

MERSEYSIDE FIRE AND RESCUE AUTHORITY

4 JUNE 2020

MINUTES

Present: Cllr Linda Maloney (Chair) Councillors Del Arnall, Anthony Boyle, Janet Grace, Andrew Makinson and Lisa Preston

Apologies of absence were received from:

9. Chair's Announcement

At the start of the meeting, the Acting Monitoring Officer advised Members that the Chair of the Committee had advised that they had been experiencing some intermittent technical difficulties; and although they were in attendance at present, they could not guarantee that they would remain present throughout. Therefore, on that basis, they would not be able to act as Chair for this meeting. As such, Members were called upon to move that another voting Members take the Chair for this meeting.

Cllr Linda Maloney nominated Cllr Jan Grace to Chair the meeting, which was seconded by Cllr Preston.

All Members agreed, therefore the Acting Monitoring Officer confirmed that Cllr Jan Grace was appointed as Chair of the meeting.

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

It was confirmed to all present that the proceedings of the meeting would be recorded.

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

Members were informed that Michael Green was in attendance representing the Authority's External Auditor – Grant Thornton; and that he would be presenting Agenda Item 4.

Members were also advised that Melanie Dexter was in attendance, representing Internal Audit.

1. Preliminary Matters

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

Members 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 determined as matters of urgency, were determined by the Chair; and
- c) The following item of business contained exempt information; and therefore may require the exclusion of the press and public during consideration thereof:
 - Agenda Item 3 – EXEMPT Minutes – 18th March 2020.

These Minutes contain EXEMPT information, by virtue of Paragraphs 1 and 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

2. Minutes of Previous Meeting

The Minutes of the previous meeting, held on 13th February 2020, were considered and approved as a correct record; and for signature by the Chair.

3. EXEMPT Minutes - 18th March 2020

Members considered the Minutes of the additional meeting of the Audit Committee, held on 18th March 2020, which contain ***EXEMPT information by virtue of Paragraphs 1 and 3 of Part 1 of Scheduled 12A of the Local Government Act 1972.***

Members were informed that should any discussion be required in relation to these Minutes, the item would be moved to the end of the Agenda, to enable discussion to take place in closed session.

Members indicated that they did wish to discuss the Minutes, therefore this item was moved to the end of the Agenda, following Agenda Item 8.

The Minutes of the additional meeting of the Audit Committee, held on 18th March 2020, were subsequently approved as a correct record and for signature by the Chair.

4. External Audit Plan 2019-20

Michael Green representing the Authority's External Auditors – Grant Thornton, provided Members with an overview of the External Audit Plan, for the audit of the financial statements and value for money conclusion, for the year ending 31st March 2020.

Members were provided with an overview of the report, which highlighted some of the key aspects.

The significant risks identified with regard to the financial statements, based on the planning work that has been undertaken throughout the year, were highlighted to Members.

Members were informed that the risks are consistent with those identified in previous years, with the exception of one additional risk identified this year, linked to the Covid-19 pandemic.

The risk of revenue recognition was highlighted, which is a significant risk that is a feature of all audits. However, for MFRA, Members were advised that this risk has been rebutted, based on the fact that sources of funding are mainly through grant funding and other sources of statutory income. Therefore, it is believed that there is very little risk of manipulation or error in that regard.

Members were advised that another significant risk is around the management override of controls, which is a standard audit risk for all organisations, which auditors are unable to rebut under audit standards; and which are generally linked to the potential for the financial statements to be misreported through the use of journal entries or the use of management override of controls. Members were advised that the auditors do not feel that there are any specific risks for MFRA as a result of this.

A significant risk around the valuation of land and buildings was then highlighted, which Members were advised formed a key feature of the audit last year, primarily due to the level of estimation and assumption that goes into deriving the valuation of properties within the Authority's balance sheet, which is a material amount.

A further significant risk highlighted, was around the valuation of the pension fund net liability, which is a very complex, technical area, with input from actuarial experts; and again, there is a high level of estimation and assumption associated with this area. Members were advised that in previous years, there have been a number of issues identified which led to material adjustments to the financial statements; and that this continues to be a risk for the auditors to evaluate.

