

Public Document Pack

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Thursday, 26 January 2017 in Main Conference Room, Service Headquarters, Fulwood commencing at 10.00 am.

IF YOU HAVE ANY QUERIES REGARDING THE AGENDA PAPERS OR REQUIRE ANY FURTHER INFORMATION PLEASE INITIALLY CONTACT DIANE BROOKS ON TELEPHONE NUMBER PRESTON (01772) 866720 AND SHE WILL BE PLEASED TO ASSIST.

AGENDA

PART 1 (open to press and public)

Chairman's Announcement – Openness of Local Government Bodies Regulations 2014

Any persons present at the meeting may photograph, film or record the proceedings, during the public part of the agenda. Any member of the press and public who objects to being photographed, filmed or recorded should let it be known to the Chairman who will then instruct that those persons are not photographed, filmed or recorded.

1. APOLOGIES FOR ABSENCE

2. DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

Members are asked to consider any pecuniary and non-pecuniary interests they may have to disclose to the meeting in relation to matters under consideration on the agenda.

3. MINUTES OF PREVIOUS MEETING (Pages 1 - 4)

4. EXTERNAL AUDIT - ANNUAL AUDIT LETTER 2015/16 (Pages 5 - 18)

5. EXTERNAL AUDIT - AUDIT COMMITTEE UPDATE 2016/17 (Pages 19 - 34)

6. INTERNAL AUDIT MONITORING REPORT (Pages 35 - 44)

7. AUDIT COMMISSION - CONSULTATION ON 2017/18 WORK PROGRAMME AND SCALE OF FEES (Pages 45 - 46)

8. CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS (Pages 47 - 54)

9. AMENDMENTS TO THE SCHEME OF DELEGATION (Pages 55 - 56)

10. RISK MANAGEMENT

(Report to follow)

11. DATE OF NEXT MEETING

The next scheduled meeting of the Committee has been agreed for 10:00 hours on 30 March 2017 in the Main Conference Room, at Lancashire Fire & Rescue Service Headquarters, Fulwood.

Further meetings are scheduled for 22 June 2017 and 28 September 2017.

12. URGENT BUSINESS

An item of business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chairman of the meeting is of the opinion that the item should be considered as a matter of urgency. Wherever possible, the Clerk should be given advance warning of any Member's intention to raise a matter under this heading.

13. EXCLUSION OF PRESS AND PUBLIC

The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act 1972, they consider that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act 1972, indicated under the heading to the item.

PART 2

14. APPOINTMENT OF INTERNAL AUDITING SERVICES

(Oral report)

15. URGENT BUSINESS (PART 2)

An item of business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chairman of the meeting is of the opinion that the item should be considered as a matter of urgency. Wherever possible, the Clerk should be given advance warning of any Member's intention to raise a matter under this heading.

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Thursday, 29 September 2016, at 10.00 am in the Main Conference Room, Service Headquarters, Fulwood.

MINUTES

PRESENT:

Councillors

C Crompton (Chairman)
S Holgate
P Britcliffe
M Khan
M Perks
J Shedwick (Vice-Chair)
D Smith

Officers

C Kenny, Chief Fire Officer (LFRS)
K Mattinson, Director of Corporate Services (LFRS)
J Bowden, Head of Finance (LFRS)
D Brooks, Principal Member Services Officer (LFRS)

In attendance

C Stead, External Audit, Grant Thornton
J Taylor, Internal Audit, Lancashire County Council
L Ellison, Internal Audit, Lancashire County Council

12/16 APOLOGIES FOR ABSENCE

None received.

13/16 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

14/16 MINUTES OF THE LAST MEETING HELD ON 23 JUNE 2016

RESOLVED: - That the Minutes of the last meeting held on the 23rd June 2016 be confirmed as a correct record and signed by the Chairman.

15/16 EXTERNAL AUDIT - LETTER OF REPRESENTATION

As part of the year-end process the Authority was required to sign a letter of representation. This letter confirmed that the Authority had disclosed all relevant information in its accounts for the year in question and that all issues which should have been brought to the attention of the auditors had been.

The Treasurer confirmed that there were no issues that should have been brought to the attention of the auditors but which had not been. The Treasurer confirmed he would sign the letter at the meeting, as there were no further issues which he felt required disclosure.

RESOLVED: - That the Audit Committee authorise the signing of the letter by the Chairman of the Committee.

16/16 EXTERNAL AUDIT - AUDIT FINDINGS REPORT

Under the statutory Code of Audit Practice for Local Government bodies our external auditors, Grant Thornton were required to issue a report to those charged with governance summarising the conclusions from their audit work. Members considered this report which was presented by Caroline Stead.

The main issues within the Audit Findings Report were as follows:-

- Audit opinion - the auditor would give an unqualified opinion on the financial statement,
- Value for money - the auditors proposed giving an unqualified opinion on the value for money conclusion.

In addition it was considered best practice to present the amended statement of accounts. This was originally approved by Resources Committee in 26 June 2016 and the revised accounts including the audit amendments were re-presented to the Resources Committee on 28 September 2016 for re-approval.

Following the audit a number of changes had been made to the accounts, as set out in the report now presented and considered by Members.

RESOLVED:- That the report be noted and the Committee:-

- i) Note the matters raised in the report;
- ii) Note the unqualified opinion on the financial statements;
- iii) Note the value for money conclusion;
- iv) Note the amended Statement of Accounts.

17/16 INTERNAL AUDIT MONITORING REPORT

The Internal Auditors produced a summary of progress against the annual plan for each Audit Committee meeting, setting out progress to date and any significant findings. The report for the period up to 31st August 2016 was presented by Judith Taylor (Senior Auditor for Lancashire County Council).

From the work undertaken to date no key issues had been identified that would have implications for the Authority's overall control environment.

Progress to date in relation to the Plan was provided. Of the 80 total planned days; 27 days had been completed to date. In addition a further 8 days had been spent during the first quarter of the financial year in completing and finalising reviews outstanding from 2015/16 audit plan. The findings from these reviews were reported in the 2015/16 Annual Report that was presented to the Audit Committee at its last meeting in June.

RESOLVED: - That the Committee note the report.

18/16 RISK MANAGEMENT UPDATE

The report highlighted action taken in respect of corporate risk since the last Audit Committee meeting.

The latest review of the corporate risk register had not identified any new risks which warranted inclusion on the corporate risk register. Of the existing risks 2 had been reviewed and an updated corporate risk register was considered by Members.

