

Minutes of the meeting of the
GOVERNANCE COMMITTEE held
in the Fire and Rescue Service
Headquarters, Barmston Mere on
MONDAY 31 JULY 2017 at
10.30 a.m.

Present:

Item 3

Mr G. N. Cook in the Chair

Councillors Burdis, Dodds, Emerson and Maughan.

In Attendance:

Gavin Barker (Mazars LLP)

Apologies for Absence:

Apologies for absence were submitted to the meeting on behalf of Councillor Kilgour together with Ms G Goodwill and Mr M Knowles.

Declarations of Interest

There were no declarations of interest.

Minutes

7. RESOLVED that the minutes of the meeting of the Governance Committee held on 26 June 2017 be confirmed and signed as a correct record.

Audited Statement of Accounts 2016-2017

- (i) Letter of Representation 2016-17**
- (ii) Audit Completion Report – Year Ended 31 March 2017**
- (iii) Statement of Accounts 2016-17**

The Strategic Finance Manager submitted a report to present the Letter of Representation for 2016/2017 and to receive the Audit Completion Report from Mazars LLP concerning the financial statements for 2016/2017. This provided their opinion on both the Authority's Statement of Accounts and its arrangements for securing economy, efficiency and effectiveness in its use of resources (Value for Money).

In addition the report provided an audited Statement of Accounts for 2016/2017. This had been revised to take into account the auditor's findings, for approval by members. A complete list of the amendments was set out in Appendix A of the report, a revised copy of which was tabled at the meeting and these would be included in the final version of the document.

The Strategic Finance Manager reported that it was his first set of accounts since being appointed as the Authority's Section 151 Officer. He advised that the accounts had been completed two months earlier than the planned deadline in a trial run prior to the new reporting arrangements coming into force. He thanked the auditors, Gavin Barker and his team at Mazars, and the Fire Service's Finance Team for their assistance in achieving this deadline. He advised that he was required to prepare a formal Letter of Representation setting out the principles used in preparing the accounts and providing the external auditor with the necessary assurances required by regulation.

Mazars LLP had audited the financial statements of the Authority in accordance with the relevant regulations and standards and had produced their Audit Completion Report. Gavin Barker was in attendance to present the Audit Completion Report.

Members were advised that the amended Statement of Accounts, noted previously on 26 June, 2017, contained some misstatements which management had assessed as not being material, either individually or in aggregate to the financial statements, and did not plan to adjust. These were detailed in the Audit Completion Report for information. Mazars LLP was to formally provide an unqualified opinion on the audited Statement of Accounts before the end of July 2017, even though the statutory deadline remained 30th September 2017 for the 2016/17 accounts.

The attention of the Committee was drawn to the following papers which were tabled at the meeting and the Strategic Finance Manager explained that this was due to some elements of the audit work still being finalised after the publication of the agenda:

- Appendix A – Statement of Accounts 2016/2017 – Adjustments;
- A revised Letter of Representation with the addition of a paragraph to confirm that the effects of the uncorrected misstatements as included in the auditor's Audit Completion Report were immaterial, both individually and in aggregate, to the statement of accounts as a whole;
- A revised Comprehensive Income and Expenditure Statement and note with the expenditure and funding analysis for the Statement of Accounts 2016/2017; and
- An update to the Audit Completion Report, 2016/17 Audit from Mazars which detailed a summary of the unadjusted misstatements
 - which management had assessed as not being material, either individually or in aggregate to the financial statements, and did not plan to adjust, and
 - those which had been adjusted by management during the course of the audit.

The Strategic Finance Manager reported that it was important that the Committee noted the following overarching issues prior to considering the statement of accounts, namely that:

- the accounts complied with all legal and accounting standards and full cooperation was given to the external auditor and his team;
- the contents of the Audit Completion Report; and the Letter of Representation.

The Strategic Finance Manager reported that the audit of the statement of accounts had now been completed and invited Gavin Barker of Mazars to present his Audit Completion Report and issue the judgement on the accounts.

Mr Barker drew the attention of the Committee to the revised Appendix A to the Audit Completion Report which he had circulated at the meeting. He advised that the items highlighted in red were the changes which had been identified since the initial report had been produced. He added that there had been some unadjusted misstatements however none of these changes had impacted on the overall audit conclusions. He was pleased to report that the audit had been completed and an unqualified audit opinion was to be issued.

