

Public Document Pack

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Tuesday, 20 July 2021 in Washington Hall, Service Training Centre, Euxton 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

This meeting will be held in line with Covid-19 restrictions.

Combined Fire Authority members will attend in person.

Members of the press and public can attend in person (subject to national Covid-19 restrictions) or view the meeting via a live webcast on YouTube.

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 THE PREVIOUS MEETING (Pages 1 - 6)

4. RE-SUBMISSION OF INTERNAL AUDIT PLAN (Pages 7 - 18)

5. INTERNAL AUDIT ANNUAL REPORT (Pages 19 - 34)

6. EXTERNAL AUDIT - AUDIT PLAN 2020/21 (Pages 35 - 58)

7. COMPLIANCE WITH CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA) FINANCIAL MANAGEMENT CODE (Pages 59 - 68)

8. ANNUAL GOVERNANCE STATEMENT (Pages 69 - 92)

9. EXTERNAL AUDIT - UNDERSTANDING HOW THE COMMITTEE GAINS ASSURANCE FROM MANAGEMENT (Pages 93 - 100)
10. ACCOUNTING ESTIMATES 2020/21 (Pages 101 - 108)
11. ACCOUNTS CORE STATEMENTS (Pages 109 - 138)
12. RISK MANAGEMENT (Pages 139 - 162)
13. DATE OF NEXT MEETING

The next scheduled meeting of the Committee has been agreed for 10:00 hours on 28 September 2021 in Washington Hall, Service Training Centre, Euxton

Further meetings are: scheduled for 30 November 2021; and proposed for 29 March 2022.

14. 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.

15. 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

16. 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

Tuesday, 23 March 2021, at 10.00 am - Virtual meeting accessible via MS Teams and YouTube (as a live webcast).

MINUTES

PRESENT:

Councillors

H Khan (Chairman)
J Shedwick (Vice-Chair)
S Clarke
S Holgate
A Kay
D Smith

Officers

K Mattinson, Director of Corporate Services (LFRS)
J Bowden, Head of Finance (LFRS)
D Brooks, Principal Member Services Officer (LFRS)
N Bashall, Member Services Officer (LFRS)

In attendance

A Ayre, External Audit, Grant Thornton
A Smith, External Audit, Grant Thornton
J Taylor, Internal Audit, Lancashire County Council

49/19 CHAIRMAN'S ANNOUNCEMENT

The Chairman, County Councillor H Khan welcomed Authority members and members of the press and public to the virtual committee meeting of the Audit Committee. She advised that in response to the Covid-19 pandemic the Government had made regulations that enabled virtual meetings. This meeting was accessible for Committee members via Microsoft Teams and for members of the press and public via a live webcast on YouTube.

The Committee Members individually confirmed their attendance at the start of the meeting.

50/19 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Mohammed Khan.

51/19 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

52/19 MINUTES OF THE PREVIOUS MEETING

RESOLVED: - That the Minutes of the last meeting held on 27 November 2020 be confirmed as a correct record for signature by the Chairman.

53/19 EXTERNAL AUDIT - ANNUAL AUDIT LETTER

The External Auditor's Annual Audit Letter represented an overall assessment of the Authority's performance, drawing on the Auditor's findings and conclusions from their work, which had previously been reported to the Audit Committee.

Members considered the Annual Audit Letter which summarised Grant Thornton's 2019/20 audit of the Authority as presented by Andy Ayre.

The Auditors had issued an unqualified opinion on the Authority's 2019/20 accounts on 30 November 2020. The External Auditors were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

It was noted that the External Auditor's fee of £34,419 was £6,000 higher than that included in the Audit Plan of £28,169 which had been highlighted in the Audit Findings Report at the last meeting. The Director of Corporate Services confirmed that the increase was consistent with similar audited bodies.

RESOLVED:- That the Audit Committee noted and endorsed the content of the Annual Audit letter 2019/20.

54/19 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 26 February 2021 was presented by Judith Taylor. It was noted that work carried out during this period was in accordance with the agreed audit plan.

The report identified that 63 days had been spent this financial year on the 2020/21 plan which equated to 90% of the totalled planned activity of 70 days.

Progress to date in relation of the plan was provided and discussed by Members. In relation to work completed to date, all work on the key financial systems (accounts payable, accounts receivable, general ledger, treasury management, human resources and payroll) had been completed and an opinion of substantial assurance provided. Substantial assurance was also provided in relation to safeguarding with 3 minor areas for improvement suggested. Ongoing work would be finalised in line with the plan and the Annual Report brought to the next meeting.

RESOLVED: - That the Committee noted and endorsed the report.

55/19 RISK MANAGEMENT

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 identified 1 new risk which warranted inclusion on the corporate risk register:

Changes to Emergency Response Driver Training leading to a reduction in trained appliance drivers and hence impacting on pump availability

A new Fire Standard for Emergency Response Driver Training had been published which required more training for new drivers within the sector. The requirements were: i) current instructors to be added to a register and new drivers would need to complete a formal pathway; ii) a 10-day course with an element of night driving for all new drivers; iii) a 10 or 15-day initial response course for flexi-officers depending on current competency in response driving; and iv) longer courses for special appliances which were not LGV.

All of these would see a marked increase in the length of a driving course, which may require additional instructor resource and the impact on driving instructors was currently being reviewed, hence the need for additional capacity within the Team.

The initial driving course extension of time from 5 days to 10 days increased instructor time and may lead to difficulties in the on-call service as personnel may not be able to take the time away from primary employment to undertake training which could lead to a decline in on-call appliance availability.

This applied to new drivers therefore the impact would be felt gradually over a period of time as personnel left the service. This would be more significant in the on-call service as turnover rates were much higher. The impact would be monitored over time to ensure that new entrants were able to undertake the relevant training.

In response to Member questions regarding whether the training could be split over 2 five-day sessions and the percentage of on-call staffing that were drivers the Director of Corporate Services advised that discussions were currently taking place on how best to deliver the course to achieve the standard and maintain the number of required drivers.

An updated corporate risk register was considered by Members with changes summarised in the report. The Director of Corporate Services highlighted the following key areas: -

Risk no. 1 – insufficient resources due to poor funding settlement, inability to make required savings, additional financial pressures such as RDS pensions etc, plus council tax limits via local referendum resulting in Authority being unable to set a balanced budget

It was anticipated that a new 4-year Spending Review be published, however due to uncertainty this had been delayed. As such 2021/22 was a one-year settlement, with a four-year settlement anticipated later that year. Running alongside this was a Fair Funding and the prospect of moving to a 75% Business Rates Retention model (both of which would impact future funding) had also been put on hold. As such it

was impossible to predict what future funding will look like, which was reflected in the Medium-Term Financial Strategy. The budget for 2022/23 and beyond assumed a funding increase of 1.5% each year, and based on assumptions contained within the Medium-Term Financial Strategy showed a funding gap of up to £1.0m in subsequent years. The Authority held sufficient reserves to meet this in the short to medium term, until March 2024.

Risk no. 27 – Increase in costs associated with changes to pensionability of allowances

Following a High Court decision on allowances within the fire service, which provided a different interpretation to both the historical basis and to previous decisions of the Pensions Ombudsman, the pensionability of various allowances changed with associated cost implications. The Service agreed eligibility with the FBU going forward and this had been implemented. The question of backdating remained unresolved. The current situation was the Service has responded positively to the FBU request for 6 years backdating for relevant allowances (primarily DCP) but the Union had not currently accepted this offer. Since the offer the Pensions Ombudsman had determined an individual case for an active employee within Lancashire and the implications for both the Service and employees was being worked through. This included liaison with our pension provider in respect of potential remedy implications. Once the appropriate action had been determined administrative resource would need to be provided to resolve.

Risk no. 29 – High levels of staff absence due to pandemic

Following implementation of Business Continuity Plans (BCP), staff absence levels peaked as expected during mid-January, following the Christmas / New Year relaxation of lockdown arrangements. The highest levels of staff absence were evident between 13th and 15th January 2021, at which time 92 staff were absent, with 15 confirmed C-19 cases, 50/51 self-isolating, and 4 with suspected C-19 (awaiting test results). This compared to staff absences which typically ran at c.40 cases across the Service at any given time. In early December 2020, LFRS accessed a provision of Lateral Flow Tests (LFT) and began a pilot rollout across a number of locations aimed at early identification and isolation of asymptomatic cases of C-19. An ambitious rollout plan followed which resulted in LFT provision being made available in a self-sustaining manner across all 39 fire stations, Service Headquarters and Service Training Centre. As at 15 January 2021, 4,277 LFT have been conducted with our workforce, resulting in a number of positive cases being identified and measures then implemented to reduce risk to their closest colleagues. Interim BCP debrief conducted internally to capture learning from the first few months of the pandemic. Further internal and Lancashire Resilience Forum debriefs to be progressed once BCP arrangements stood down.

RESOLVED: That the Committee noted the actions taken and endorsed the revised corporate risk register.

56/19 EXTERNAL AUDIT - AUDIT REPORT AND SECTOR UPDATE

Mr Ayre presented the external audit progress and sector update report which detailed progress at March 2021 in relation to the financial statements and value for money conclusion. The report also set out what the External Auditors would do and

their planned completion date.

In addition, the report included sector issues which provided an up to date summary of emerging national issues and developments to support the Authority/Committee. This covered areas which may have an impact on the organisation; they were not specific issued related to the Authority. For example, the Redmond Review was an independent review into the oversight of local audit and the transparency of local authority financial reporting. The key recommendations in the review included: i) A new regulator; ii) Scope to revise fees; iii) September deadline for audited local authority accounts to be published; iv) Accounts to be simplified. In addition, a new Code of Audit Practice brought a revised approach to value for money audit work for this financial year. This included: i) a new set of key criteria; ii) more extensive reporting; and iii) more sophisticated judgements on performance. The auditors would be reporting across those 3 criteria.

The Director of Corporate Services advised that the changes to the value for money audit work and the revised audit standard meant more work was required.

It was noted that the meeting scheduled for July had been moved to September to assist with the deadline for the audit findings report. In the meantime, an Audit Plan and Interim Audit Findings report would be required to be presented to the committee at a date to be agreed.

RESOLVED:- That the Audit Committee noted and endorsed the report.

57/19 INTERNAL AUDIT PLAN - 2021/22

RESOLVED: - The YouTube live webcast stopped working during this item which in effect excluded the press and public from the meeting, therefore the public section of the meeting was adjourned. This was prior to the Committee's determination of the recommendations which would now need to be considered (as appropriate) with an update provided to the next meeting of this Committee.

58/19 DATE OF NEXT MEETING

The next meeting of the Committee would be held on 28 September 2021 at 10:00 hours - venue to be agreed.

Further meeting dates would be re-considered following the revised deadline for publishing audited local authority accounts in September.

M NOLAN
Clerk to CFA

LFRS HQ
Fulwood

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LANCASHIRE COMBINED FIRE AUTHORITY AUDIT COMMITTEE

Meeting to be held on 20 July 2021

RESUBMISSION OF INTERNAL AUDIT PLAN (Appendix 1 refers)

Contact for further information:

Diane Brooks – Principal Member Services Officer -Tel No. 01772 866720

Executive Summary

Due to the failure of the live webcast during Member consideration of the internal Audit Plan at the last meeting; Members are asked to re-consider the report as attached (as appendix 1).

Recommendation

To note/endorse the report.

Information

As stated in the Executive Summary.

Business Risk

None for the purposes of this report.

Environmental Impact

None for the purposes of this report.

Equality and Diversity Implications

None for the purposes of this report.

HR Implications

None for the purposes of this report.

Financial Implications

None for the purposes of this report.

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

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

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LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 23 March 2021

INTERNAL AUDIT PLAN 2021/22

(Appendix 1 refers)

Contact for further information:

Keith Mattinson - Director of Corporate Services - Telephone 01772 866804

Executive Summary

The attached document sets out the final proposed Internal Audit Plan for 2021/22.

Recommendation

The Committee is asked to agree the Internal Audit Plan for 2021/22.

Information

The internal auditors are required to produce an Annual Audit Plan, setting out areas they intend to review during the year. A proposed plan is attached as Appendix 1, and will be presented by the Internal Audit Manager.

The plan utilises a total of 70 days in 2021/22, which is in line with the current year.

Financial Implications

Delivery of the plan will cost £23k which is in line with budget provision.

Human Resource Implications

None

Equality and Diversity Implications

None

Business Risk Implications

The audit plan is formulated taking account of the risks faced by the Authority, and as such is designed to ensure that the auditors review how the Authority is managing these risks and provide an assurance on this.

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:		

Lancashire Combined Fire Authority

Internal Audit Service

Internal Audit Plan: 2021/22

1 Introduction

- 1.1 This paper sets out a draft plan of work to be undertaken by the Internal Audit Service for the Combined Fire Authority for the coming financial year. The plan amounts to a total resource of 70 audit days, which equates to an overall cost of £23,450 (ex VAT) at our daily rate of £335.