Risk number 16 was concerned with a lack of clarity on the future of the Fire and Rescue Service leading to inertia. It was noted that the Policing and Crime Bill (which was currently going through Parliament) introduced measures which required the police, fire and rescue, and ambulance services to collaborate with one another. As a minimum, the legislation required Police and Crime Commissioners (PCCs) to be represented on the relevant fire and rescue authority (FRA) (or its committees) with full voting rights, subject to the consent of the Authority. Alternatively, PCCs had the option of putting forward a business case which could include arrangements to take on responsibility for the governance of fire and rescue; or to become the single employer for fire and police, to deliver greater improvements through the integration of back office functions and maximise the benefits of workforce flexibility.

As such future options now appeared to be either: remain as we are or move towards a PCC. Discussions were on-going with the PCC, however at the present time there was no current intention to change governance arrangements. As had always been the case we continued to consult with partner agencies on any proposed major changes within the Service. It was therefore proposed that the risk be discharged from the risk register. Following debate, Members agreed to classify the risk as low and to leave it on the Corporate Risk Register.

Risk number 17 was concerned with the failure of the Emergency Services Mobile Communications Project (ESMSP). The Director of Corporate Services advised that the Service continued to progress work along with the other North West Fire & Rescue Services, as the first region to roll out the proposed solution. There was concern due to slippage of milestones within the national timescale, and there would be further work undertaken within the North West in October to realise some of the operational issues across the three Emergency Services, in conjunction with the National Home Office programme team. There would be a clearer picture towards the end of the year after this work, and further milestones had been reached within the project and the risks would be assessed and updated.

RESOLVED: - That the Committee note the actions taken and endorse the revised corporate risk register; subject to the re-classification of risk number 16.

19/16 INTERNAL AUDIT CHARTER

Members considered the Charter which was presented by Judith Taylor. The Charter established the framework in which Lancashire County Council's Internal Audit Service operated to best serve the Combined Fire Authority and to meet its professional obligations under the Public Sector Internal Audit Standards. The standards required all Internal Audit Services to implement and retain an Internal Audit Charter which defined its purpose, authority and responsibility. The Charter was subject to periodic reviews by the head of internal audit and an amended version was now considered by Members for approval.

RESOLVED: - That the Committee approve the Internal Audit Charter 2016.

20/16 URGENT BUSINESS - APPOINTMENT OF EXTERNAL AUDITOR

The Director of Corporate Services advised Members that the Authority's current external auditor, Grant Thornton was appointed under a contract let by the Audit Commission. However, following closure of the Audit Commission the contract was currently managed by Public Sector Audit Appointments Limited (PSAA), a transitional body set up by the Local Government Association with delegated authority from the Secretary of State for Communities and Local Government.

It was noted that the Authority had received notification from PSAA confirming the Appointment of Grant Thornton to audit the accounts of the Authority for 2017/18; thereby extending the contract by one year.

RESOLVED: - That the report be noted.

21/16 DATE OF NEXT MEETING

The next meeting of the Committee would be held on Thursday 26th January 2017 at 1000 hours in the Main Conference Room at Lancashire Fire and Rescue Service HQ, Fulwood.

Further meeting dates were noted for 30 March 2017 and 22 June 2017 and agreed for 28 September 2017.

M NOLAN
Clerk to CFA

LFRS HQ
Fulwood

LANCASHIRE COMBINED FIRE AUTHORITY AUDIT COMMITTEE

Meeting to be held on 26 January 2017

EXTERNAL AUDIT – ANNUAL AUDIT LETTER 2015/16 (Appendix 1 refers)

Contact for further information: Keith Mattinson – Director of Corporate Services – Telephone 01772 866804.

Executive Summary

The External Auditors Annual Audit Letter provides an overall assessment of the Authority's performance.

The final agreed letter, submitted by Grant Thornton, is attached as Appendix 1.

Decision Required

The Committee is asked to consider noting/endorsing the content of the report as presented.

Information

The Annual Audit Letter represents an overall assessment of our performance, drawing on the auditor's findings and conclusions from their work, which has previously been reported to the Audit Committee. The audit conclusions included in the letter are consistent with those reported in the Audit Findings report, as follows:

- We issued an unqualified opinion on the Authority's 2015/16 financial statements on 29 September 2016, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Authority's financial position and of the income and expenditure recorded by the Authority.
- We issued an unqualified VfM conclusion for 2015/16 on 29 September 2016

Financial Implications

The fees at £30,739 were in line with those previously reported and with the agreed annual budget.

Human Resource Implications

None

Equality and Diversity Implications

None

Environmental Impact

None

Business Risk Implications

The Annual Audit Letter is a public document, which gives an independent assessment of the Authority's performance. As such any failure to meet adequate levels of performance may undermine public confidence, exposing the Authority to a wide range of risks, and leading to potential interventions.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
None		
Reason for inclusion in Part II, if appropriate:		

The Annual Audit Letter for Lancashire Combined Fire Authority

Year ended 31 March 2016

October 2016

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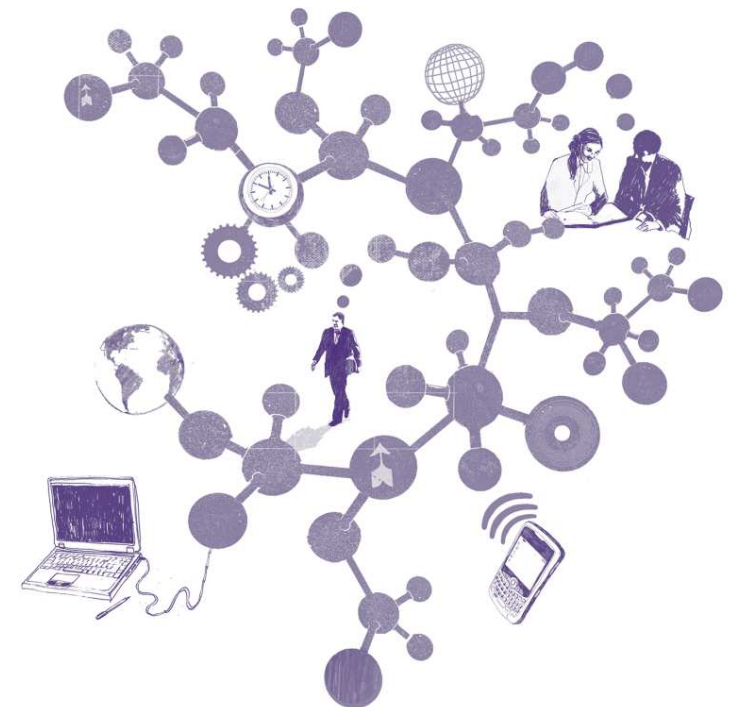
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Lancashire Combined Fire Authority (the Authority) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Authority and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Authority's Audit Committee as those charged with governance in our Audit Findings Report on 29 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Authority's financial statements on 29 September 2016.

