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

- The Appeals Committee – to consider whether to assent to applications for specific licences as may be referred to the Committee by the Health and Safety Executive or the Chief Fire Officer.

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 2018/19 Service Delivery Plan broke down the Authority's key objectives for the year and identified a lead officer for each project. A "traffic light" system identified the actual progress against performance indicators throughout the year and any areas of concern with options to bring the project back on track were reported to management and the Community Safety and Protection Committee. SLT received regular updates from managers on the delivery of services against targets throughout the year and this allowed senior management an opportunity to scrutinise progress. Performance against Local Performance Indicators is considered in depth each month by the Performance Management Group.

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

4.4.4 The Authority employed appropriate professional staff:

- A Statutory Monitoring Officer under the Local Government and Housing Act 1989 (LGHA) s.5 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 under the Local Government Act 1985 (LGA 1985) s.73 to ensure the proper and effective administration of the financial affairs of the Authority. The Director of Finance fulfils this role and is a qualified and experienced accountant. The Director of Finance is supported in this role by a Head of Finance and finance team that includes a number of professionally qualified and experienced finance staff. The Director of Finance ensures the Authority has an approved, realistic and affordable five year financial plan for revenue and capital expenditure which links to the IRMP and the Service Delivery Plan. The financial planning process is well embedded and understood across the Authority by staff and members. Details of the approved budget are available to all stakeholders in a simple and summarised statement on the Authority's website.

The above statutory posts are key members of SLT

4.4.5 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 2017/18 and it is anticipated this will be repeated in 2018/19. 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 2018/19, prioritised by a combination of the key internal controls, assessment and review on the basis of risk, was approved by the Authority during the year. All internal audit reports included an assessment of the internal controls and prioritised action plans, if relevant, to address any areas needing improvement. These reports were submitted to the relevant managers as appropriate and the Director of Finance. An interim and year-end Internal Audit Plan reports are submitted to the Audit sub Committee that included summary findings of all completed audit reports and implementation of any agreed recommendations. The Annual Review of Internal Audit Report concluded that:

"it is our opinion that we can provide Substantial Assurance that the system of internal control in place at Merseyside Fire & Rescue Service accords with proper practice.The 2018/19 fundamental systems audits completed to date have shown a substantial level of compliance and none of the audits have identified weaknesses that have required a corporate impact assessment of major or moderate. Based on the audit work carried out in

2018/19 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 seven 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 2018/19 statutory financial statements and make a VFM conclusion during the 2019/20 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 2018/19 the Auditor’s Annual Audit Findings Report and Audit Annual Letter covering 2017/18 confirmed the Authority’s overall performance continues to be strong and the Authority received an unqualified opinion on the 2017/18 financial statements.

SIGNIFICANT GOVERNANCE ISSUES

4.7 Following the announcement of the 2016/17 - 2019/20 Local Government Finance Settlement the Authority faced a significant reduction in the level of government grant support over this period. The reduction in Government support over this period has meant the Authority faced at least an £11m financial challenge, assuming all budget assumptions remain valid. The Authority approved a financial plan to meet this challenge at the 2016/17, Budget Authority meeting, and updated and ratified the plan at the 2017/18 & 2018/19 Budget Authority meetings. In light of increased operational and protection risks (following a number of national and international incidents), and expected findings from Her Majesty’s Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS), the Authority approved a £1m investment back into frontline service in the 2019/20 five year medium term financial plan. The Chief Fire Officer and Director of Finance have been challenged with delivering the required saving to fund the £1m from expected savings on servicing historic capital debt and the annual deficit payment relating to historic accrued benefits in the Local Government Pension Scheme.