The report was very positive and in summary showed that:

- In relation to the Audit Strategy Memorandum, the Auditor had reported that materiality for the financial statements as a whole had been set initially at £731,000 however this had been revised to £757,000 as part of their continuous planning processes. The trivial threshold for reporting matters had therefore been set at £23,000.
- At the time of the report's preparation, the only matter which remained outstanding was a response from the external auditor of the Tyne and Wear Pension Fund. A response was subsequently received and no issues were identified, therefore the matter was resolved.
- The work of the Auditor on the financial statements did not identify any manipulation of the financial position or identify any evidence of management override of controls.

- The calculations for the pension entries in respect of retirement benefits were identified as a significant risk and significant procedures had been undertaken with regard to this highly technical and complex area. Assurance had now been received from the auditors of the Tyne and Wear Pension Fund and there were no issues highlighted to bring to Members' attention. The Auditor confirmed that reasonable assumptions had been used by the actuary and the pension entries had been correctly reflected in the financial statements.
- An additional significant risk in relation to Fire Injury Pensions had been identified. Following the demand from the Home Office for the Authority to repay overpaid historic fire injury pensions of £10.5 million, it was important that the Authority adopted the correct accounting treatment in 2016/2017 financial statements. It was noted that whilst the Authority intended to challenge aspects of the liability, a provision had been made in the accounts for the full repayment in line with proper accounting standards and requirements.

Councillor Burdis referred to the value for money conclusion risk for the Fire Injury Pensions on page 31 of the agenda and enquired if arrangements had been put in place to manage the significant challenge.

The Chief Fire Officer explained that he had requested a meeting with the Minister of State for Policing and the Fire Service on the Fire Injury Pensions so as to try and achieve a better outcome for the Authority. He advised that there were two potential outcomes of either repaying less than the £10.5 million or the full amount. However provision had had to be made in the accounts for the full amount and ways of funding it had been explored; potentially from reserves. He advised that the original deadline from the Home Office had been withdrawn and no further information was available at this time as the Government was currently in recess.

Councillor Maughan enquired whether the Authority could claim that the overpayment could not be recovered if it was beyond the six years limitation in accordance with the Revenue Recovery Act 1980. The Chief Fire Officer reported that he had been liaising with other Fire Services in relation to the issue and a joint application for Counsel's advice was being considered by some Services. He was aware that one Fire Service had already paid their overpayment in full. The Strategic Finance Manager clarified that previously £1.8 million had been provided for by the Authority which was supplemented by a Contingent Liability Note in the accounts but also referred to there being potentially a number of alternative measures to fund the remaining £8.7 million liability, should the Authority accept the liability.

The Chairman advised that seeking Counsel's opinion on the matter jointly with other Fire Services should be pursued. The Chief Fire Officer reported that currently two other Chief Fire Officers were in agreement and they were liaising with a further two Fire Services. He advised that in total there were eleven Fire Services affected. ACO Baines commented that it should also be borne in mind that there was a Council Tax freeze during the years in question and the Fire Injury Pensions Grant had been claimed in good faith.

- The draft financial statements had been produced a month earlier than previously, ahead of the statutory requirement to do so for next year's 2017/2018 financial statements which had been a considerable achievement by officers. Mr Barker reported that much had been learnt from the process and areas of improvement or streamlining of procedures had been identified for the future. He thanked the Strategic Finance Manager and his team for their cooperation, responsiveness and assistance.
- The external auditors had not identified any deficiencies in internal control that required reporting.
- The unadjusted misstatements highlighted in the amended Appendix A would be corrected in the accounts for the following year as there would have been a risk of this leading to a miscalculation. Councillor Dodds requested that care be taken with the wording used. Mr Barker reassured the Committee that the unadjusted misstatements were clearly set out in the disclosures in the statement of accounts.

The attention of the Committee was then drawn to the updated management representation letter which reflected the position of the unadjusted misstatements.

- The external auditors had not identified any other relevant matters relating to the audit that needed to be brought to Members attention; and
- The external auditors had reported that the Authority was also to receive an unqualified Value for Money opinion, which confirmed that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

On the basis of the amendments agreed with the external auditors, Mazars LLP, Mr Barker reported that an unqualified opinion on the amended Statement of Accounts would be given, which the Authority would then have to publish with its Audited Statement of Accounts on its website, appropriately signed by the Chair and re-signed by the Finance Officer in line with the new reporting requirements set out in the Accounts and Audit Regulations 2015.

The Chair having thanked the officers for their valiant efforts in concluding the audit of the Statement of Accounts ahead of the deadline, the Committee:-

8. RESOLVED that:

- (i) the revised Letter of Representation (Item i) be approved;
- (ii) the contents of the External Auditors Audit Completion Report (Item ii) be noted; and

- (iii) the amended Audited Statement of Accounts for the Financial Year ended 31 March 2017 (Item iii) be approved.

(Signed) G. N. COOK,
Chairman.