Value for money conclusion

We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

Other work completed

Matters arising from the financial statements audit and our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Corporate Services

Working with the Authority

We have worked with you to move towards the early close of the accounts. You have a good track record of preparing your accounts ahead of the deadline and we have worked with you to bring our work forward.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Authority's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Authority's accounts to be £970,000, which is 2% of the Authority's gross revenue expenditure. We used this benchmark, as in our view, users of the Authority's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as auditor's and senior officer remuneration.

We set a lower threshold of £48,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Authority's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Authority and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts - Authority

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a 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 Lancashire Combined Fire 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; and • the culture and ethical frameworks of local authorities, including Lancashire Combined Fire Authority, mean that all forms of fraud are seen as unacceptable. <p>We did not identify any issues to report.</p>
<p>Valuation of property plant and equipment</p> <p>The Authority revalues its property assets on a rolling basis over a five year period.</p> <p>The Code requires that the Authority ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate. • reviewed the competence, expertise and objectivity of any management experts used. • reviewed the instructions issued to valuation experts and the scope of their work • confirmed the basis on which the valuation is carried out and challenged the key assumptions. • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. • tested revaluations made during the year to ensure they are input correctly into the asset register • evaluated 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. <p>We identified the following issues in relation to this risk:</p> <p>For the assets which had been revalued in the year, it was identified there had been a significant change in the value of your asset base. Management reviewed the assets that had not been valued in the year and, following discussions with the valuer, agreed a percentage indexation increase to apply to the rest of your assets.</p> <p>The accounts were amended to reflect this.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed entity level controls • tested journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions <p>We did not identify any issues to report.</p>

Audit of the accounts – Authority continued

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of pension fund net liability</p> <p>The Authority's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> documented the key controls put in place by management to ensure the pension fund liability was not materially misstated. reviewed the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation. gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. reviewed the consistency of the pension fund asset and liability and associated disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We did not identify any issues to report.</p>
<p>Employee remuneration</p> <p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the payroll transaction cycle undertaken walkthrough testing of the key controls to assess the whether those controls were operating in line with our understanding reconciled your payroll system to the general ledger undertaken a trend analysis to identify if there are any variances which needed further explanation tested a sample of payments made to employees to ensure they were correctly calculated. <p>We did not identify any issues to report.</p>
<p>Operating expenses</p> <p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the expenditure transaction cycle undertaken walkthrough testing of the key controls to assess the whether those controls were operating in line with our understanding tested a sample of payments made in the year tested new year payments to confirm they have been included in the correct financial year. <p>We did not identify any issues to report.</p>

Audit of the accounts – Authority continued

Risks identified in our audit plan	How we responded to the risk
<p>Firefighters Pensions Benefit Payments Benefits improperly computed/ claims liability understated Payments to retiring officers are low in volume but high in value and the service is reliant on effective controls both within and outside the organisation to ensure that payments made are valid and accurate.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• documented our understanding of processes and key controls over the firefighters pensions payments transaction cycle• undertaken walkthrough testing of the key controls to assess the whether those controls were operating in line with our understanding• Tested a sample of benefits coming into payment to confirm correctly calculated. <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Authority's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

The Authority made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Authority to the Authority's Audit Committee on 29 September 2016.

Annual Governance Statement and Narrative Report

We are also required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website with the accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Authority and with our knowledge of the Authority.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

We have not used these powers in 2015/16.

Value for Money conclusion

Overall VfM conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. We carried out an initial risk assessment in February 2016 and identified no significant risks. We communicated this to you in our Audit Plan dated 31 March 2016.

We considered risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We continued our review of relevant documents up to the date of giving our report on the 29 September 2016, and did not identify any further significant risks where we needed to perform further work.

Informed decision making

There are sound arrangements in place to support decision making. Budget information is taken to the Authority on an annual basis. The reporting and updating of the medium term financial plan means that the Authority is maintaining a sound financial position.

The Authority's risk management process includes the regular reporting of the risk register to the Audit Committee. The register is well developed and there is evidence that the key strategic risks are considered and updated regularly.

Changes in risks are clearly explained to members and scrutinised by the Audit Committee. The risk register considers the key risks to, mitigations and actions by the Authority around staff and appliance deployment.

Resource deployment

The Authority recognises its staff as the key resource. It has recently refreshed its workforce strategy. As a result, there has been some planned recruitment of firefighters. Efforts continue to support and recruit retained firefighters across the county area although current levels compare favourably with other fire and rescue services.

In setting the 2016/17 budget, decisions were made based on the best estimates of the likely funding settlement. The budget was then updated once the final settlement was confirmed. This revised budget identified that the net budget position is £27.6m which is an improvement of circa £1.1m on the position originally forecast by the Authority. This provides the Authority with greater financial resilience as it seeks to deliver savings across the service.

Working with partners

The Authority has a good track record of working with partners and has continued this in 2015/16. The Authority understands those areas where it can best deliver in partnership with other organisations. Key relationships include the Prince's Trust and other "blue light" services. The Authority has been proactive in piloting both co-responding and shared premises with North West Ambulance Service with the aim of maintaining public safety and reducing costs.

The Authority is a key partner in the control centre with Greater Manchester, Cheshire and Cumbria Fire services. This is now fully operational and provides a control function across the north west footprint

Working with the Authority

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes:

An efficient audit – we delivered the accounts audit ahead of the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work, Reforging local government. We also shared with you our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Providing training – we provided training on financial accounts and key audit issues. The session was attended by your Head of Finance.

We ran a workshop on the impact of early closure on your accounts which was attended by your Head of Finance.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of the Authority	30,739	30,739	40,985
Total fees (excluding VAT)	30,739	30,739	40,985

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Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 26 January 2017

EXTERNAL AUDIT - AUDIT COMMITTEE UPDATE (Appendix 1 refers)

Contact for further information:

Keith Mattinson - Director of Corporate Services - Telephone 01772 866804.

Executive Summary

Attached as Appendix 1 is an Audit Committee update produced by Grant Thornton, our external auditors.

Recommendation

The Committee is asked to note and endorse the report.