2 The purpose of the audit plan

- 2.1 Responsibility for maintaining and reviewing the system of internal control and for implementing a system of governance and risk management rests with the Combined Fire Authority. However, the process by which the Annual Governance Statement is produced includes obtaining assurances on the effectiveness of key controls and internal audit provides one of the key sources of such assurance.
- 2.2 The Head of Internal Audit is required by professional standards to provide an opinion addressing governance, risk management and control and thereby to provide assurance that the risks to the objectives of Lancashire Combined Fire Authority are being adequately and effectively controlled.
- 2.3 The Audit Committee's terms of reference require it to review and approve the internal audit plan.

3 Statutory and professional requirements relating to internal audit

- 3.1 Internal audit's function is established by the Accounts and Audit Regulations 2015, which are supported by professional standards for internal audit in the public sector and an advisory note specifically for local government in the United Kingdom. The key requirements of the regulations and of the Public Sector Internal Audit Standards (PSIAS) are set out below.

Internal audit: "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account public sector internal auditing standards or guidance." *Regulation 5. (1)*

Review of internal control system: "A relevant authority must, each financial year (a) conduct a review of the effectiveness of the system of internal control [...] and (b) prepare an annual governance statement." *Regulation 6. (1)*

Definition of internal auditing

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

"The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control."

"Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes." *Public Sector Internal Audit Standards, 2017*

3.2 The regulations therefore establish the requirement for an internal audit function and its provision of an opinion on governance, risk management and control processes, following public sector internal auditing standards. Professional standards likewise mandate the provision of such an opinion. They also recognise that internal audit involves the provision of both assurance and consultancy services, but assurance is its primary function and any consultancy work must inform the assurance opinion.

4 Internal audit coverage to support an annual overall opinion

4.1 An internal audit plan designed to provide the evidence necessary to support an opinion on governance, risk management and control needs to encompass the following:

- Coverage of the key components of each part of the opinion, namely, governance, risk management and control;
- Sufficient coverage over operations as a whole so that a fair assessment may be made across the Service;
- Coverage of the controls that serve to mitigate the most significant risks to an acceptable level;
- Coverage of the controls that operate most broadly to mitigate the most significant risks in the greatest number of individual instances to an acceptable level; and
- Follow up of the actions agreed by management to mitigate risks identified through previous audit activity.

5 Relationship to the risk management process

5.1 A risk-based audit plan will take into consideration the risks assessed as most significant by the organisation's managers and should seek to provide assurance over the operation of the controls that serve to reduce the most significant risks to the greatest degree.

5.2 Using the corporate risk register and working with the Director of Corporate Services, we have sought to identify the areas with the greatest inherent risk, where these risks are regarded as having been effectively mitigated by strong controls. These are the controls on which the Combined Fire Authority and Lancashire Fire and Rescue Service is placing the greatest reliance and over which it therefore needs the greatest assurance.

6 The Authority's 'lines of defence' and other sources of assurance

6.1 The Internal Audit Service is only the Combined Fire Authority's third line of defence in a model that represents management as the first line, responsible for directly assessing, controlling and mitigating risks; and any in-service compliance activity that confirms these controls as the second. Where such 'second line' compliance functions are available, we focus our audit work on assessing the control exerted by them rather than on repeating their work.

6.2 Where it is known that assurance will be provided from another body, (for example, Her Majesty's Inspectorate of Constabulary and Fire and Rescue Service, or the external auditors), the Internal Audit Service will not duplicate work but will take it into account if it is relevant to the overall opinion on

governance, risk management and control. We will ensure as far as possible that the committee is made aware of such assurance.

7 The audit approach adopted by the Internal Audit Service

- 7.1 The Internal Audit Service follows a risk-based audit methodology, working closely with managers to understand the risks to the service, system or process being audited and then testing the controls in place.
- 7.2 Whilst a service is in the process of transformation or remodelling, we can support the managers in the design of a control framework that will manage the risks to service objectives. This would represent consultancy rather than assurance work.
- 7.3 Where assurance is required over a control system that has not previously been audited in its present form, we will provide an opinion on both the adequacy of design and the effectiveness in operation of the controls in place.
- 7.4 Finally we may undertake compliance testing annually of systems we have previously audited because they are fundamental to the overall control framework.
- 7.5 Where managers can confirm that action has been taken as agreed during a previous audit to mitigate any high or medium risks identified we will seek evidence to support this, but other than obtaining management assurances, we will not generally follow up actions designed to mitigate only low risks.

8 Degrees of assurance

- 8.1 For 2021/22 we categorise our assurance levels, using the following definitions:

Assurance categories and definitions
Substantial assurance: the framework of control is adequately designed and/ or effectively operated overall.
Moderate assurance: the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.
Limited assurance: there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.
No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

9 Deployment of audit resources

- 9.1 The plan is stated in terms of days input, which represents our best estimate of the way in which the audit resources will be deployed. The plan itself should however be viewed as a fluid document, with the specific content of individual

reviews being subject to revision if required following the more detailed scoping meetings held with client management teams prior to formal commencement of individual audit reviews.

9.2 The content and outline scope of each audit within the plan, as well as an estimate of the number of audit days considered appropriate, is provided in the table below:

Audit review	Outline audit scope	Days
<i>Governance and business effectiveness</i>		
Overall governance, risk management and control arrangements	<p>In addition to the direct assurance gained from the individual audit assignments listed below, we will additionally gain assurance as follows:</p> <ul style="list-style-type: none"> • We will consider the robustness of the risk management arrangements from our involvement and attendance at the meetings of the Audit Committee. • We will obtain assurance regarding the adequacy of governance arrangements, through our review of the minutes of key operational and decision-making boards across LFRS. 	3
<i>Service delivery and support</i>		
Recruitment: Wholetime and On Call firefighters	The review will consider whether current recruitment activity adopts a Positive Action approach and is efficient and effective at ensuring the right person is recruited to each individual role. The review will in particular consider whether on call contracts being offered are commensurate with need.	12
Training, learning and development	<p>This review will consider the adequacy and effectiveness of the controls in place to ensure that firefighters are able to demonstrate ongoing compliance with the competencies required of their individual roles, and in particular we will consider the completeness and accuracy of individual training records, the timely completion of initial training programmes and compliance thereafter with individual training renewal/ refresh periods.</p> <p>We will additionally consider if and how learning and development needs identified by the Operational Assurance Group are being addressed across the Service.</p>	12

Audit review	Outline audit scope	Days
Business processes		
Accounts payable	<p>The audit will consider whether there are adequate and effective controls in place to ensure:</p> <ul style="list-style-type: none"> • Compliance with financial regulations and the scheme of delegation. • Processes employed for the ordering, receipting and payment of goods and services are appropriate and efficient. • Inaccurate, illegitimate or duplicate orders/ invoices are not processed and paid. 	7
Accounts receivable	<p>The audit will consider whether there are adequate and effective controls in place to ensure:</p> <ul style="list-style-type: none"> • Invoices are raised on a timely basis for all goods and services provided. • Invoices are cancelled or written off appropriately. • Income is correctly accounted for. • Debtors are actively managed so as to reduce the level of bad debts and loss of income. 	4
General ledger	<p>The audit will consider whether there are adequate and effective controls in place to ensure:</p> <ul style="list-style-type: none"> • Access to the accounting systems is appropriately managed and controlled. • There are no unauthorised changes to the accounting records. • Financial data is complete, timely and accurate. • Misappropriations or errors are detected. 	4
HR/ Payroll	<p>The audit will consider whether there are adequate and effective controls in place to ensure:</p> <ul style="list-style-type: none"> • Access to the HR and payroll systems is appropriately managed and controlled. • Key HR and payroll data and information is securely retained. • No unauthorised or invalid appointments have been made and valid appointments have been correctly established. 	10

Audit review	Outline audit scope	Days
	<ul style="list-style-type: none"> • No unauthorised or inaccurate payments or adjustments to pay have been processed. • Staff are paid in a timely manner. • Payroll costs and deductions are correctly accounted for. 	
Treasury management	<p>The audit will consider whether there are adequate and effective controls in place to ensure:</p> <ul style="list-style-type: none"> • The regulatory framework/ internal treasury management strategy/ policy is followed. • Treasury management reports to members are accurate and clear. • Investment and borrowing decisions are based on accurate and complete cash flow forecasting data. • There is effective scrutiny of Treasury management activity by those charged with governance. 	4
Pension administration	<p>Assurance will be obtained from the work completed by the internal auditors of the Local Pension Partnership Limited, as well as from the annual assurance report, to be prepared by the Local Pensions Partnership Administration Limited in relation to compliance with the Code of Practice 14: Governance and administration of public service pension schemes, issued by the Pensions Regulator in April 2015.</p>	1
<i>Follow up audit activity</i>		
Safeguarding; and GDPR and data protection compliance	<ul style="list-style-type: none"> • The reviews will incorporate a self-assessment by management of the progress made in implementing agreed actions; and • Selective test checking of controls introduced to address identified unmitigated risk. 	2
<i>Other components of the audit plan</i>		
Management activity	<ul style="list-style-type: none"> • Attendance at meetings of the Audit Committee. • Production of the annual audit plan. • Preparation of the monitoring reports. • Preparation of the annual report of the Head of Internal Audit. • Liaison with external audit. 	8

Audit review	Outline audit scope	Days
National Fraud Initiative	<ul style="list-style-type: none">• Support to LCFA with the NFI data matching process.	3
<i>Approved days</i>		70

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 20 July 2021

INTERNAL AUDIT ANNUAL REPORT 2020/21 (Appendix 1 refers)

Contact for further information:

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

Executive Summary

The Internal Audit Annual Report summarises the work that the Internal Audit Service undertook during 2020/21 and the key themes arising from it. It provides an opinion on the overall adequacy and effectiveness of the systems of governance, risk management and internal control.

On the basis of programme of work for the year, the Head of Internal Audit can provide substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control. Further details are provided in the report attached as appendix 1.

Decision Required

The Committee is asked to note and endorse the report.

Information

As contained in the Executive Summary above and the attached appendix.

Financial Implications

None

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

Business Risk Implications

The work of internal auditor is one of the key control measures in place within the Authority. As such the annual report provides an assurance to members that risks are being managed and controlled and feeds the Authority's overall assessment of the internal controls that operate within the Service.

Local Government (Access to Information) Act 1985

List of Background Papers

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

Lancashire Combined Fire Authority

Internal Audit Service

**Annual report of the head of internal audit for the year
ended 31 March 2021**

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2020/21 and the key themes arising in relation to risk management, governance and internal control.

The role of internal audit

- 1.2 The Internal Audit Service is an assurance function designed to evaluate and improve the effectiveness of risk management, control and governance processes. Public Sector Internal Audit Standards (PSIAS) require the head of internal audit to provide an opinion on the frameworks of governance, risk management and control of Lancashire Combined Fire Authority and a written report to those charged with governance, timed to support the annual governance statement.
- 1.3 This report is based upon the work the Internal Audit Service performed during 2020/21 and 2021/22 in relation to the 2020/21 audit plan, approved by the Audit Committee in July 2020.
- 1.4 The scope of our work, management and audit's responsibilities, the basis of my assessment, and access to this report are set out in Annex 1 to this report. The levels of assurance the Internal Audit Service provides are set out in Annex 2.
- 1.5 An Internal Audit Service Charter is in place that establishes the framework within which Lancashire County Council's Internal Audit Service operates to best serve the Combined Fire Authority and to meet its professional obligations under applicable professional standards.

Acknowledgements

- 1.6 I am grateful for the assistance that has been provided to the Internal Audit Service by the staff of Lancashire Fire and Rescue Service in the course of our work during the year.

Ruth Lowry
Head of Internal Audit, Lancashire County Council
June 2021

2 Overall opinion on governance, risk management and internal control

Overall opinion

- 2.1 Overall, I can provide substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.
- 2.2 In forming my opinion, I have considered the work undertaken by the Internal Audit Service throughout the year as well as the work of external assurance providers and information available from less formal sources than planned audit engagements.
- 2.3 Overall, a strong control environment continues to operate, overseen by a Service Management Team that is responsive to internal audit findings and committed to continuous improvement.
- 2.4 No significant areas of weakness in governance, risk management or control have been identified from our audit work and where areas for improvement have been identified, actions have been agreed to enhance aspects of the control framework further and to ensure that it is effectively operated throughout.

Wider sources of assurance available to the Combined Fire Authority

- 2.5 In August 2020, Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) were commissioned by the Home Secretary to inspect how Fire and Rescue Services in England were responding to the Covid-19 pandemic. In January 2021, HMICFRS wrote to the Chief Fire Officer and the Chair of the Combined Fire Authority, setting out their assessment of the effectiveness of Lancashire's response. They concluded that the service adapted and responded to the pandemic effectively and provided its staff with good wellbeing support.
- 2.6 Assurance is also provided by Grant Thornton as the Authority's external auditor. Grant Thornton issued an unqualified opinion on the 2019/20 financial statements and they were also 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 2020.