The additional risk added for this year, around Covid-19, was highlighted to Members; and they were informed that this is a risk that has been included for all audit clients for this year. Members were advised that this links to the impact of lockdown, with individuals working remotely; and auditors are simply considering whether the Authority has maintained appropriate arrangements,

processes and controls, to ensure that the financial statements are prepared accurately. Members were advised that there are also issues around the fluctuation that is inherent within cross-cutting areas, such as property valuations, the impact on pensions due to changes in market activity; and several other areas, which could have been impacted due to lockdown and the state of the economy generally.

The proposed responses to those risks that Grant Thornton propose to carry out, were then highlighted to Members, which are detailed within the report.

In terms of materiality for the audit, Members were informed that this has been set at just over £1.5m for the year, which is a slight increase on the materiality for last year; and equates to around 2% of the Authority's gross expenditure. Members were informed that any errors, or misstatements that are identified over £77k, will be reported back to the Audit Committee, within the External Audit – Audit Findings Report, later in the year.

With regards to value for money, Members were informed that the auditors conduct a review of that area as part of their audit. They were advised that based on the risk assessments carried out in planning, a significant risk has been identified around the medium and longer term financial sustainability of the organisation, which primarily reflects the fact that the Authority has a very significant capital programme underway. They were advised that the auditors want to ensure that the impact of that is well managed and planned; and that the Authority maintain a suitable level of reserves over that period.

In terms of the delivery of the audit, Members were advised that planning work has already taken place, which has resulted in this Audit Plan. They were informed that in a typical year, the audit would be carried out during June and July, with the outcomes reported towards the end of July. However, Covid-19 has had an impact on the timetable; and the Authority have now been granted an extension for producing their financial statements, to the end of August; and the audit deadline has been extended to the end of November for this year.

Members were informed that the auditors have been discussing this with officers; and plans are in place to produce the final financial statements, well in advance of the August deadline; with the audit work commencing sometime in July, and the majority of the work conducted during August.

It was confirmed to Members that Grant Thornton remain independent as the Authority's external auditors; and the fee proposal was also highlighted to Members, which is a reduction on the outturn fee for 2019/20. Members were advised that the fee is slightly higher than the published scale fee, due to a number of reasons, some of which are recurrent in nature, due to changes in audit requirements and the level of work required to be produced.

A question was raised by Members regarding the impact of Covid-19 on the auditors proposed responses; and whether there has been any delay as a result of lockdown.

Members were informed that from the start of lockdown, auditors have all been working from home, although due to the use of technology, audits have been

able to progress through to completion. Members were informed that working remotely has had a slight impact, due to the elapsed time that the audit is taking. However, Members were advised that auditors are confident that they will be able to deliver the audit; and work with officers to get the assurances that they require, to be able to report back to this Audit Committee later in the year.

Members Resolved that:

The content of the report be noted.

5. TREASURY MANAGEMENT 2019/20 ANNUAL REPORT

Members considered Report CFO/025/20 of the Treasurer, concerning the activities of the Treasury Management operation and actual performance against the agreed Prudential Indicators in 2019/20.

Members were informed that 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. They were also advised that the Authority is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

Members were advised that the Treasury Management Strategy was approved as part of the 2019/20 budget in February 2019; and Members have received updates on the TM performance throughout the year via the quarterly financial reviews and the interim Treasury Management report.

They were informed that this report fulfils the requirement to report on the actual Treasury Management performance for the year, with the report attached at Appendix A.

It was confirmed to Members that the Treasury Management activity in 2019/20 has been carried out in compliance with the approved strategy, relevant codes and statutes.

Some of the key facts were outlined to Members, as follows: -

- No new long term borrowing was taken out in the year.
- Overall debt reduced from £37.6m to £37.3m as a result of the repayment of a £0.3m loan that matured in the year.
- Interest on debt of £1.9m was paid out, which was consistent with the budget.
- Investments stood at £27.0m at the year-end reflecting the level of reserves being held and grants / contributions received in advance of spend.

Members Resolved that:

The Treasury Management Annual Report 2019/20, attached at Appendix A, be noted.

6. 2019/20 ANNUAL YEAR-END INTERNAL AUDIT REPORT

Members considered Report CFO/027/20 of the Treasury, concerning the Annual Year End Internal Audit report for 2019/20.

Members were informed that the report summarises the work carried out by Internal Audit in the year.