Information

Attached as Appendix 1 is an Audit Committee update produced by the Grant Thornton, our external auditors.

The report sets out the following:-

- Progress at January 2017 – in relation to the financial statements and value for money conclusion for 2016/17;
- Accounting and Audit Issues, in relation to:-
 - Changes to the Code of Practice on Local Authority Accounting, which we are currently awaiting details of to incorporate in the accounts;
 - Flexible use of capital receipts, which we do not anticipate taking advantage of in 2016/17;
- Sector Issues, relating to Future Control Room Improvements, and as Members are aware NWFC was one of the improvement projects referred to.

Members may wish to consider which, if any, issues they would like further information on, which could be provided for the next Audit Committee.

Financial Implications

None

Human Resource Implications

None

Equality and Diversity Implications

None

Environmental Impact

None

Business Risk Implications

None

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
None		
Reason for inclusion in Part II, if appropriate:		

Audit Committee Update for Lancashire Combined Fire Authority

Progress Report and Update Year ended 31 March 2017

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January 2017

Karen Murray

Director

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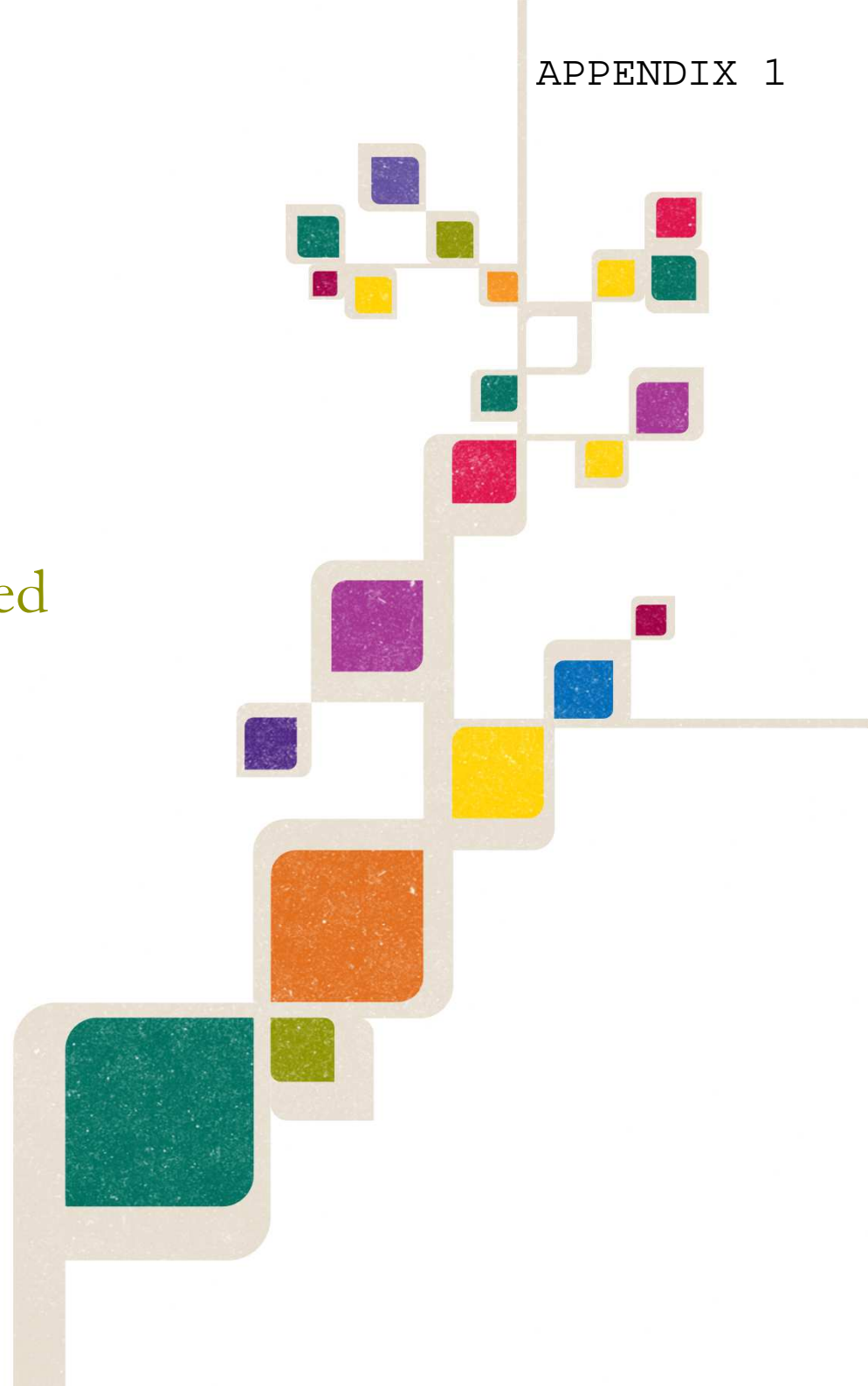
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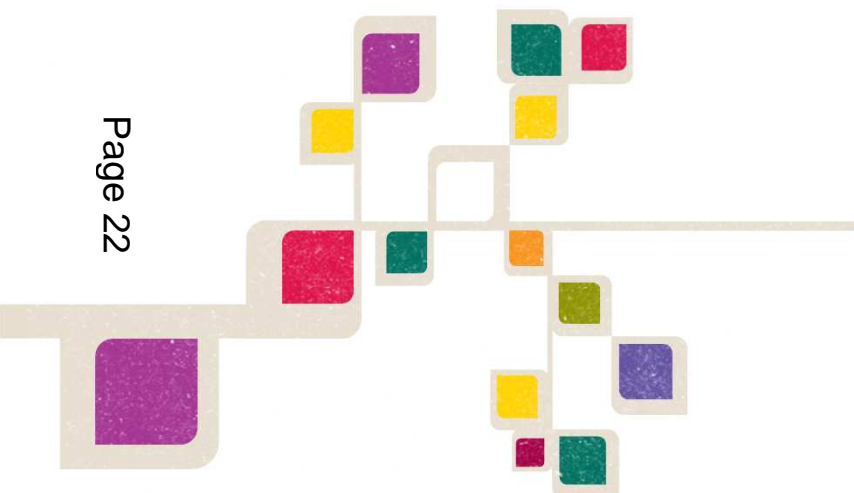
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Introduction