3 Internal audit work undertaken

Overall governance, risk management and control arrangements

- 3.1 Our overall opinion on risk management, governance and internal control has been informed by our ongoing attendance at each of the meetings of the Audit Committee at which a Risk Management update report is provided by the Director of Corporate Services and through the work we conduct on individual audit assignments.
- 3.2 We have obtained additional assurance regarding governance and risk management arrangements through our review of agenda packs prepared

for the meetings of the Combined Fire Authority, the Resources Board, the Performance Committee and the Planning Committee, held during 2020/21, and from the minutes produced following the meetings of the Executive Board, the Service Management Team, the Corporate Programme Board, the Health and Safety Advisory Group, the Prevention, Protection, Response Strategy Group and the Operational Assurance Group.

- 3.3 The above review has not identified any weaknesses in governance, risk management or internal control that need to be brought to the attention of committee, and the results of the above exercise confirms that LFRS has sufficient, relevant sources of assurance to satisfactorily manage its risks in order to achieve overall service objectives.

Treasury management

- 3.4 Our report was issued in January 2021, and we provided substantial assurance over the controls in place surrounding treasury management. The Treasury service at the county council carries out the treasury function for Lancashire Combined Fire Authority (LCFA) in line with the agreed treasury management strategy and practices. Investments made on behalf of the LCFA comply with the prudential indicators set out within the strategy and are approved by senior officers and noted by the Resources Committee. Cash flow forecasting is carried out on a daily basis to support investment and borrowing decisions.

Accounts payable, accounts receivable, general ledger

- 3.5 Our report was finalised in December 2020, and substantial assurance was provided across each financial system.
- 3.6 Financial Regulations and relevant policies are in place and up to date, and accessible for all staff to view. Furthermore, the monitoring of expenditure and the recovery of debts is appropriately carried out. These controls contribute significantly to mitigating risks and reducing errors. Segregation of duties is also maintained, and documentation is appropriately authorised.
- 3.7 Expenditure with suppliers is monitored by the Procurement Manager to ensure that tendering arrangements and contracts are in place for supplies or services exceeding the Contract Standing Order threshold.
- 3.8 Of the three low risk actions which were agreed following our 2019/20 review, we found that two have been implemented whilst the remaining action remained outstanding at the time of our review.

Payroll and human resources (HR)

- 3.9 Our report was issued in February 2021, with substantial assurance. A strong control environment is maintained over payroll and HR processes, to ensure that valid appointments are correctly established, and the right amount is paid to individuals at the right time. Monitoring arrangements

are in place to prevent and detect any anomalies or errors that might arise.

Safeguarding

- 3.10 Our audit was completed in January 2021 and we provided substantial assurance that the framework of control is adequately designed and effectively operated overall.
- 3.11 A comprehensive policy and procedure document is in place and accessible, which clarifies the mechanisms for making referrals, the roles and responsibilities of all staff in relation to safeguarding and the data protection rules to adhere to.
- 3.12 The designated mailbox for safeguarding referrals is administered by the Prevention Support Team who record and monitor the status of referrals made, also ensuring that they are valid and appropriately completed.
- 3.13 We identified three low residual risk actions, representing minor areas for improvement.

General Data Protection Regulations (GDPR)

- 3.14 Overall a good framework of control has been established and there is an appropriate governance structure in place to support compliance with GDPR, and we can therefore provide moderate assurance.
- 3.15 Templates for the various elements required under GDPR have been created in accordance with the guidance from the Information Commissioner's Office. Information Asset Owners are being or have been identified, and training and support is provided.
- 3.16 However, the data mapping exercise is not yet complete, and as a result there is the possibility that additional information assets will be identified from the outstanding returns and further work will be needed to be able to provide assurance that all the appropriate documentation is in place and that these have been subject to quality assurance and sign off.
- 3.17 We acknowledge that completion of the data mapping was delayed due to Covid and that work on this has since resumed. However, to demonstrate compliance with the GDPR, this exercise should be considered as a high priority task.

Pension administration

- 3.18 Independent assurance over the benefit administration processes operated by the Local Pension Partnership Administration Ltd is available from work commissioned by Lancashire County Council on behalf of the Pension Fund from PricewaterhouseCoopers, and work undertaken by Deloitte for the Local Pension Partnership Ltd group. Assurance is also provided by the county council's Internal Audit Service over the work of the Lancashire County Pension Fund Service.

Follow-up work

- 3.19 Under PSIAS, management has responsibility for ensuring that agreed actions in audit reports are implemented. Internal Audit should obtain assurances that actions have been implemented as agreed, or that senior management has accepted the risk of not taking action.

Business Continuity - follow up

- 3.20 Our previous review in February 2019 provided moderate assurance that the framework of control was adequately designed overall to manage business continuity in the event of a disruptive event. A small number of areas for improvement were identified, primarily around the creation of a test record and expanding the provision of training to Station Managers.
- 3.21 Based on the information and explanations provided to us we are satisfied that all actions have been appropriately implemented.

Home Fire Safety Checks – follow up

- 3.22 Our initial review in July 2020 examined the effectiveness of the case management arrangements operated by Lancashire Fire and Rescue Service in relation to the scheduling of Home Fire Safety Checks and assessed the adequacy of the arrangements in place to manage demand.
- 3.23 Overall, we provided moderate assurance that the framework of control was adequately designed and effectively operated, although some actions were required, primarily around the recording of outcomes to enhance aspects of it and ensure it is operated effectively throughout.
- 3.24 We are pleased to note that each of the actions raised have been satisfactorily implemented.

Optimising rota management – follow up

- 3.25 Our previous review confirmed that whilst the control framework appropriately managed the risks affecting the primary objective of ensuring appliance availability is maximised, the processes and controls were inefficient, and had significant resource implications for the service.
- 3.26 Our follow up work, completed in May 2021, has confirmed that despite delays caused by the Covid-19 pandemic, progress has been made in introducing some of the enhancements identified by the Optimising Rota Management Project Team in June 2019, although further efficiencies are unlikely to be generated pending further IT developments which are still being debated.

Fraud/ special investigations

- 3.27 No specific incidences of fraud or irregularity have been brought to our attention.

National Fraud Initiative (NFI)

3.28 The NFI is a statutory data matching process for health, local government and other public sector providers managed by the Cabinet Office. It flags inconsistencies in data within payroll, pensions, creditors and procurement which may indicate fraud or highlight emerging fraud risks.

3.29 Following the submission of data in October 2020, the resulting matches were released by the Cabinet Office in January 2021. The table below provides details of the total number of matches identified, processed, cleared to date and the errors found. No incidences of fraud have been identified from the matches processed to date.

Category of data	Number of matches identified	Number of matches processed	Number of matches in progress	Errors
Pensions	16	16	0	1
Payroll	15	8	3	0
Creditors	269	99	0	0
Total	300	123	3	1

3.30 The error arose in relation to a deferred member. No overpayment occurred as no benefits were in payment.

4 Implications for the Annual Governance Statement

4.1 In making its annual governance statement the Combined Fire Authority should consider this report in relation to internal control, risk management and corporate governance.

4.2 Whilst we have agreed a small number of actions to enhance the controls in place for the audit reviews we have completed, we do not consider there are any matters arising from the audit work conducted during 2020/21 that require specific identification in the annual governance statement.

5 Internal audit inputs and performance

5.1 Work carried out during 2020/21 was in accordance with the audit plan presented and approved by the Audit Committee in July 2020. Details of the assurance provided, and key issues identified for each of the areas covered is set out in the 'Summary of findings and assurance' table which forms part of Section 7 of this report. This shows that 70 days were spent delivering the audit plan in accordance with the agreed provision.

- 5.2 Action plans have been agreed where appropriate in respect of all final audit reports. These indicate that positive action has been or will be taken to address any areas for improvement identified. Implementation of these plans will be followed up as part of our 2021/22 audit plan.

6 Internal audit quality assurance and improvement

- 6.1 PSIAS requires that the quality of internal audit activity is assessed through a combination of ongoing internal monitoring, periodic self-assessments or internal assessments by others with sufficient knowledge, and independent external review at least once every five years.
- 6.2 The Internal Audit Service has designed procedures and an audit methodology that conform to PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The audit managers assess the quality of each audit concurrently as it progresses, and each year a post-audit file review process is conducted by the head of internal audit, with any learning points being shared with the team.
- 6.3 An external assessment of the Internal Audit Service's self-assessment of its compliance with PSIAS was last conducted in November 2017 which confirmed that the service fully meets nearly all the Standards, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory elements of the IPPF. All actions arising from the review were addressed by June 2018.

7 Summary of findings

Overall summary and assurance provided

- 7.1 The table on the following pages sets out a brief summary of each review completed during the year. This sets out the planned and actual days we have spent, the variance between the days reported, and a summary of the assurance we have been able to provide in relation to each system or operational area of business. This also sets out the level and number of actions agreed for each review, where the report has been finalised. They reflect the findings at the time the work was carried out.
- 7.2 Where appropriate, 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.

Summary of our findings and assurance

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Governance and business effectiveness						
Governance, risk management and control arrangements	3	2.5	0.5	There is a sound framework of control operating across LFRS and there are appropriate risk management and governance controls in place.		Our high-level review was completed in June 2021, and no areas of concern were noted. The two actions agreed following our prior year review have additionally been implemented. No specific areas of concern were noted from the updated fraud risk assessments, provided to us as at May 2021.
Service delivery and support						
Safeguarding	10	14	(4)	✓	✓	Our report was issued in February 2021 and raised three low residual risk actions.
				Substantial assurance		
General Data Protection Regulations	10	16	(6)	✓	✓	Our report was issued in June 2021. One high, one medium and nine low risk/ priority actions have been agreed in relation to completion of the data mapping exercise, the implementation of an annual review process and other minor areas for improvement.
				Moderate assurance		
Business processes						
Accounts payable	7	7	0	✓	✓	Our composite report covering each of these systems was issued in December 2020. No areas for improvement were identified.
				Substantial assurance		
Accounts receivable	4	3.5	0.5	✓	✓	
				Substantial assurance		
General ledger	4	3.5	0.5	✓	✓	
				Substantial assurance		
HR and Payroll	10	7	3	✓	✓	Our report was issued in February 2021. No areas for improvement were identified.
				Substantial assurance		

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
Pensions administration	1	0	1	Not yet available		See paragraph 3.18.
Treasury management	4	6	(2)	✓	✓	Our report was issued in January 2021. No areas for improvement were identified.
				Substantial assurance		
Follow up audit activity						
Business Continuity Planning	1	0.5	0.5	N/A	N/A	Our audit report was issued in October 2020. The two medium and two low risk actions raised in our audit report dated February 2019 have been implemented.
Home Fire Safety Checks	2	0.5	1.5	N/A	N/A	Our audit report was issued in November 2020. The two medium and four low risk actions raised in our audit report dated July 2020 have been implemented.
Optimising rota management project	1	0.5	0.5	N/A	N/A	Our report was issued in May 2021. Of the 15 actions that were agreed following the issue of our report in July 2019, nine have been implemented and six are currently in progress.
Other components of the audit plan						
Management activity	10	9	1	N/A	N/A	Work in the period has included: <ul style="list-style-type: none"> • Production of the 2019/20 Annual Report of the Head of Internal Audit. • Preparation of the Audit Committee monitoring reports. • Reissue of the Internal Audit Charter and Engagement Letter. • Preparation of the 2021/22 Internal Audit Plan. • General management and quality assurance.

Lancashire Combined Fire Authority
 Annual report for the year ended 31 March 2021

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
National Fraud Initiative	3	0	3	N/A	N/A	Work during the period has involved support with the data collection process.
Total days	70	70	0			

Annex 1: Scope, responsibilities and assurance

Approach

- 1 The Internal Audit Service operates in accordance with Public Sector Internal Audit Standards, 2017. The scope of internal audit encompasses all of the governance, risk management and control processes of the Combined Fire Authority including where they are provided by other organisations on their behalf.

Responsibilities of management and internal auditors

- 2 It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework assisting management in the effective discharge of its responsibilities and functions by examining and evaluating controls.
- 3 Lancashire Combined Fire Authority has taken the decision to outsource their internal audit provision, and Lancashire County Council's Internal Audit Service was the appointed service provider for 2020/21.
- 4 It is the role of the Internal Audit Service to provide independent assurance that these risk management, control and governance processes are adequately designed and effectively operated. The PSIAS makes clear that the provision of this assurance is internal audit's primary role and that this requires the head of internal audit to provide an annual opinion based on an objective assessment of the framework of governance, risk management and control.
- 5 This assessment will be supported by the identification, analysis, evaluation and documentation of sufficient information on each individual audit assignment, and the completion of sufficient assignments to support an overall opinion for the organisation as a whole.
- 6 Internal auditors cannot be held responsible for internal control failures. However we have planned our work so that we have a reasonable expectation of detecting significant control weaknesses. We have reported all such weaknesses to you as they have become known to us, without undue delay, and have worked with you to develop proposals for remedial action.
- 7 The requirement to be independent and objective means that the Internal Audit Service cannot assume management responsibility for risk management, control or governance processes. However the Internal Audit Service may support management by providing consultancy services. These are advisory in nature and are generally performed at the specific request of the organisation, with the aim of improving governance, risk management and control and will also contribute to the overall assurance opinion.
- 8 Accountability for responses to the Internal Audit Service's advice and recommendations for action lies with the Senior Management Team, which either accepts and implements the advice or accepts the risks associated with not taking action. Audit advice, including where the Internal Audit Service has been consulted about significant changes to internal control systems, is given without prejudice to the right of the Internal Audit Service to review and recommend further action on the relevant policies, procedures, controls and operations at a later date.