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 £1m savings required in the current financial plan to fund the £1m re-investment in frontline services.
- 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.
- 4.9.2** The recruitment of sufficient firefighters to maintain the required response staffing levels in light of the fact the Authority may lose approximately half of its current firefighters through natural retirements over the next five years of so. The Authority has established a recruitment reserve so it can fund the required recruitment in advance of the expected retirements over the period.
- 4.9.3** Taken together these factors result in a significant potential risk to the Authority’s medium term financial plan. Reliable monitoring and forecasting processes are in place and the Director of Finance will ensure any variation to assumptions made in the medium term financial plan are identified at the earliest possible time. The Financial Review reports will keep Members informed on the impact of any variation to the assumptions in the financial plan and recommended corrective action.
- 4.10** The Policing and Crime Act 2017 places a statutory duty on the three emergency services (Ambulance, Fire and Police) to keep collaboration opportunities under review and to collaborate where this would improve efficiency and effectiveness. The Authority continues to maintain ongoing discussions with Merseyside Police and North West Ambulance Service on developing opportunities for greater collaboration.
- 4.11** Under the Cities and Local Government Devolution Act 2016, in November 2015, the Government agreed to devolve a range of powers and responsibility to the Liverpool City Region Combined Authority. The model includes a directly elected City Region Mayor over the Combined Authority Area, who was elected in May 2017. The Mayor may seek to take over the future governance of the Merseyside OPCC and Merseyside Fire and Rescue Authority at some future point, subject to the relevant support from the Government. The Authority will work with the Merseyside Police, the Office of the Police and Crime Commissioner and the Liverpool City Region Mayor, if asked, to establish the future governance arrangement for Merseyside Fire and Rescue Service.

Signed.....
 XXXXXXXX
 CHAIR of Policy and Resources Committee

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

Signed
 I. CUMMINS
 DIRECTOR OF FINANCE

MERSEYSIDE FIRE AND RESCUE AUTHORITY			
MEETING OF THE:	AUDIT COMMITTEE		
DATE:	6 JUNE 2019	REPORT NO:	CFO/017/19
PRESENTING OFFICER	IAN CUMMINS, TREASURER		
RESPONSIBLE OFFICER:	IAN CUMMINS	REPORT AUTHOR:	IAN CUMMINS
OFFICERS CONSULTED:	SLT		
TITLE OF REPORT:	2019/20 INTERNAL AUDIT PLAN		

APPENDICES:	APPENDIX A:	2019/20 AUDIT PLAN
--------------------	--------------------	---------------------------

Purpose of Report

1. To notify Members of the proposed Internal Audit plan for 2019/20 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 2019/20 Internal Audit Plan

Introduction and Background

3. Internal Audit – Definition;

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

5. Each year Internal Audit submit a work plan following consultation with the Strategic Leadership Team, Director of Finance, Head of Finance and other key officers. This plan is set based upon an assessment of risks, previous findings and the relationship with External Audit work. The two main strategic areas of work are:
 - a. A review of fundamental financial systems and processes, and
 - b. Specific project reviews requested by the Service.
6. The proposed 2019/20 audit plan is attached as Appendix A to this report and Members are asked to consider the plan and provide any comments or opinions they might have on the proposed plan, and subject to any proposed amendments approve the 2019/20 Internal Audit Plan
7. Arrangements have been set in place for monitoring progress against the plan on an ongoing basis and for closely managing any ad hoc work requirements during the year.

Equality and Diversity Implications

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

Staff Implications

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

Legal Implications

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

Financial Implications & Value for Money

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

Risk Management, Health & Safety, and Environmental Implications

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

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

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

BACKGROUND PAPERS

GLOSSARY OF TERMS

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

This page is intentionally left blank

APPENDIX A**STRATEGIC AUDIT PLAN**

		19/20 Audit Days	19/20 Audit Days
	Fundamental Systems		40
	Strategic Reviews / Client directed / Ad hoc reviews		
1	Review new Debit / Credit Card client payment process introduced in SHQ canteen.	4	
2	Workshops – Controls/Process around work for 3rd parties e.g., Liverpool City Council, MOT etc.	5	
3	Lease / Provided ESV car controls – review management of information process to ensure it meets HMRC expectations (pre HMRC visit).	5	
4	Review Special Services charging process (c/fwd from 2018/19)	5	
5	Examine the governance and delivery processes for the procurement or internal development of MFRS applications (c/fwd from 2018/19)	5	
6	Cyber Security – Carried out every 3 years	5	
7	HMICFRS Inspection outcome for MFRA – Work with relevant MFFS management to assist with reviewing processes / implementing changes in areas identified as needing improving using skills of internal audit as appropriate.	13	
	Strategic Reviews / Client directed / Ad hoc reviews		42
	Contingency - Investigations/Responsive / Advice & Assistance		14
	Follow up		5
	Audit Management		8
	Fire fighter safety		
	Total Planned Days		<u>112</u>

This page is intentionally left blank