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

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

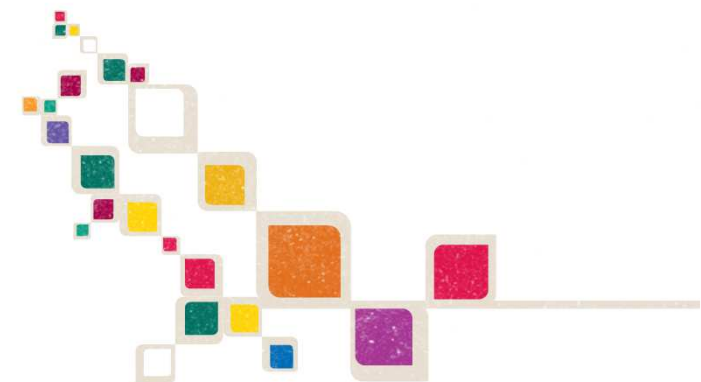
- Advancing closure – the benefits for local authorities (July 2016)
<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>
- Brexit – a public sector perspective (July 2016)
<http://www.grantthornton.co.uk/en/insights/brexit--a-public-sector-perspective/>

Members and officers may also be interested in our recent webinar:

- Cyber security in the public sector: Our short video outlines questions for public sector organisations to ask in defending against cyber crime
<http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/>

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

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




Progress at January 2017



 **Progress against plan**
On track

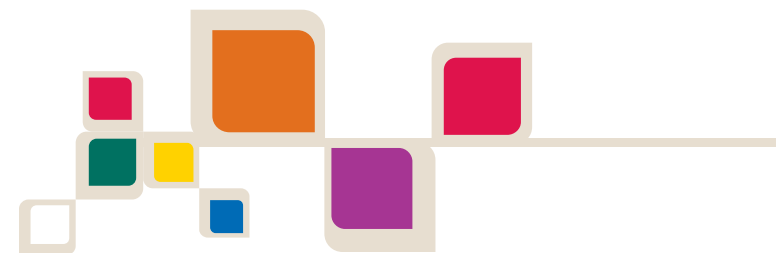
 **Opinion and VfM conclusion**
Issued 28 September 2016

 **Outputs delivered**
Fee letter, Audit Plan, Progress Reports, Audit Findings Report and Annual Audit Letter delivered to plan

2015/16 work Completed Comments

2015/16 work	Completed	Comments
<p>Audit Findings Report and opinion Our Audit Findings Report summarises the key findings from the financial statements and value for money conclusion (VfM) work for the year ended 31 March 2016. We were required to report to those charged with governance by 30 September 2016.</p>	September 2016	<p>We issued an Audit Findings Report and presented it at the 29 September 2016 Audit Committee.</p> <p>An unqualified financial statements opinion, an unqualified VfM opinion and a closure certificate were issued on 29 September 2016.</p>
<p>Annual Audit Letter Our Annual Audit Letter summarises the key findings arising from the work that we have carried out for the year ended 31 March 2016. We were required to agree the report with management and provide a copy for all members by 31 October 2016.</p>	October 2016	<p>We issued our Annual Audit Letter in October 2016. The Letter is also included on the agenda for this committee.</p> <p>The Annual Audit Letter confirms we issued an unqualified financial statements opinion, an unqualified VfM opinion and a closure certificate on 29 September 2016.</p>

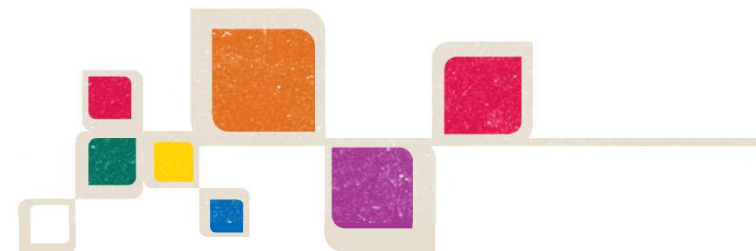
Progress at January 2017



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2016/17 work	Planned Date	Complete?	Comments
<p>Fee Letter</p> <p>We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016.</p>	April 2016	Yes	The 2016/17 fee letter was issued in April 2016
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Fire Authority setting out our proposed approach in order to give an opinion on the Fire Authority's 2016/17 financial statements.</p>	March 2017	In progress	Our audit plan will be reported to the March audit committee.
<p>Interim accounts audit</p> <p>Our interim fieldwork visits include:</p> <ul style="list-style-type: none"> • updating our review of the Fire Authority's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January – March 2017	In Progress	Our interim visit has started in January 2017, with expected completion by March 2017. The findings will be reported in the Audit Plan
<p>Final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2016/17 financial statements • proposed opinion on the Fire Authority's accounts • proposed Value for Money conclusion. 	June – July 2017	Not started	

Progress at January 2017



2016/17 work	Planned Date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2016/17 VfM Conclusion requires conclusions on whether:</p> <p><i>"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</i></p> <p>This change of guidance was issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	<p>March – July 2017</p>	<p>Not started</p>	<p>We anticipate carrying out this work during the interim stage of the audit, with the final results reported in the Audit Findings Report.</p> <p>Any areas of significant risk and focus will be informed to you in the Audit Plan.</p>
<p>Annual Audit Letter</p> <p>We will summarise all the work completed as part of our 2016/17 audit within one letter which will be issued after the opinion.</p>	<p>October 2017</p>	<p>Not started</p>	<p>We will issue an Annual Audit Letter to the Authority in line with specified deadlines after the audit of the 2016/17 financial statements.</p>

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Accounting and audit issues

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Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2016/17. The main changes to the Code include:

- the requirement for local authorities to report in the Comprehensive Income and Expenditure Statement on the same basis as they are organised and report in the year (ie. no longer following SERCOP). This is accompanied by the introduction of a new Expenditure and Funding Analysis which provides a reconciliation between the way local authorities budget and report during the year and the Comprehensive Income and Expenditure Statement.