- 9 The head of internal audit will provide an annual report incorporating an overall opinion, a summary of the work that supports that opinion, and a statement of conformity with the PSIAS and the results of the quality assurance and improvement programme.
- 10 The Internal Audit Service is not responsible for the prevention or detection of fraud and corruption. Managing the risk of fraud and corruption is the responsibility of management. Internal auditors will, however, be alert in all their work to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. Internal audit procedures alone, even when performed with due professional care, cannot guarantee that fraud or corruption will be detected.

Basis of our assessment

- 11 Our opinion on the adequacy of control arrangements is based upon the result of internal audit reviews undertaken and completed during the period in accordance with the plan approved by the Audit Committee. We have obtained sufficient, reliable and relevant evidence to support the improvements that we proposed and that have been accepted by management.

Limitations to the scope of our work

- 12 There have been no limitations to the scope of our audit work.

Limitations on the assurance that internal audit can provide

- 13 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from our work as internal auditors. These limitations include the possibility of faulty judgement in decision making, of breakdowns because of human error, of control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks which may arise in future.
- 14 Decisions made in designing internal controls inevitably involve the acceptance of some degree of risk. As the outcome of the operation of internal controls cannot be predicted with absolute assurance any assessment of internal control is judgmental.

Access to this report and responsibility to third parties

- 15 This report has been prepared solely for the Combined Fire Authority. This report forms part of a continuing dialogue between the Internal Audit Service, senior officers within Lancashire Fire and Rescue Service and the Audit Committee. It is not therefore intended to include every matter that came to our attention during each internal audit review.
- 16 We acknowledge that this report may be made available to other parties, such as the external auditors. We accept no responsibility to any third party who may receive this report 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.

Annex 2: Audit assurance levels and classification of agreed actions

Audit assurance

For 2020/21 the assurance we can provide over any area of control has fallen into one of four categories as follows:

Substantial assurance: the framework of control is adequately designed and/ or effectively operated overall.

Moderate assurance: the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process.

Limited assurance: there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of the service, system or process' objectives at risk.

No assurance: there are some fundamental weaknesses in the design and/ or operation of the framework of control that could result in failure to achieve the service, system or process' objectives.

Actions proposed by the Internal Audit Service

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: catastrophic loss of the service, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to the service's reputation. *Remedial action must be taken immediately.*

High residual risk: critical in that failure to address the issue or progress the work would lead to one or more of the following: failure to achieve organisational objectives, significant disruption to the service's business or to users of its services, significant financial loss, inefficient use of resources, failure to comply with law or regulations, or damage to the service's reputation. *Remedial action must be taken urgently.*

Medium residual risk: failure to address the issue or progress the work could impact on operational objectives and should be of concern to senior management. *Prompt specific action should be taken.*

Low residual risk: matters that individually have no major impact on achieving the service's objectives, but where combined with others could give cause for concern. *Specific remedial action is desirable.*

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 20 July 2021

EXTERNAL AUDIT – AUDIT PLAN 2020/21 (Appendix 1 refers)

Contact for further information:

Keith Mattinson – Director of Corporate Services – telephone 01772 866804

Executive Summary

The attached report sets out the proposed external audit plan for 2020/21.

Decision Required

The Committee are asked to agree the external audit plan for 2020/21 and the increased fee proposal.

Information

The external auditors are required to produce an annual audit plan, setting out areas it intends to review during the year. The plan is attached as Appendix 1, and will be presented by the External Audit - Engagement Lead.

The plan highlights the additional work auditors are required to do in terms of:-

- Increased challenge and depth of work;
- Property plant and equipment valuations;
- Pensions;
- New accounting standards;
- Revised Value for Money arrangements.

Having discussed issues with the Engagement Lead the Treasurer is of the opinion that all of the issues do result in an increased workload, which is reflected in the proposed fee.

The plan proposes an audit completion date of September 2021.

Financial Implications

The proposed audit fee takes account of the agreed base fee of £23.7k (as set by PSAA) plus a further £15.2k to reflect the additional work required and reflected in the audit plan as presented. This results in a total fee of £38.9k. (Last years agreed fee was £34.4k.)

The budget allowed for an audit fee of £35k, so this will result in a marginal overspend.

Business Risk Implications

The external audit plan is formulated taking account of the risks faced by the Authority, and as such is designed to ensure that the external auditors review how the Authority is managing these risks.

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

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 plan

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

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Key matters

Factors

Authority developments

We have held regular meetings with the senior finance team at the Authority. During these meetings, we discussed a range of key issues regarding the Authority's general developments, current and projected financial performance, governance issues and regulatory oversight.

The Authority's Medium Term Financial Strategy (MTFS), based upon latest funding assumptions from the Local Government Funding Settlement and the approved 2021/22 Budget. The Latest MTFS forecasts a small funding gap of £0.3m for 2021/22 which will be met by a combination of delivering additional savings or by drawing down general reserves in order to deliver a balanced budget. With the uncertainty of the next Spending Review, the Authority is forecasting a funding gap of around £0.7m and £1.3m a year to 2025/26. This forecast depends on changes in various assumptions including pay awards, funding freeze and increased pension costs. An anticipated worst case scenario shows a gap of up to £5.0m.

Impact of Covid-19 pandemic

The Covid-19 pandemic has impacted upon all of our lives. While there has been some relaxation of 'business as usual' arrangements, public sector bodies are still required to abide by the stewardship requirements of Managing Public Money and had a statutory duty to carry out their function effectively, efficiently and economically.

The outbreak of the coronavirus pandemic has had a significant impact on the normal operations of the Authority. The Authority has had to work differently at all levels to be able to deliver all of its required services effectively. Staff have been supporting the vaccine roll out across Lancashire.

The government has provided a range of financial support packages throughout the Covid-19 pandemic. These include additional funding to support the cost of services or offset other income losses.

In January 2021, HMICFRS published the results of its Covid-19 inspection of the service. It noted the service had adapted and responded to the pandemic effectively. Also that it worked well as part of the Local Resilience Forum, and hadn't allowed the pandemic to significantly impact its financial position.

Our assessment is that the Authority has developed a very strong understanding of its financial and wider governance risks during the pandemic and, despite continuing future financial uncertainty about medium term government funding, is well placed to address post Covid-19 challenges.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, allows us to deliver your audit to the required quality standard.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control – refer to page 6.
- The Authority's valuer reported a material uncertainty in regards to the valuation of properties in 2019/20 due to the Covid 19 pandemic and whilst we do expect significant uncertainty will continue in 2020/21, we have identified a significant risk in regards to the valuation of properties – refer to page 7.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Lancashire Combined Fire Authority ('the Authority') for those charged with governance.

Respective responsibilities

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

Scope of our audit

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

- Authority [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

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

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

Significant risks

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

- Management override of controls
- Valuation of other land and buildings
- Valuation of net pension fund liabilities

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

Materiality

We have determined planning materiality to be £1,192.5k (PY: £1,270k) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £59.6k (PY £63.5k).

Value for Money arrangements

Our initial risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weaknesses. Pages 14 and 15 outline the revised approach for 2020-21 and the additional work which we are required to perform and report upon.

Audit logistics

Our interim visit took place in March and April and our final visit will take place in July to September. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £38,419 (PY: £34,419) for the Authority, subject to the Authority delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Authority's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue and expenditure cycles include fraudulent transactions and / or improper recognition	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>Practice Note 10, issued by the FRC, states auditors should also consider that material misstatements may occur by the manipulation of expenditure recognition. These presumptions can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition or the manipulation of expenditure recognition.</p> <p>Having considered the risk factors set out in ISA240 and PN10 and the nature of the expenditure streams at the Fund, we have determined that the risk of fraud arising from revenue recognition and expenditure manipulation can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition and expenditure are very limited• classes of expenditure that could be prone to manipulation, such as management expenses and payments to and on account of leavers are not material• the culture and ethical frameworks of local authorities, including Lancashire Combined Fire Authority, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider these to be significant risks for including Lancashire Combined Fire Authority.</p>	<p>We will continue to review revenue transactions as part of our audit ensuring that it remains appropriate to rebut the presumed risk of revenue recognition for the Authority.</p> <p>We will also continue to review material expenditure transactions as part of our audit ensuring that it remains appropriate to rebut the risk of expenditure recognition for the Authority.</p>

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Authority, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of Land & Buildings	<p>The Authority revalues its land and buildings on a rolling five yearly basis with 20% of assets valued each year. In the intervening years, such as 2020/21, the Authority requests a confirmation through a desktop exercise from its engaged valuation expert to ensure that there is no material difference. This valuation (£88.531m in 2019/20) represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally for land and buildings, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where annual valuations are not carried out.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority’s valuation of land and buildings are not materially misstated and evaluate the design of the associated controls • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year including investment properties, to see if they had been input correctly into the Authority’s asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the Pension Fund Net Liability	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability (£816.796m in 2019/20) is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none">• update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls;• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;• test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and• obtain assurances from the auditor of Merseyside Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Accounting estimates and related disclosures

The Financial Reporting Authority issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Authority we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates

The Authority's Information systems

In respect of the Authority's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Authority uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Authority (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

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Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have made enquiries of management and the Audit Committee Chair. These responses will be presented at Audit Committee.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Authority's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

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

- giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
- issuing a report in the public interest or written recommendations to the Authority under section 24 of the Local Audit and Accountability Act 2014 (the Act).
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Authority as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Authority's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 13).

Materiality

The concept of materiality

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

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1,192.5k (PY £1,270k) for the Authority, which equates to 2% of your prior year gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20k for senior officers remuneration.

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

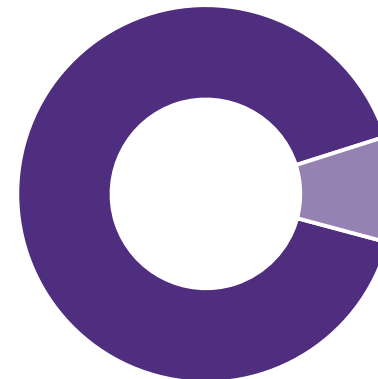
Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £59.6k (PY £63.5k).

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

Prior year gross operating costs

£59.625m Authority
(PY: £ 63.685m)



■ Prior year gross operating costs

Materiality

£1,192.5k
Authority financial statements materiality
(PY: £1,270k)



£59.6k
Misstatements reported to the Audit Committee
(PY: £63.5k)

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

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

At this stage of our audit work we have not identified any significant weaknesses. However under the new VFM arrangement we will be considering the Authority's arrangements in place across the three criteria areas of finance, governance and performance. To be clear, this represents a more detailed level of audit work required under the new VFM Code than previously. We will be commenting on the Authority's arrangements across the three criteria in our Auditor's Annual Report which again is a new requirement for this year.

We will continue to monitor the Authority's finances from its outturn for 2020/21 to its planned position for 2021/22 and beyond.

We will keep under review the possibility of a significant weakness arising as part of our ongoing 2020/21 VFM review.

Our findings will be summarised in the Auditor's Annual Report, to be agreed with management later this year.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Planning and risk assessment

Interim audit
March – April
2021

Audit committee
20 July 2021

Audit Plan

Year end audit
July – September 2021

Audit committee
28 September 2021

Audit Findings
Report and Audit
opinion

Audit committee
TBC

Auditor's
Annual
Report

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Andrew Smith, Key Audit Partner

Andrew leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained and a commitment to add value to the Audit Committee and the Authority



Andy Ayre, Audit Manager

Andy plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.



Isaac Awomokun, Audit Incharge

Isaac assists in planning, managing and delivering the audit fieldwork, ensuring that the audit is delivered effectively and efficiently. She supervises and co-ordinates the on-site audit team.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for Lancashire Combined Fire Authority to begin with effect from 2018/19. The fee agreed in the contract was £23,669. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 13, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £5,500. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Director of Corporate Services.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Lancashire Combined Fire Authority Audit	£28,169	£34,419	£38,919
Total audit fees (excluding VAT)	£28,169	£34,419	£38,919

Assumptions

In setting the above fees, we have assumed that the Authority will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

	Ongoing fee
Scale fee published by PSAA	£23,669
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£1,000
Enhanced audit procedures for Property, Plant and Equipment	£1,750
Enhanced audit procedures for Pensions	£1,750
New standards / developments	£250
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£5,500
Increased audit requirements of revised ISAs	£5,000
Total audit fees 2020/21 (excluding VAT)	£38,919

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Authority's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority.

Other services




No other services provided by Grant Thornton were identified.