Members were provided with a summary of the report, which is attached as Appendix A.

Members were advised that as outlined within Paragraph 4 of the report, the overall conclusion of Internal Audit, which is based on the Internal Audit reviews undertaken in the year, is that in their opinion the 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.

The table on page 42, was highlighted to Members, which summarises the audits completed in the year and the relevant findings. Members were informed that all reviews have identified a Substantial or Good control environment with substantial or good compliance.

Members were also informed that a review of all recent audit recommendations found that approximately 23 lower priority recommendations had yet to be formally implemented, however the expectation is that these should be actioned within the next 3 months.

A question was raised by Members regarding "Computer Assisted Audit Techniques" and whether it was a strategic tool. Members were informed that all audits now utilise this, due to the number of transactions, therefore this technology is utilised to extract and sort information; and to speed up the audit process.

Members Resolved that:

The contents of the report, be noted.

7. 2020/21 INTERNAL AUDIT PLAN

Members considered Report CFO/024/20 of the Treasurer, concerning the proposed Internal Audit Plan for 2020/21.

It was highlighted to Members that the Authority has a statutory duty to ensure it maintains an adequate and effective system of Internal Audit of its accounting records and control systems; and Members were advised that it fulfils this requirement through a contract with Liverpool City Councils Internal Audit Service.

Members were advised that following a consultation with the Strategic Leadership Team and other MFRS officers, a proposed Audit Plan has been prepared for Members consideration, which is attached at Appendix A.

Members were informed that the plan has earmarked approximately 50% of the review days to consider the fundamental systems associated with the accounting and financial control processes to ensure the system of internal control remains effective.

They were also informed that the remaining audit review days have been allocated to work areas identified by the Strategic Leadership Team.

Members Resolved that:

The proposed 2020/21 Internal Audit Plan, be approved.

8. THE ANNUAL GOVERNANCE STATEMENT 2019/2020

Members consider Report CFO/026/20 of the Treasurer, concerning the Authority's Annual Governance Statement.

Members were informed that this statement fulfils the Authority's statutory requirement to prepare a statement of internal control in accordance with proper practice; and to present an annual review of the effectiveness of the current system.

Members were informed that the Annual Governance Statement is attached to the report as Appendix A, and the overall conclusion is that the system of internal control is adequate, however noting that any control system can provide only reasonable assurance and not absolute assurance.

It was highlighted to Members that within the Annual Governance Statement, Section 3 outlines the Governance Framework, which are the key elements of the systems and processes that underpin the Authority's governance arrangements.

They were advised that Section 4 reviews the Effectiveness of the governance arrangements including the system of internal control.

With regards to the "Significant Governance Issues" section on pages 74 – 75, Members were advised that this identifies the 2019/20 and recent historic

challenges faced by the Authority; and considers the 2020/2021 and future years' potential challenges.

Members made reference to the statement within the report, around the expectation that the Government will fully meet the costs of Covid-19 for the Authority, which they stated seems contrary to the view of other authorities. Members therefore sought assurance from officers that this was still expected to be the case.

Members were advised that the position was somewhat different, in terms of the cost of a fire service; and the cost of a local authority, in that local authorities provide a great deal of demand-led activities which have driven up additional costs, as well as the significant loss of income.

Members were advised that for the fire service, there have been two main issues -one being a loss of income from our commercial department; and the other being in terms of the procurement of additional PPE for our staff and some additional staffing costs. Therefore, although there is a significant difference in financial costs to a fire service compared to the costs to a local authority, the Authority has still incurred significant costs.

Members were informed that there is a risk that the £1.4m received may not be sufficient to cover all costs, should the required changes that the Authority has to put in place to its buildings and such; and the loss of income, continue to the end of the financial year. However, the Government has indicated that they are considering, for local authorities and fire authorities, the opportunity to apply for additional funding. As such, officers are confident that should things continue, further funding would be available.

Members were also advised that the Home Office have held back an additional £6m for fire services to bid for, to cover additional activities that they have taken on, which is an extra source of funding available. In addition, they were advised that some funding is also available through the NFCC, to assist in terms of National Resilience.

Members Resolved that:

The 2019/20 Annual Governance Statement, be approved.

Close

Date of next meeting Thursday, 24 September 2020

Signed: _____ Dated: _____