Accounting and audit issues

Flexible use of capital receipts

DCLG has issued a [Direction and Statutory Guidance](#) on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate on-going revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

Sector issues

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Future Control Room Improvement Government update

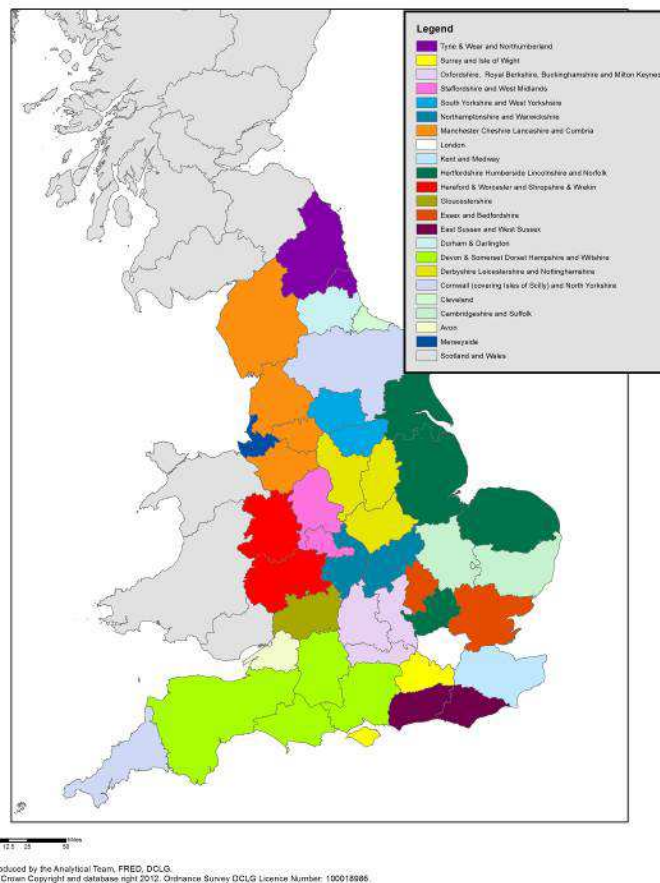
Following the closure of the FiReControl project in December 2010, the Department for Communities and Local Government provided Fire and Rescue Authorities with £81m to deliver improvements to the efficiency and resilience of their fire control rooms.

Published in November 2016, the Future Control Room Improvement report provides a six monthly update on the improvements being delivered by the 22 local Future Control Room projects, setting out delivery dates, resilience benefits, projected savings, and additional benefits the project partnerships have identified.

Six further projects have completed since the December 2015 update, bringing the total number of projects now completed to 18. Four projects remain to be delivered.

Overall, projected savings stand at £141.5 million.

87% of the resilience benefits expected to be delivered by the Scheme, and funded by the grant, are now in place.



The full report can be found at <https://www.gov.uk/government/publications/future-control-room-improvements-fire-and-rescue-authority-schemes-november-2016>

The map across shows:

- i. the project partnerships that have been formed between the fire and rescue authorities; and
- ii. the coverage provided by the completed projects in England, and the coverage that will be provided as the remaining projects complete.

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Grant Thornton Publications

Page 31



Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017/18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
- high quality financial statements as a result of improved quality assurance arrangements;
- greater certainty over in-year monitoring arrangements and financial outturn position for the year, supporting members to make more informed financial decisions for the future;

- improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
- allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.

While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further detail, including:

- enabling sustainable change requires committed leadership underpinned by a culture for success
- efficient and effective systems and processes are essential
- auditors and other external parties need to be on board and kept informed throughout.

Grant Thornton reports

Grant Thornton
An instinct for growth

Advancing closure
Transforming the financial reporting of
local authority accounts

<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>



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LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 26 January 2017

INTERNAL AUDIT MONITORING REPORT

(Appendix 1 refers)

Contact for further information:

Keith Mattinson – Director of Corporate Services – telephone 01772 866804.

Executive Summary

The attached report sets out the current position in respect of the internal audit plan for 2016/17.

Decision Required

The Committee is asked to note/endorse the report.

Information

The internal auditors produce a summary of progress against the annual plan for each Audit Committee meeting, setting out progress to date and any significant findings. The report for the period up to 13 January 2017 is attached as Appendix 1, and will be presented by the Head of Internal Audit.

Financial Implications

None

Human Resource Implications

None

Equality and Diversity Implications

None

Business Risk Implications

None

Environmental Impact

None

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	<u>Date</u>	Contact
None		
Reason for inclusion in Part II, if appropriate:		

**Lancashire Combined Fire Authority
Internal Audit Service
Monitoring report for the period ended
13 January 2017**

1 Purpose of this report

- 1.1 The Annual Audit Plan for 2016/17 was approved by the Audit Committee in March 2016. This report details the progress to date in undertaking the agreed coverage, and highlights any significant issues identified from the audit work performed in this period.
- 1.2 This report covers the period 1 April 2016 to 13 January 2017.

Acknowledgements

- 1.3 We are grateful for the assistance that has been provided to us by all the staff contacted in the course of our work.

2 Key issues and themes arising during the period

- 2.1 From the work undertaken to date no issues have been identified that would have implications for the overall control environment.

3 Internal audit work undertaken

- 3.1 Work carried out during the period 1 April 2016 to 13 January 2017 was in accordance with the agreed audit plan. To date, 35 days have been spent this financial year on completion of the 2016/17 plan, equating to 44% of the total planned audit activity of 80 days.
- 3.2 Additionally, we spent a further 8 days during the first quarter of this financial year in completing and finalising reviews outstanding from the 2015/16 audit plan. The findings from these reviews were reported in our 2015/16 Annual Report presented to the Audit Committee in June.

2016/17 plan

Key Financial Systems

- 3.3 Our audit of the Accounts Payable, Accounts Receivable and General Ledger systems was finalised in October and full assurance was provided across each system. There were no significant matters arising from the audit work undertaken and a strong control environment continues to operate.
- 3.4 Our work included confirming that action had been taken as agreed in relation to the single action raised in our prior year report on Accounts Payable.
- 3.5 Scoping has now been completed for our audit of HR and Payroll and is due to commence shortly for Pensions administration and Treasury management, with fieldwork on each of these audits intended for completion during January and February.

Operational reviews

- 3.6 We completed our audit of the operation of the Tranman stores module in September 2016 and we were able to provide an opinion of substantial assurance.
- 3.7 Our audit confirmed that staff have been trained in the use of the system and have access to additional guidance and support if needed; access permissions are appropriately managed and were found to be relevant to a user's needs; there is

satisfactory separation of duties between the ordering and receipt of goods and the issue of stock, and controls are in place to ensure that only allowable items can be ordered. There are no significant areas of weakness to note and actions have been agreed with management to address a small number of areas for improvement identified.

- 3.8 Scoping has recently been completed for our review of the Tranman fleet system and the activities of the Service Delivery Assurance Team (which comprises the scheduled use of the contingency provision within the audit plan). In both cases, audit fieldwork is scheduled for March to allow the new systems to become embedded.
- 3.9 Our scoping of the absence management review is similarly complete with audit fieldwork commencing on the 23 January alongside our work on HR/ payroll.
- 3.10 The follow up audits of the two operational reviews conducted in 2015/16 relating to the Corporate Programme Board and the Provision of Risk Information to Staff have now started with completion anticipated during February.