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









Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance


The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 20 July 2021

COMPLIANCE WITH CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA) FINANCIAL MANAGEMENT CODE

(Appendix 1 refers)

Contact for further information:-

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

Executive Summary

The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management (FM) Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. It sets the standard of financial management for local authorities, and applies to all local authorities, including police, fire, combined and other authorities.

The Code sets out a series of financial management standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders.

Based on this, a self-assessment against these standards has been undertaken and is attached as appendix 1, which demonstrates strong compliance against the Code.

Recommendation

The Committee is asked to note and endorse the self-assessment attached as appendix 1.

Background

The CIPFA FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

The Code sets the standard of financial management for local authorities, and applies to all local authorities, including police, fire, combined and other authorities.

CIPFA have considered the implementation of the FM Code and consider that 2020/21 should be a shadow year of operation for local authorities to demonstrate that they have been working towards full implementation of the Code; the first full year of compliance with the Code will therefore be 2021/22.

The Financial Management Code

The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional

standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.

While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability.

Reflecting on the importance of longer-term financial planning, one of the objectives of the FM Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. The FM Code incorporates existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

The application of the FM Code will therefore provide the strong foundation within local authorities to enable them to:

- Financially manage their short-, medium- and long-term finances;
- Manage financial resilience to meet foreseen demands on services;
- Financially manage unexpected shocks in their financial circumstances.

The principles have been designed to focus on an approach which will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

- Organisational leadership - demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture;
- Accountability - based on medium term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs;
- Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making
- Adherence to professional standards is promoted by the leadership team and is evidenced;
- Sources of assurance are recognised as an effective tool mainstreamed into financial management and includes political scrutiny and the results of external audit, internal audit and inspection;
- The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

Each local authority must demonstrate that the requirements of the FM Code are being satisfied, as such a self-assessment has been undertaken and is attached as appendix 1, demonstrating strong compliance against the Code.

Financial Implications

None

Human Resource Implications

None

Equality and Diversity Implications

None

Environmental Impact

None

Business Risk Implications

Failure to comply with the Code would impact on the Authorities Audit/Inspection regimes, as well as potentially impacting on our ability to borrow.

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

Paper	Date	Contact
CIPFA FM Code	March 2021	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

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Level of Compliance with the CIPFA FM Code

	Description of the Standard		Assessment of Current Position	Actions Required
Responsibilities of the Leadership Team and Chief Financial officer				
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money (VFM).	Strong	Value for Money is assessed as part of the external audit process, which has not identified any areas of concern. Business cases for large capital projects, such as SHQ relocation, are reviewed by Executive Board & Members as appropriate. The MTFs and Budget is agreed in February, and performance against budget and savings target is regularly reported to Executive Board & Members Blue light collaboration is monitored and reported to members, including site sharing at several sites Appropriate use of national and regional procurement contracts can be evidenced	Develop business cases where required to ensure that value for money is evidenced.
B	CIPFA Statement on the Role of the Chief Finance Officer in Local Government	Strong	The Director of Corporate Services is the Section 151 Officer and Chief Financial Officer. The post is a key member of the Executive Board and meets with the other Executive Directors and relevant Members on a regular basis to discuss all matters pertaining to the financial management of the Authority. All CFA reports are agreed prior to submission. The Finance Team consists of 3.6 FTE officers, comprising 1 fully qualified accountants and 1.6 fully AAT qualified, and an apprentice who is studying AAT. All officers are offered continued professional development The Authority also subscribes to additional professional expertise and advice in relation to technical accounting, treasury management, financial management and planning and taxation.	None
Governance and Financial Management Style				
C	The Leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	Strong	The Authority has an approved Scheme of delegation, Financial Regulations and Contract Standing Orders, as well as Constitutional Standing orders. Job descriptions and the job evaluation system recognise management of resources as a key responsibility. This is assigned at a level so that service delivery and budget can be aligned.	None

			<p>The roles of the Head of Paid Service and Monitoring Officer are defined in the Authority's Constitution.</p> <p>The Terms of Reference for the Audit Committee cover the areas referenced.</p> <p>The Internal Audit Service has provided assurance over the effectiveness of the Governance arrangements, and the system of Internal Control, through the provision of an annual assessment to assist in the production of the Annual Governance Statement.</p> <p>Regular review of corporate risks is undertaken by the SMT and the Corporate Risk Register is reviewed at each Audit Committee.</p> <p>Regular meetings are held between Officers and Members.</p>	
D	The authority applies the CIPFA/SOLA CE Delivering Good Governance in Local Government: Framework (2016)	Strong	<p>The Authority prepares an Annual Governance Statement in line with the framework within CIPFA's Local Code of Corporate Governance.</p> <p>The AGS is reviewed by the Audit Committee.</p>	None
E	The financial management style of the authority supports financial sustainability	Strong	<p>The Authority's Integrated Risk Management Plan/Annual Service Plan and MTFS set the strategic framework for the work and financial plans of the Authority and recognise the agreed corporate priorities and objectives.</p> <p>Budgets are prudent and sustainable to ensure that a balanced budget is maintained, and that in-year expenditure is matched by income from Council Tax, Business Rates, and grants from government.</p> <p>Council Tax increases are kept within the referendum limits, and preliminary assumptions regarding future year increases are set out within the MTFS.</p> <p>The uncertainties around future government funding (e.g. Spending Review outcomes, the Fair Funding Review and the future of Business Rates Retention) are recognised and reflected in the MTFS.</p> <p>Funding from reserves is used to support one-off investments or initiatives.</p> <p>Significant risks are identified, monitored, reported and mitigating actions identified to manage these.</p> <p>The Capital Programme is planned over a 5-year period.</p> <p>Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the Authority</p> <p>Regular meetings take place with Budget Holders/Directors to discuss current and future performance against budget.</p> <p>An innovations reserve is held to support service transformation, particularly digital transformation.</p>	Review and implement improvements to the monthly budget monitoring process, making greater use of additional functionality provided by Oracle Fusion

Long to Medium Term Financial Management				
F	The authority has carried out a credible and transparent financial resilience assessment	Strong	<p>As part of the budget setting process the level of reserves are reviewed to ensure they are robust, in light of the assessment of financial risks that the Authority is exposed to.</p> <p>The budget papers outline the key assumptions regarding the revenue and capital budget. In line with the requirement of the Code of Practice these assumptions are prudent. Where budget risk is identified, reserves and other resources have been set aside to enable the Authority to set a robust MTFS.</p> <p>The budget includes scenario planning to outline the impact of changes in key assumptions.</p>	None
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	Strong	<p>The MTFS covers 5 years and is included in the Annual Budget process, approved by the full Authority in February.</p> <p>The briefings and reports to Members are clear about medium-term budget risks and sustainability, including the effects of the budget plans on the level of reserves held.</p> <p>The Authority retains prudent levels of reserves to manage risks over the medium term as outlined in the budget papers.</p> <p>The capital plan covers 5 years and assists in delivering the corporate objectives, ensuring that capital investment is in line with priorities identified in asset management plans, meets statutory requirements and consider the future impact on revenue budgets</p>	Review in light of future Spending Review outcomes
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	Strong	<p>Management of the Authority's debt is governed by the Treasury Management Strategy and Prudential Indicators which aim to ensure the Authority's capital expenditure plans are prudent, affordable and sustainable.</p> <p>Regular Treasury Management Reports are presented to the Resources Committee. The Authority's Treasury Management Strategy and Prudential Indicators comply with the requirements of the Prudential Code.</p> <p>Management meet with LCC Treasury Management representative to discuss best options for investment of cash balances</p>	None
I	The authority has a rolling, multi-year medium-term financial plan consistent with sustainable service plans.	Strong	<p>The Authority has a 5-year indicative budget which underpins annual service planning, this is updated each financial year, and presented to members as part of the annual budget setting process.</p> <p>Updates on the latest information and assumptions in respect of funding, costs and risks are provided as required.</p>	None

Annual Budget				
J	The authority complies with its statutory obligations in respect of the budget setting process.	Strong	The Authority sets a balanced budget and complies with the requirement in relation to the S151 Officer statement (s25) on the robustness of the budget and the adequacy of reserves.	None
K	The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	Strong	The Authority sets a balanced budget and complies with the requirement in relation to the S151 Officer statement (s25) on the robustness of the budget and the adequacy of reserves.	None
Stakeholder Engagement and Business Plans				
L	The authority has engaged, where appropriate, with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.	Strong	Engagement with stakeholders takes place via the Authority's IRMP process, as well as appropriate consultation on key changes within the service such as Emergency Cover reviews or Specialist provisions. The outcome of such reviews feed the budget setting process. Key stakeholders/partners are consulted as part of the annual budget setting process.	None
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	Strong	Major investment decisions are based on the evaluation and successful outcome of business cases. These are reviewed and approved by Senior Management and Resources Committee/CFA.	Develop business cases where required to ensure that value for money is evidenced.
Monitoring Financial Performance				
N	The Leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	Strong	Financial monitoring reports are presented at each Resources Committee meeting, these reports cover revenue and capital budget as well as performance against savings targets. Where required they identify actions in order to bring the budget back into line.	None
O	The Leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	Strong	Bi-annual treasury management reports update on investments and debt. Regular reviews of reserves are undertaken by the S151 Officer.	None
External Financial Reporting				
P	The Chief Finance Officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting	Strong	The Statement of Accounts is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. This is stated in the accounts that are signed by the S151 Officer.	None

	requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.			
Q	The presentation of the final outturn figures and variations from budget allows the Leadership team to make strategic financial decisions	Strong	The outturn report identifies key variances from budgets with appropriate explanations, and recommends action, in line with the in-year budget monitoring process. A reconciliation to the Comprehensive Income and Expenditure Statement is provided in the statement of accounts to link the statutory accounts to the information provided to the CFA/Committee.	None

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LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 20 July 2021

ANNUAL GOVERNANCE STATEMENT 2020/21 (Appendices 1 and 2 refer)

Contact for further information:-

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

Executive Summary

The Authority is required to publish an Annual Governance Statement along with the Authority's financial statements, following a review of the effectiveness of the internal controls in place. The report and the statement set out the key elements of the Authority's governance framework, how these have been evaluated, the outcome of the assessment of effectiveness and any areas for improvement.

The overall conclusion of the Annual Governance Statement is that the system of internal controls is adequate, and that no significant governance issues have been identified.

Recommendation

The Committee is asked to note and endorse the self-assessment and the Annual Governance Statement based on this and recommend that the Chairman of the Authority signs the Statement.

Background

The Authority is required to produce an Annual Governance Statement as part of the year end process for 2020/21.

The Audit Committee has previously approved a Code of Corporate Governance, in line with guidance produced jointly by CIPFA (Chartered Institute of Public Finance Accountants) and SOLACE (Society of Local Authority Chief Executives).

The Code defines corporate governance as the way an authority ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

Included within the Code are the following core principles:-

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
2. Ensuring openness and comprehensive stakeholder engagement;
3. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
4. Determining the interventions necessary to optimise the achievement of the intended outcomes;
5. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
6. Managing risks and performance through robust internal control and strong public financial management;
7. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

In order to assess the effectiveness of the Authority's current arrangements a self-assessment has been undertaken by the Executive Board, considering the various sources of assurance which support the core principles outlined above, and the outcome of this is attached as appendix 1. One of the key elements of this is external assurance on our systems, and this is provided by our auditors, both of whom provide positive reports, and by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services which rated the Service as Good.

The assessment also considers recommendations made as part of last year's Annual Governance Statement, and an update on the position in respect of these is set out below:-

Area for Improvement	Action to date	Complete/ On-going	Owner
Continue to develop, and embed, the new assurance monitoring system app to collate information and intelligence from multiple sources, as well as linking to national learning	The Assurance Monitoring System app has continued to be embedded throughout the service and has now been scaled out to cover a greater breadth of data capture. The back office management solution now includes injection of data feeds from other sources such as HR, P&P MIS and IRS systems to further reduce overhead and increase efficiency, and is currently being modified to enable adoption by other partner agencies after significant interest. There are some smaller pieces of work outstanding in order to complete this preparation with our partner, before the solution goes into wider production use across the Service.	On-going, target date March 22	Head of Digital Transformation

Performance manage the completion of appraisals and introduce new tools to improve the appraisal conversation	A new appraisal process and form was introduced for all staff in 2019/20. An on-line tool has been developed, but roll out has been delayed due to Covid 19. This will be launched in 2021/22	Target date March 22	Head of Human Resources
Develop 360-degree assessments for leaders to inform personal development	This was rolled out to leaders in year.	Complete	Head of Human Resources

As a result of the various reviews a number of areas for further improvements have been identified:-

- An updated IRMP covering the period 2022/27 will be produced;
- The outcome of the Staff Survey will be published and, where relevant, acted upon;
- A project to replace the existing Performance Management System will commence;
- An upgraded Finance system will be implemented in April 2022, **as part of that we will review and implement improvements to the monthly budget monitoring process, making greater use of additional functionality provided;**
- **Develop business cases where required to ensure that value for money is evidenced.**

As part of our review, we are required to identify and disclose any significant internal control issues, of which there have been none, hence the overall conclusion is that the system of internal controls is adequate.

The above position is reflected in the Annual Governance Statement, attached as appendix 2.

Financial Implications

None

Human Resource Implications

None

Equality and Diversity Implications

None

Environmental Impact

None

Business Risk Implications

The Annual Governance Statement and the review of effectiveness of the Authority's arrangements for complying with its Code of Corporate Governance forms a key element of the Authority's overall assessment of how well it is managing its business risks.

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

Paper	Date	Contact
Code of Corporate Governance	Mar 2017	Keith Mattinson, Director of Corporate Services
Internal Audit Annual Report	June 2021	
External Auditors Audit Findings Report	November 2020	
HMICFRS Inspection Report	December 2018	
HMICFRS Thematic Inspection Report	January 2021	
Reason for inclusion in Part II, if appropriate:		

Lancashire Fire & Rescue Service Statement of assurance on governance arrangements, including risk management and internal control

Lancashire Fire & Rescue Service (LFRS) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

In discharging this overall responsibility, LFRS is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level.

As the Executive Board, we have responsibility for maintaining a system of sound internal control including risk management that supports the achievement of the Authority's and the Service's objectives, and for reviewing its effectiveness. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of these objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

However, the system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore provide only reasonable and not absolute confidence that the risks of failure have been mitigated.

As Executive Directors, we are responsible for reviewing the effectiveness of the governance arrangements including system of internal control and risk management processes operating within the Service. The review of the effectiveness of the governance arrangements including the system of internal control has taken into account the following:

- The adequacy and effectiveness of management review processes;
- Outcomes from the formal risk assessment and evaluation (the risk register);
- Relevant self-assessments of key service areas within the Service;
- Relevant internal audit reports and the implementation of recommendations made by the Audit Service; and

- Outcomes from reviews by other bodies including external and statutory inspectorates and the external auditors.

We are satisfied that effective governance arrangements are in place, including a sound system of internal control throughout the year ended 31 March 2021 and is on-going, with the following improvements proposed.

- An updated IRMP covering the period 2022/27 will be produced;
- The outcome of the Staff Survey will be published and, where relevant, acted upon;
- A project to replace the existing Performance Management System will commence;
- An upgraded Finance system will be implemented in April 2022.

We propose to take steps to address the matters identified to enhance the adequacy of the Services internal controls. We are satisfied that these steps will enhance the system of internal control and the overall governance arrangements and we will be monitoring their implementation and operation.

**SOURCES OF ASSURANCE:
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2020/21**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
<p>Developing codes of conduct which define standards of behaviour for members and staff, and policies dealing with whistleblowing and conflicts of interests and that these codes and policies are communicated effectively</p>	<p>Good</p>	<p>Set of values agreed by the Authority - STRIVE</p> <p>Constitutional standing orders reviewed</p> <p>Member and employee codes of conduct</p> <p>Register of interests, and on-going declaration of these</p> <p>Register of gifts and hospitality</p> <p>Appropriately qualified Clerk to the Authority</p> <p>Anti-bribery and whistle-blowing policies in place</p> <p>Register of complaints and compliments</p> <p>Complaints against Members considered as a standing CFA item</p> <p>Minimal number of complaints</p> <p>No substantiated complaints against the service</p>
<p>Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.</p>	<p>Good</p>	<p>All Committee and Authority reports contain section on financial implications. Legal implications are contained within the body of every report as appropriate.</p> <p>The Treasurer/Director of Corporate Services and Monitoring Officer examine all reports to the Authority and its committees to enable legal and financial implications to be considered and provision included where appropriate</p> <p>The Monitoring Officer and Treasurer/Director of Corporate Services attend Authority/Committee to provide advice as required</p>

**SOURCES OF ASSURANCE:
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2020/21**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
Documenting a commitment to openness and acting in the public interest, and compliance with the principles of Data Transparency	Good	Compliance with Transparency code Publication scheme on the website. Compliance with FOI requirements Pay Policy Statement approved by the full Authority and published on the service website Annual Report Annual Assurance Statement Public meetings Publication of information on website, including Committee agenda and minutes Information Management Strategy updated
Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.	Good	Comprehensive communication and consultations strategies in place Positive evidence of proposals being amended following outcomes of consultation Annual report Key documents published on internet Constructive dialogue with representative bodies Register of complaints and compliments, no substantiated complaints against the service Annual Assurance Statement available on the website The External Auditors Annual Audit Letter did not identify any issues

**SOURCES OF ASSURANCE:
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2020/21**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
		<p>Internal Audit provided substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control</p> <p>Recommendations from audit reviews implemented</p> <p>HMICFRS Inspection rated the Service as Good in all categories, other than Outstanding in Culture. No major areas for improvement identified</p> <p>HMICFRS undertook a C-19 Thematic inspection which concluded that “the service adapted and responded to the pandemic effectively”</p>
<p>Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.</p> <p>Translating the vision into objectives for the authority and its partnerships</p>	<p>Good</p>	<p>Integrated Risk Management Plan covers 2017-2022</p> <p>Annual Service Plan, setting out Vision, Activities, Priorities and Values.</p> <p>KPIs identified for each of our priorities</p> <p>Suite of strategies/policies etc. regularly reviewed.</p> <p>Consultation and Communication Strategy setting out how we will consult with public and service users</p> <p>Assessment of compliance with National Framework</p> <p>Effective Corporate Programme Board arrangements, split into 4 Boards:-</p> <ul style="list-style-type: none"> • Business Process Improvement Programme • Workforce Development Programme • Service Delivery Change Programme • Capital Projects Programme Board <p>All major projects and reviews follow similar format and report to CPB</p> <p>Terms of reference for all Programme Board items agreed at outset and delivery against these monitored on a quarterly basis</p>

**SOURCES OF ASSURANCE:
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2020/21**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
<p>Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision making in partnerships, information provided to decision makers and robustness of data quality.</p>	<p>Good</p>	<p>Appropriate governance arrangements in place, CFA plus 5 Committees.</p> <p>Updated Committee terms of reference agreed, supported by Standing Orders, and Scheme of Delegation and Financial Regulations, which have all been reviewed and updated in last 3 years.</p> <p>BCP arrangements in place in respect of systems and information, including regular backing up and storage of data.</p> <p>ICT Disaster Recovery Plan in place</p>
<p>Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.</p>	<p>Good</p>	<p>Comprehensive performance management information presented to SMT/Performance Committee on a regular basis. A replacement Performance Management System is required</p> <p>KPIs agreed with monitoring arrangements in place</p> <p>Annual Report</p> <p>HMICFRS Inspection regime</p> <p>Operational Assurance Audit Team to review:-</p> <ul style="list-style-type: none"> • operational preparedness • operational response • operational learning <p>The quarterly publication - Safety Health and Environment and Operational Assurance Performance Summary identifies learning from incidents etc.</p> <p>External Audit review</p> <p>Comprehensive financial information reporting framework. An upgraded Finance System will be implemented in April 22 to further improve this</p> <p>Medium Term Financial Plan and balanced budget in place</p>

**SOURCES OF ASSURANCE:
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2020/21**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
		<p>Service reviews identified to deliver savings</p> <p>Resources redirected into priority areas</p> <p>Consistently exceeded efficiency targets</p>
<p>Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements.</p>	<p>Good</p>	<p>Committee terms of reference agreed, supported by Standing Orders, and Scheme of Delegation and Financial Regulations, which have all been reviewed and updated in last 3 years</p> <p>Strategy Group meetings inform members of developments in a less formal manner</p> <p>Member/Officer protocol in place setting out respective roles and relationships etc.</p> <p>Member champions covering:-</p> <ul style="list-style-type: none"> • Equality, Diversity and Inclusion • Community Safety • Road Safety • Health and Wellbeing <p>Job descriptions for all staff</p> <p>Regular briefing sessions before Committees and as and when required</p> <p>Induction/training provided to all members</p>
<p>Ensuring the authority's financial management arrangements conform with the governance requirements of CIPFAs FM Code and the CIPFA Statement on the Role of the Chief financial Officer in Local Government and, where they do not, explain why and how they deliver the same impact.</p>	<p>Good</p>	<p>Self-assessment against the CIPFA FM Code undertaken and reported to Audit Committee.</p> <p>Self-assessment of the role of the Treasurer is compliant with the governance requirements set out in CIPFAs Statement on the Role of the Chief Financial Officer in Local Government</p> <p>Qualified Treasurer, sits on Executive Board and reports directly to Chief Fire Officer</p> <p>Regular appraisal, with updated process implemented. On line tools due to be rolled out in 21/22.</p>

**SOURCES OF ASSURANCE:
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2020/21**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
		<p>Contract standing orders, financial regulations, budget holder instructions in place and regularly reviewed</p> <p>Comprehensive budget setting/monitoring arrangement in place, linked to corporate objectives and priorities. Budget is delegated appropriately and aligned with operational responsibility</p>
<p>Ensuring effective arrangements are in place for the discharge of the monitoring officer function.</p>	<p>Good</p>	<p>Clerk to the Authority is the monitoring officer</p> <p>Appropriately qualified/experienced</p> <p>Regular appraisal</p> <p>Procedural standing orders reviewed</p> <p>Scheme of delegation updated and agreed by Audit Committee</p>
<p>Ensuring effective arrangements are in place for the discharge of the head of paid service function.</p>	<p>Good</p>	<p>CFO is the head of paid service</p> <p>Regular appraisal with Chairman</p>
<p>Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training</p>	<p>Good</p>	<p>Member Training and Development Committee</p> <p>All Members subject to a one to one to identify training and development needs. Specific Member training budget to address outcomes of this.</p> <p>Senior Officers subject to appraisal system, including identification of training and development needs</p> <p>360 degree assessments for leaders within the organisation to inform personal development</p>
<p>Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability.</p>	<p>Good</p>	<p>Comprehensive Risk Management Strategy</p> <p>Corporate Risk Register</p>

**SOURCES OF ASSURANCE:
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2020/21**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
		<p>Corporate Programme Board items include an assessment of risk</p> <p>Strategic Business Continuity Plan (BCP) in place and tested on a regular basis. Departmental Business Impact Assessments and Recovery Plans in place. Specific BCP training provided to Heads of Dept.</p> <p>HMICFRS undertook a C-19 Thematic inspection which concluded that “the service adapted and responded to the pandemic effectively”</p> <p>Additional resilience built into ICT network</p> <p>Appropriate insurance arrangements</p>
Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained.	Good	<p>Anti-fraud policy</p> <p>Fraud risk assessment updated in May 2021</p> <p>Full compliance with National Fraud Initiative</p>
Ensuring the assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit and, where they do not, explain why and how they deliver the same impact.	Good	<p>Internal Audit is outsourced to Lancashire County Council</p> <p>Internal Audit Charter in place</p> <p>Internal Audit Service Quality Assurance and Improvement Programme process agreed</p> <p>Lancashire County Council comply with CIPFA statement</p> <p>Head of Internal Audit has direct access to Audit Committee, Treasurer, Clerk and Chief Fire Officer as well as Members of the Authority</p>
Undertaking the core functions of an audit committee, as identified in CIPFA’s Audit Committees: Practical Guidance for Local Authorities.	Good	<p>Audit Committee established and terms of reference agreed, covering core functions of an Audit Committee</p>

**SOURCES OF ASSURANCE:
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2020/21**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
		Audit Committee have access to both Internal and external auditors, and are provided with an opportunity to discuss issues without Officers being present
Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations	Good	<p>Audit Committee established</p> <p>All core functions of an Audit Committee are covered by the existing terms of reference</p> <p>Head of Internal Audit has direct access to Audit Committee, Treasurer, Clerk and Chief Fire Officer as well as Members of the Authority</p> <p>Audit Committee have access to both Internal and external auditors, and are provided with an opportunity to discuss issues without Officers being present</p> <p>No issues identified by either Internal or External Auditor,</p>
Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures.	Good	<p>A framework has been developed to review potential partnership arrangements utilising the following criteria:</p> <ul style="list-style-type: none"> • Will it make Lancashire Safer? • Will undertaking the activity potentially damage our brand? • Does it fit with the public image of the FRS? • Will it detract from our ability to undertake other operational or preventative functions, if so to what extent? • Is there a significant negative financial impact? • Is the activity likely to fit comfortably with our stakeholders (Trade Unions, Firefighters, CFS staff, Partners, Home Office, etc.)? <p>Statement of Intent signed with Lancashire Constabulary</p> <p>Collaboration Group established, with regular reports to members</p>
Staff resources are adequate in numbers and skills to deliver the service objectives. The roles and responsibilities of staff and members have been clearly defined and are understood,	Good	<p>Workforce Development Strategy agreed</p> <p>Agreed establishment in line with approved budget. Agreed process for revising establishment.</p>