Overall summary and assurance provided

- 3.11 We have set out in the table on the following pages a brief summary of the position of each review during the period. This sets out the planned and actual days we have spent on each review, the variance between the days reported, and a summary of the assurance we are able to provide in relation to each system or operational area of your business when work has been finalised. We have distilled the assurance into an assessment of the adequacy of each system, and its effectiveness in operation.

System adequacy: We have defined a system as adequate if its design enables it to achieve its core control objectives which, if operating as intended, serve to manage its inherent risks.

System effectiveness: We have defined a system as operating effectively if, after testing or other supporting evidence has been found, it is operating as intended.

- 3.12 The assurance we can provide over any area of control falls into one of four categories and these are defined at Appendix 1.
- 3.13 In completing our audits, we categorise the issues we raise in the context of the residual risk to which the service is exposed. The agreed actions are therefore defined as 'extreme', 'high', 'medium' or 'low' in relation to the residual risk they are designed to address. The definitions of our residual risk categories are also shown in Appendix 1.

Use of this report

- 3.14 This report has been prepared solely for the use of Lancashire Combined Fire Authority and it would therefore not be appropriate for it or extracts from it to be made available to third parties other than the external auditors. We accept no responsibility to any third party who may receive this report, in whole or in part, for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
2016/17 Internal audit plan						
Key Financial Systems						
General ledger	5	5	0	✓	✓	Our composite report covering each of these audits was finalised in October 2016, with one low residual risk action introduced to address inaccurate fees and charges.
				Full assurance		
Accounts payable	9	9	0	✓	✓	
				Full assurance		
Accounts receivable	5	5	0	✓	✓	Audit scoping is complete and the fieldwork is scheduled to start on the 23 January.
				Full assurance		
HR and Payroll	9	1	8	-	-	
Pensions administration	5	0	5	-	-	Audit scoping is due to start within the next couple of weeks with fieldwork anticipated for completion during February.
Treasury management	5	0	5	-	-	Audit scoping is due to start within the next couple of weeks with fieldwork anticipated for completion during February.
Operational reviews						
Tranman - Fleet	6	1	5	-	-	The audit scoping has been completed and the fieldwork is scheduled to start on the 13 March.

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Absence management	7	0.5	6.5	-	-	Audit scoping is complete and the fieldwork is scheduled to start on the 23 January.
Service Delivery Assurance Team	8	1	7	-	-	The audit scoping has been completed and the fieldwork is scheduled to start on the 6 March.
Tranman - Stores	6	6	0	✓	✓	Our report was finalised in September with two medium and two low residual risk actions agreed in relation to: <ul style="list-style-type: none"> • The monitoring of calls to the Civica helpdesk; • The provision of i-Trent alerts to the Deputy Head of Procurement; • The completion of an interim stock-take before year end; and • The retention of records associated with mini stock-takes.
				Substantial assurance		
Other areas						
Follow up reviews: Corporate Programme Board PORIS	3	1.5	1.5	-	-	The fieldwork for the Corporate Programme Board audit has now been completed and our draft report is being produced. Fieldwork has also commenced on the PORIS follow up review.

Review area	Audit days			Assurance		Key issues/Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
National Fraud Initiative	2	0.5	1.5	-	-	Work has been undertaken on data preparation and submission.
Audit management	10	4.5	5.5	-	-	Time to date includes: <ul style="list-style-type: none"> • Compilation of the 2015/16 Annual Report; • Attendance at meetings of the Audit Committee; • Production of the Internal Audit Monitoring Reports; and • Update of the Internal Audit Charter.
2016/17 days	80	35	45			

Appendix 1

Audit assurance levels

The assurance we can provide over any area of control falls into one of four categories as follows:

Full assurance: there is a sound system of internal control which is designed to meet the service objectives and controls are being consistently applied.

Substantial assurance: there is a generally sound system of internal control, designed to meet the service objectives, and controls are generally being applied consistently. However some weakness in the design and/ or inconsistent application of controls put the achievement of particular objectives at risk.

Limited assurance: weaknesses in the design and/ or inconsistent application of controls put the achievement of the service objectives at risk.

No assurance: weaknesses in control and/ or consistent non-compliance with controls could result/ have resulted in failure to achieve the service objectives.

Risks

We categorise the issues we raise in the context of the residual risk to which the service is exposed. The agreed actions are therefore defined as 'extreme', 'high', 'medium' or 'low' in relation to the residual risk they are designed to address and fall into the following categories:

Extreme residual risk: Critical and urgent in that failure to address the risk could lead to one or more of the following occurring: catastrophic loss of the service, loss of life, significant environmental damage or huge financial loss, with related national press coverage and substantial damage to the service's reputation.

High residual risk: Critical in that failure to address the issue or progress the work could lead to one or more of the following occurring: failure to achieve organisational objectives, disruption to the business, financial loss, fraud, inefficient use of resources, failure to comply with law or regulations, or damage to the service's reputation.

Medium residual risk: Less critical, but failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management.

Low residual risk: Areas that individually have no major impact on achieving the service's objectives or on the work programme, but where combined with others could have an effect at the process level, which could give cause for concern.

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LANCASHIRE COMBINED FIRE AUTHORITY AUDIT COMMITTEE

Meeting to be held on 26 January 2017

AUDIT COMMISSION – CONSULTATION ON 2017/18 WORK PROGRAMME AND SCALES OF FEES

Contact for further information:

Keith Mattinson - Director of Corporate Services - Telephone Number 01772 866804

Executive Summary

Public Sector Audit Appointments Limited (the successor to the Audit Commission) has produced a consultation document on proposed audit work programme and scale of fees for 2017/18 audit of accounts. This sets out the audit areas that will be covered and the fees relating to this. The fees will be maintained at their current level £31k.

Recommendation

The Audit Committee is asked to note the consultation document as set out in the report.

Information

Public Sector Audit Appointments Limited (PSAA) is responsible for managing the audit contracts previously let by the Audit Commission, and will set 2017/18 scale audit fees for relevant local government bodies under statutory powers delegated to it on a transitional basis by the Secretary of State for Communities and Local Government. This is the final year for which PSAA will set fees under the transitional arrangements.