**SOURCES OF ASSURANCE:
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2020/21**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
<p>and appropriate guidance and training are in place</p>		<p>Job descriptions in place</p> <p>Appropriate recruitment checks undertaken</p> <p>Staff induction process in place, incorporating LearnPro module</p> <p>Code of conduct in place and provided to all staff as part of induction.</p> <p>Appropriate performance management arrangements Appraisal system in place, including identification of training and development needs</p> <p>Use of:-</p> <ul style="list-style-type: none"> • Coaching and Mentoring • Leadership Conferences <p>Operational Assurance Audit Team to review:-</p> <ul style="list-style-type: none"> • operational preparedness • operational response • operational learning <p>Revised staff survey undertaken in 20/21, the outcome of this will be published and, where relevant, acted upon in 21/22</p> <p>‘Star’ awards in place where staff nominate ‘star’ colleagues who live our values, and based on a judging panel awards, are given to staff (and publicised throughout the organisation).</p> <p>Updated Intranet incorporates social networking to connect staff across the service</p>
<p>There are adequate contingency procedures to ensure that services can be resumed in case of emergency.</p> <p>Contingency procedures are well communicated</p>	<p>Good</p>	<p>Strategic BCP in place and tested on a regular basis. Departmental Business Impact Assessments and Recovery Plans in place. Specific BCP training provided to Heads of Dept.</p> <p>BCP is considered as a standing item on Service Management Team</p> <p>BCP plan tested on a regular basis, and amended as required</p>

**SOURCES OF ASSURANCE:
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2020/21**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
		<p>Active member of Lancashire Resilience Forum</p> <p>Appropriate BCP arrangements in place in respect of systems and information,</p> <p>HMICFRS undertook a C-19 Thematic inspection which concluded that <i>“the service adapted and responded to the pandemic effectively..... In line with good governance, the service had business continuity plans in place. The service relied on the county LRF pandemic flu plan as it didn’t have its own. These plans were activated.”</i></p>
<p>Processes have been established to ensure that corporate and local service policies and procedures are implemented effectively and are periodically reviewed</p>	<p>Good</p>	<p>System of internal control established</p> <p>Policies and service orders are regularly reviewed, in line with an agreed timetable</p> <p>Internal audit reviews have not identified any significant weaknesses</p> <p>External audit reviews have not identified any significant weaknesses</p>

STATEMENT ON ANNUAL GOVERNANCE ARRANGEMENTS BY THE CHAIRMAN OF THE COMBINED FIRE AUTHORITY, THE TREASURER TO THE COMBINED FIRE AUTHORITY AND THE CHIEF FIRE OFFICER

Scope of Responsibility

Lancashire Combined Fire Authority (the Authority) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Authority has approved and adopted an updated code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. Included within the Code are the following core principles:-

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
2. Ensuring openness and comprehensive stakeholder engagement
3. Defining outcomes in terms of sustainable economic, social, and environmental benefits
4. Determining the interventions necessary to optimise the achievement of the intended outcomes
5. Developing the entity's capacity, including the capability of its leadership and the individuals within it
6. Managing risks and performance through robust internal control and strong public financial management
7. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

(A copy of the code, setting out the core and supporting principles, what the Authority commits itself to do and how it will do this can be found on our website at <https://www.lancsfirerescue.org.uk/wp-content/uploads/2018/04/Code-of-Corporate-Governance.pdf>)

This statement explains how the Authority has complied with the code and also meets the requirements of regulation 6(2) of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

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

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

The governance framework has been in place at the Authority for the year ended 31 March 2020 and up to the date of approval of the 2019/20 Statement of Accounts.

The Governance Framework

The Governance framework describes the key elements of the systems and processes that comprise the Authority's governance arrangements in accordance with the seven principles of Corporate Governance included in our Code and include:-

- The Integrated Risk Management Plan (IRMP) describes our aims, priorities, equality objectives and values, setting out our ambitions and how we will deliver them in the medium term. The current plan covering 2017-2022 can be found on our website at <https://www.lancsfirerescue.org.uk/wp-content/uploads/2018/04/Integrated-Risk-Management-Plan.pdf>;
- Annual Service Plan details the activities we will undertake to deliver the strategy set out in our IRMP. The current plan has been extended due to the Coronavirus pandemic and now covers 2020/22 was approved this year and can be found on our website at <https://vault.ecloud.co.uk/lancsfire/2020/06/Digital-ASP-20-22.pdf>;
- A Communication Strategy and the Consultation Strategy;
- A comprehensive performance management framework, with the Performance Committee and Service Management Team receiving regular reports on performance against targets and any corrective action taken to address any variances. On an annual basis the Authority publishes an Annual Service Report;
- A Corporate Programme Board provides oversight across 4 areas:-
 - Business Process Improvement Programme;
 - Workforce Development Programme;
 - Service Delivery Change Programme;
 - Capital Projects Programme.

All major projects and reviews follow similar format and report to Corporate Programme Board.

- The Authority operates a Committee Structure aligned to strategic objectives, within agreed Terms of Reference, as follows:-
 - The Audit Committee - To advise on the adequacy and effectiveness of the Authority's Internal and External Audit Service and risk management arrangements, which operates in line with the core functions identified in CIPFAs Audit Committees – Practical Guidance for Local Authorities;

- The Resources Committee - To consider reports and make decisions relating to financial, human resources and property related issues;
 - The Planning Committee - To consider reports and make decisions relating to all aspect of planning arrangements, including consultation and communication arrangements;
 - The Performance Committee - To consider reports and make recommendations on all aspects of performance management;
 - The Appeals Committee -To hear relevant appeals, grievances and complaints.
- Clear management structure within the Service. The Executive Board, comprising the Chief Fire Officer (head of paid service), and 4 Executive Directors, is responsible for determining policy, monitoring performance and developing service plans in line with the Authority's overall strategic objectives and is assisted in this process by the Service Management Team;
 - The Combination Scheme Order, Standing Orders, Terms of Reference of individual Committees, Scheme of Delegation and Financial Regulations establish overall arrangements for policy setting and decision making and the delegation of powers to members and officers;
 - Comprehensive suite of strategies and policies in place and regularly reviewed
 - Codes of Conduct for members and officers, and member/officer protocol, that set out clear expectations for standards of behaviour;
 - Both the Monitoring Officer and Treasurer are involved in the Authority's decision making process, and ensure compliance with established policies, procedures, laws and regulations; All Authority reports are considered for human resource, financial, business risk, environmental and equality and diversity implications in order to identify key issues;
 - The Treasurer's role and financial management arrangements align with requirements set out in CIPFAs Statement on the Role of the Chief Financial Officer in Local Government **and CIPFAs Financial Management Code**;
 - Well publicised arrangements for dealing with complaints and whistle-blowing, and for combating fraud and corruption;
 - A Risk Management Strategy and framework which ensures that risks to the Service's objectives are identified and appropriately managed
 - Comprehensive Business Continuity arrangements in place, and tested on a regular basis
 - A framework to review potential partnership arrangements utilising set criteria prior to entering into such arrangements;
 - Compliance with data transparency requirements, including publication of all key documents, committee agenda and minutes, pay policy and publication scheme on the internet;

- Regular assessment of training & development needs of both members and officers, including appropriate appraisal system. Sufficient budget to meet relevant training requirements;
- Comprehensive service review process in place, comprising external views in the form of HMICFRS Inspection review, External Audit reviews, Internal Audit reviews and internal reviews undertaken by our own staff. Ultimately these culminate in the production, and publication, of an Annual Assurance Statement.

Review of effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Authority who have responsibility for the development and maintenance of the governance environment, the Internal Auditors annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

A statement of assurance has been discussed and approved by the Executive Board as to the effectiveness of the governance arrangements for which it is responsible, including the system of internal control. The statement of assurance covers all the principles set out in the Authority's Code of Corporate Governance. The statement of assurance reveals no areas of weakness in the Authority's corporate governance arrangements; the arrangements are in all cases at least adequate and in the majority of areas good.

In maintaining and reviewing the effectiveness of the Authority's governance arrangements the following have been considered:-

- The Integrated Risk Management Plan covers the five year period 2017-2022.
- We updated our Strategic Assessment of Risk.
- **Changes were made to the way that we work during 2020/21 due to the ongoing impact of the Covid-19 pandemic:-**
 - **Our business continuity arrangements were put in place to ensure the continued delivery of the critical activities of a fire and rescue service;**
 - **Operational staff continued to respond to emergency incidents in the usual way;**
 - **Fire prevention and fire protection activity continued through the pandemic, initially at a reduced level, however it was specifically targeted on those most at risk;**
 - **There was a temporary suspension of some non-emergency functions and secondary activities;**
 - **To support our partner agencies the Service undertook a wide range of additional work;**
 - **All aspects of the service experienced a number of changes to working practices, implemented in order to ensure staff safety during the pandemic, with staff who were able to, working from home;**
 - **As well as work to safeguard the physical health of staff, the Authority recognised the additional pressures imposed by the demands of the pandemic and enhanced support for psychological wellbeing across the whole organisation;**

- **These changes were made possible by amending both policy and working practices/processes;**
 - **Relevant Authority/Committee meetings were cancelled between March and May 2020, with the Authority's Urgent Business process being used as required. Virtual meetings recommenced in June 2020 and in person meetings recommenced in June 2021. Member oversight continued throughout the restrictions with regular briefings from officers;**
 - **The Service was able to manage the additional work and it did not result in any negative effects upon either the operation of the Authority's governance arrangements or our ability to fulfil our statutory functions.**
- HMICFRS undertook a thematic inspection on the Services response to the COVID-19 pandemic in 2020/21. Whilst no overall rating is provided the report stated *"In summary, the service adapted and responded to the pandemic effectively. It used on-call and wholetime firefighters to respond to emergencies, and it gave additional support to the community during the first phase of the pandemic. Prevention and protection staff made home fire safety visits to the most vulnerable people and businesses. They used appropriate personal protective equipment (PPE) for these visits. This meant the people of Lancashire were well supported throughout the pandemic. The service was able to effectively deal with some significant incidents, such as wildfires and flooding, during this period."*
 - The Annual Service Plan was extended due to the pandemic and now covers 2020/22, providing clarity, both internally and externally, on our priorities set out in the IRMP and describes what our ambitions are for each priority, as well as setting out the projects and actions that will be delivered, developed or reviewed during the coming year against each of our priorities. This is supported by Local Delivery Plans.
 - A framework exists to review potential partnership arrangements utilising the following criteria:
 - Will it make Lancashire Safer?
 - Will undertaking the activity potentially damage our brand?
 - Does it fit with the public image of the FRS?
 - Will it detract from our ability to undertake other operational or preventative functions, if so to what extent?
 - Is there a significant negative financial impact?
 - Is the activity likely to fit comfortably with our stakeholders (Trade Unions, Firefighters, CFS staff, Partners, Home Office, etc.)?
 - Statement of Intent: Enhanced Collaboration between LFRS and Constabulary approved at Joint Exec Board. Joint Collaboration group established, reporting through to Members.
 - An Operational Assurance Team undertake a programme of service wide station assurance visits to identify areas for improvement and track these through to completion, and publicise any improvements through a regular newsletter, thus enhancing operational preparedness, operational response and operational learning.

- Performance appraisal incorporating values is undertaken throughout the Service.
- We have undertaken a review of our Constitutional and Procedural Standing Orders, Code of Conduct for Fire Authority Members, The Role of Members and Generic Member Champions Role Description, Members' Allowance Scheme and Member / Officer Relations Protocol.
- **We undertook a review of our financial management arrangements against CIPFAs Financial Management Code, which identified that we performed strongly against this and did not identify any significant weaknesses/areas for improvement.**
- Internal Audit services were provided by Lancashire County Council, who comply with CIPFA's Code of Internal Audit Practice. The service is designed to give assurance that the Authority maintains adequate systems of internal control and to make recommendations on ways to enhance these where felt necessary.
- We have undertaken an Assurance mapping exercise, with our Internal Auditors, which has confirmed that a strong assurance framework is in place.
- As part of the 2020/21 internal audit plan the auditors undertook various reviews and gave the overall opinion that they can *"provide substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control."*
- Grant Thornton provide an external audit service to the Authority, and as such the effectiveness of the system of internal controls is also informed by their work. The latest Annual Audit letter did not identify any significant weaknesses in internal control arrangement and provided the following audit conclusions in relation to 2019/20:
 - Financial statements – *"We gave an unqualified opinion on the Authority's financial statements on 30 November 2020."*
 - Value for money 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 2020."*
- HMICFRS undertook its first inspection of the Service in 2019/20. Overall, the Service was rated as Good, in all categories other than 'Promoting the right values and culture' in which it was rated outstanding. This was the highest overall rating of any Service in the first tranche of inspections, and the only outstanding rating. *"Overall, we commend Lancashire Fire and Rescue Service for its performance. We are confident it is well equipped for this to continue."* and *"It provides an effective service"* and *"It provides an efficient and affordable service by making good use of its resources"*.