PSAA is now consulting on the proposed work programme and scales of fees for 2017/18 audits. The consultation sets out the work that auditors will undertake, with the associated scale fees.

There are no changes to the overall work programme for 2017/18. They therefore propose that the scale fees are set at the same level as the fees applicable for 2016/17. These fees reflect the significant reductions made to scale fees since 2012/13.

The work that auditors will carry out on the 2017/18 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office.

Following completion of the Audit Commission's final accounts, PSAA has received a payment in respect of the Audit Commission's retained earnings. PSAA will distribute

this and any other surpluses from audit fees to principal local government and police bodies on a timetable to be established during 2017.

The consultation closed on Friday 12 January 2017. Given there was no change in scale of work or fees, and after consultation with the Chairman and Vice-Chairman, we have not submitted a formal response to the document.

Financial Implications

The anticipated fee is reflected in our draft budget for 2017/18.

Human Resource Implications

None

Equality and Diversity Implications

None

Business Risk Implications

None

Environmental Impact

None

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
Reason for inclusion in Part II, if appropriate:		

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 26 January 2017

CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

(Appendix 1 Refers)

Contact for further information:

Keith Mattinson – Director of Corporate Services – Telephone Number 01772 866804.

Executive Summary

The current external audit appointment ends following the conclusion of the 2017/18 audits. As such the Authority will need to make alternative arrangements for appointing an auditor.

The Secretary of State has now appointed Public Sector Audit Appointments to appoint local auditors under a national scheme.

Decision Required

The Committee is asked to recommend opting-in to the national procurement being undertaken by Public Sector Audit Appointments to the full Authority.

Information

As previously reported, the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. As such the Committee agreed, in March 2016, to indicate its intention to “opt-in” to the national Sector Led Body.

The Secretary of State has now appointed Public Sector Audit Appointments to appoint local auditors under a national scheme. The timetable means we need to formally opt in to this scheme by 9 March 2017. Whilst the Audit Committee need to consider this issue, the relevant regulations mean that the full Authority has to reach a decision as to whether they wish to opt in to this or not.

Information relating to the scheme is set out in Appendix 1 but some of the key points are:-

- Auditor appointments will operate for audits of the accounts from 2018/19 and for a period of 5 years.
- The scheme will save time and resources for local government bodies.
- A collective procurement should result in the best prices, keeping the cost of audit as low as possible without compromising on audit quality.
- The Local Audit and Accountability Act 2014 provide that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms’ work will be subject to scrutiny by both the RSB

and the Financial Reporting Council (FRC), under arrangements set out in the Act.

- Public Sector Audit Appointments will only contract with audit firms that have a proven track record in undertaking public audit work.
- Scale fees will be determined by the prices achieved in the auditor procurement and hence will not be known until the exercise is completed. However fee levels will be carefully managed by securing competitive prices from firms and by minimising Public Sector Audit Appointments own costs.
- Contracts are likely to be awarded at the end of June 2017, following which Public Sector Audit Appointments will consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

This is still seen as the best option to pursue at the present time, minimising procurement costs and resources, maximising buying power, and hence likely to result in the lowest fees.

Financial Implications

Opting-in to a national Sector Led Body is anticipated to result in the most competitive audit fees, and will remove the costs of establishing an auditor panel.

Human Resource Implications

None

Equality and Diversity Implications

None

Business Risk Implications

There is no immediate risk to the Authority, however the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

Environmental Impact

None

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
None		
Reason for inclusion in Part II, if appropriate:		

27 October 2016

Email: appointingperson@psaa.co.uk

Chris Kenny
Lancashire Combined Fire Authority
Fire Brigade Head Quarters
Garstang Road Fulwood
Preston PR2 3LH

Copied to: Keith Mattinson, Director of Finance, Lancashire Combined Fire Authority

Dear Mr Kenny

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely



Jon Hayes, Chief Officer

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

- Invitation to opt in issued 27 October 2016
- Closing date for receipt of notices to opt in 9 March 2017
- Contract notice published 20 February 2017
- Award audit contracts By end of June 2017
- Consult on and make auditor appointments By end of December 2017
- Consult on and publish scale fees By end of March 2018

Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.

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LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 26 January 2017

SCHEME OF DELEGATION – PROPOSED AMENDMENTS

Contact for further information:

Keith Mattinson – Director of Corporate Services - Tel No. 01772 866804

Executive Summary

The Scheme of Delegation sets out the powers delegated to the Chief Fire Officer, Treasurer and Clerk to act on behalf of the Authority.

A revision is proposed relating to the delegation of powers relating to staffing proposals.

Decision Required

The Committee is asked to agree the revision to the scheme of delegation.

Information

The Combined Fire Authority operates a Scheme of Delegation, which specifies what powers are delegated to the Chief Fire Officer, Treasurer and Clerk of the Authority.

Currently the scheme sets out the powers delegated to the Chief Fire Officer relating to staffing proposals as:-

To approve in any financial year, subject to the action being within budgetary provision:

- The disestablishment, transfer or extension of up to twenty five posts;
- The creation of up to twenty five posts or part posts and
- The regarding of up to twenty five posts.

This year has seen the Service recommence whole-time recruitment. Current projections show this continuing in future years; the exact timing and number of recruits required will be reviewed on an on-going basis, and is based on forecast number of retirements and leavers. Furthermore the numbers being recruited also need to take account of the need to maintain sufficient staffing levels between recruitment courses; assuming recruits courses are six months apart there can be up to 30 retirements/leavers in that period. Hence the budget includes an allowance to recruit in advance of need by up to 25 personnel. This ensures that we have sufficient personnel to ride fire appliances at all times and provides sufficient lead in time for future recruitment campaigns and recruit courses.

Posts which are surplus to the underlying establishment can be used, in the short term, to deal with new initiatives that arise in year without creating any additional recruitment requirement, and as such it is proposed that the scheme of delegation is amended as

follows to provide this flexibility, whilst maintaining the link to overall staffing budgets and future financial commitments:-

Powers delegated to the Chief Fire Officer to approve in any financial year the creation, disestablishment, regrading, transfer or extension of posts, subject to the action being within approved staffing budget and providing it does not commit the Authority to significant additional expenditure in future years.

Financial Implications

None

Business Risk

The Scheme of Delegation forms a key element of the control framework within which the Authority operates.

Environmental Impact

None

Equality & Diversity Implications

None

HR Implications

None

**Local Government (Access to Information) Act 1985
List of Background Papers**

Paper	Date	Contact
Reason for inclusion in Part II, if appropriate:		