Last year's Annual Governance Statement identified a number of areas for improvement, and progress against these are set out below: -

Area for Improvement	Action to date	Complete/Target Date	Owner
Continue to develop, and embed, the new assurance monitoring system app to collate information and intelligence from multiple sources, as well as linking to national learning	The Assurance Monitoring System app has continued to be embedded throughout the service and has now been scaled out to cover a greater breadth of data capture. The back office management solution now includes injection of data feeds from other sources such as HR, P&P MIS and IRS systems to further reduce overhead and increase efficiency, and is currently being modified to enable adoption by other partner agencies after significant interest. There are some smaller pieces of work outstanding in order to complete this preparation with our partner, before the solution goes into wider production use across the service	On-going, target date March 22	Head of Digital Transformation
Performance manage the completion of appraisals and introduce new tools to improve the appraisal conversation	A new appraisal process and form was introduced for all staff in 2019/20. An on-line tool has been developed, but roll out has been delayed due to Covid 19. This will be launched in 2021/22	Target date March 22	Head of Human Resources
Develop 360-degree assessments for leaders to inform personal development	This was rolled out to leaders in year.	Complete	Head of Human Resources

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

On the basis of the review of the sources of assurance set out in this statement, we are satisfied that Lancashire Combined Fire Authority and Lancashire Fire and Rescue Service has in place a satisfactory system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

Whilst no significant governance issues were identified, the following new areas for improvement, are listed below:

- An updated IRMP covering the period 2022/27 will be produced;
- The outcome of the Staff Survey will be published and, where relevant, acted upon;
- A project to replace the existing Performance Management System will commence;
- An upgraded Finance system will be implemented in April 2022.

We propose over the coming year to take steps to address the above matter to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

County Councillor D O'Toole,
Chairman,
Lancashire Combined Fire
Authority
21 July 2021

J Johnston,
Chief Fire Officer,
Lancashire Fire and
Rescue Service
21 July 2021

K Mattinson CPFA,
Treasurer,
Lancashire Combined Fire
Authority
21 July 2021

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 20 July 2021

EXTERNAL AUDIT – UNDERSTANDING HOW THE AUDIT COMMITTEE GAINS ASSURANCE FROM MANAGEMENT (Appendices 1 and 2 refer)

Contact for further information:

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

Executive Summary

In order to comply with International Auditing Standards, the External Auditors, Grant Thornton, are required to obtain an assurance as to how those charged with governance gain assurance over management processes and arrangements. The letter requesting this is attached as appendix 1.

A response has been prepared and submitted by the Chair of the Audit Committee in April and is attached as appendix 2. (It is worth noting that Management have had to submit a similar response in connection with the processes in place to prevent and detect fraud and ensure compliance with law and regulations, as well as views on key areas affecting the financial statements.)

Decision Required

The Committee are asked to note and endorse the response submitted.

Information

As stated in the Executive Summary.

Financial Implications

None

Business Risk Implications

The internal controls operated within the Authority are designed to minimise business risk in general and in particular the risk of fraud.

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource 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:		

Councillor Hasina Khan,
Chair of the Audit Committee
Lancashire Fire and Rescue Service
Garstang Road
Preston
Lancashire
PR2 3LH

Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS
T +44 (0)151 224 7200

9 March 2021

Dear Councillor Khan,

The Lancashire Combined Fire Authority Financial Statements for the year end 31 March 2021

Understanding how the Audit and Risk Committee gains assurance from management

To comply with International Auditing Standards, we need to establish an understanding of how those charged with governance gains assurance over management processes and arrangements.

I would be grateful, therefore, if you could write to me in your role as Audit Committee Chair with your responses to the following questions.

- 1 How does those charged with governance oversee management's processes in relation to:
 - carrying out an assessment of the risk the financial statements may be materially misstated due to fraud or error
 - identifying and responding to the risk of breaches of internal control
 - identifying and responding to risks of fraud at the Authority (including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist)
 - Communicating to employees its views on appropriate business practice and ethical behavior (for example by updating, communicating and monitoring against the codes of conduct)?
- 2 Do you have knowledge of any actual, suspected or alleged frauds? If so, please provide details.
- 3 How does those charged with governance gain assurance that all relevant laws and regulations have been complied with?
- 4 Are you aware of any actual or potential litigation, claims or whistleblower tips or complaints that would affect the financial statements?

I have attached a separate schedule which explores these areas in more detail. I would be grateful if you

could complete this schedule and return it to me. If you are in agreement with this, I would be grateful for your formal response by 29 March 2021.

Yours sincerely

Andy Ayre
Manager
For Grant Thornton UK LLP

Appendix 2

Response from Audit Committee Chair 2020/21

Fraud risk assessment

Auditor Question	Response
Has the Authority assessed the risk of material misstatement in the financial statements due to fraud?	Yes
What are the results of this process?	No material risk identified as there is a reconciliation between the management accounts reported to Resources Committee and the financial accounts presented to Audit Committee.
What processes does the Authority have in place to identify and respond to risks of fraud?	Quarterly check for duplicate AP transactions. Participation in the NFI exercise. We have whistle blowing and anti fraud policies. Internal audit reviews.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	No
Are internal controls, including segregation of duties, in place and operating effectively?	Yes Review by Internal and External Audit Reported in the Annual Governance Statement
If not, where are the risk areas and what mitigating actions have been taken?	n/a
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	No
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	No
How does the Authority exercise oversight over management's processes for identifying and responding to risks of fraud?	Updated corporate risk register is presented at each Audit Committee, NFI update report taken to Audit Committee when completed.

What arrangements are in place to report fraud issues and risks affecting the authority?	Updated corporate risk register is presented at each Audit Committee, NFI update report taken to Audit Committee when completed. In the event of a fraud occurring, Audit Committee would be informed and kept updated.
How does the Authority communicate and encourage ethical behaviour of its staff and contractors?	Agreed set of values includes trust and integrity. Employee code of conduct. Code of Corporate Governance. Contractor terms and conditions.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Whistle blowing and anti fraud policies available for all staff No
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	No, the only significant related party relates to Treasurer whose wife is Treasurer at Blackburn with Darwen Council, as detailed in the accounts Related Party Transaction note. Note in April 2021 Mrs Mattinson is moving to become the Treasurer at Chorley & South Ribble Borough Council.
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Authority as a whole or within specific departments since 1 April 2020?	We are still reviewing matches identified as part of the current NFI process – and will update in due course.

Law and regulation

Auditor Question	Response
What arrangements does the Authority have in place to prevent and detect non-compliance with laws and regulations?	In addition to the Anti-Fraud and Whistleblowing policies referred to earlier, all Committee reports are reviewed by the Clerk to the Authority and the Treasurer to the Authority to ensure compliance with legal and financial regulations.
How does management gain assurance that all relevant laws and regulations have been complied with?	As above.
How is the Authority provided with assurance that all relevant laws and regulations have been complied with?	As above.

Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2020?	No
What arrangements does the Authority have in place to identify, evaluate and account for litigation or claims?	Year-end process to identify contingent liabilities/outstanding litigation and claims On-going DFM monitoring arrangements Discussion with Clerk/Solicitor
Is there any actual or potential litigation or claims that would affect the financial statements?	Backdated pensions – 1920 accrual going back to 1314? We have not yet reached agreement in respect of pensionability of allowances, therefore it is not yet known if the accrual should be done further than 2013/14.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	No

Going Concern

Auditor Question	Response
How will the Authority Board / Audit Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the 2020/21 financial statements?	<p>The Treasurer was able to set a balanced budget for 2021/22, and financial modelling suggests the Authority will be able to meet its obligations for the foreseeable future.</p> <p>There are no significant doubts around the forward planning for 2021/22.</p> <p>The Authority has healthy reserve balances, and is anticipating an underspend position for 2020/21.</p> <p>We are expecting a further £0.225m instalment of S31 Covid grant in early April 2021.</p>

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LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 20 July 2021

ACCOUNTING ESTIMATES 2020/21

Contact for further information:-

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

Executive Summary

The introduction of ISA 540 means that Audit Committee need to fully understand the judgements and estimates made by management in the course of producing the Statement of Accounts.

The estimates as reported are included in the unaudited statement of accounts balances.

Recommendation

The Committee is asked to note and endorse the accounting estimates as reported.

Background

International Standard on Auditing (ISA) 540: Auditing Accounting Estimates and Related Disclosures, was revised in December 2018 by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, quality control, and review.

The auditing standard was revised because Statement of Accounts are increasingly subject to judgements and estimations performed by management and experts on a range of items within them, as required by current accounting standards. These changes require that auditors should understand and evaluate: “the nature and extent of oversight and governance that the entity has in place over management’s financial reporting process relevant to the accounting estimates.”

ISA 540 applies to any financial statements beginning on or after 15 December 2019 – for LFRS this means the 2020/21 financial statements onwards.

Requirements

Those Charged with Governance, ie Audit Committee need to understand what significant estimates will be included within the Statement of Accounts. Significant estimates are those that:

- Require significant judgement by management to address subjectivity;

- Have high estimation uncertainty;
- Are complex to make;
- Had, or ought to have had, a change in method, assumptions or data compared to previous periods; or
- Involve significant assumptions.

The Statement of Accounts contains estimated figures that are based on assumptions about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends or other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The Statement of Accounts are prepared in line with the most recent Code of Practice on Local Authority Accounting in the United Kingdom (known as the Code), published by CIPFA.

Significant underlying Assumption for 2020/21

The Statement of Accounts are prepared with the underlying significant assumption of Going Concern, which means that the Authority considers its' financial position to be stable for the foreseeable future, as assessed at the most recent budget setting exercise finalised in February 2021. The Future Financial Plans section of the narrative describes this in more detail.

Accounting standards require that management make an annual assessment of going concern, although the Code recognises that Local Authorities cannot be created or dissolved without statutory prescription, the accounts must therefore be prepared on a Going Concern basis. Management have prepared the assessment in line with requirements.

Significant Accounting Estimates for 2020/21

Nature of the estimate	Estimate value; degree of uncertainty; methodology
Valuation of land & buildings	<p>2020/21 carrying value £99.5m (2019/20: £99.2m)</p> <p>The valuation method applied to LFRS assets is prescribed by the Code, these have not changed since the last financial year. The majority of the Property assets are valued under Depreciated Replacement Cost (DRC) as specialised assets. DRC is used as a valuation method when there are no recent market transactions due to the specialised nature of the asset (ie a Fire Station) to base a valuation on. DRC calculates the cost (at today's prices) of building the asset as it is currently used, then reduce by the valuer's assessment of the accumulated depreciation.</p> <p>Land and buildings are valued by a RICS qualified valuer (employed by Amcat Ltd) on a rolling 5-year basis for physical inspections, or upon completion of significant</p>

	<p>building works, with the remaining assets updated by desktop valuation using RICS indices.</p> <p>The 2019/20 valuations were subject to a higher degree of valuation uncertainty in terms of the market evidence used to form opinions of value, due to the global pandemic. Although this position has largely settled, the valuer notes continued market uncertainties in the wake of Brexit and Covid-19, and although materials costs remain high, investment market uncertainty has caused a slight downward trend since the last year.</p> <p>Management review the underlying assumptions prior to valuation, and review material changes to values to understand the reasons, or challenge the results with the valuer.</p> <p>The property valuation gain for 2020/21 is £4.1m (2019/20: £6.0m gain).</p> <p>It is estimated that a 1% increase in DRC values will increase asset values by £0.7m (2019/20: £0.7m).</p> <p>Property assets are also considered by the valuer for impairment each year, in terms of the condition of the asset, local property market conditions, current pricing of materials/labour (the basis for DRC valuations). There were no such impairments in 2020/21.</p>
<p>Depreciation of Property & Equipment</p>	<p>2020/21 carrying value £99.5m (2019/20: £99.2m)</p> <p>Assets are depreciated over the useful lives, dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets.</p> <p>Useful lives are determined by the RICS valuer for Property assets, and by Fleet Services department for vehicles and equipment. Asset life changes are compared to the previous year by management to check for reasonableness. There have not been any significant changes in asset lives since last year. Property asset lives are assessed on physical inspection in 10-year bands up to a maximum of 50 years. Vehicle asset lives depend upon the vehicle type, usually between 4 and 15 years. Note - the useful life is used to account for the 'using up' of the asset, at point of asset disposal all our assets are still in saleable working order, for example a 12-year-old pumping appliance will reach £3k sale proceeds.</p> <p>If the useful life of assets is reduced, depreciation increases and the carrying value of the asset falls.</p>

	<p>It is estimated that the annual depreciation charge would increase by £0.1m for every year that asset lives were reduced. The depreciation charge for 2020/21 is £4.2m (2019/20: £3.9m).</p>
<p>Valuation of both FF and LGPS pension liability</p>	<p>2020/21 net liability carrying value £887.7m (2019/20: £812.7m)</p> <p>The liabilities of each scheme are calculated by qualified actuaries (Mercers for LGPS, and Government Actuary Department (GAD) for FF schemes) using detailed membership data at a point in time, adjusted for changes since the last full review. These calculations are based on complex judgements relating to the discount rates used, the rate at which salaries and pensions are projected to increase, mortality rate assumptions, and expected returns on pension fund assets (for LGPS only). These assumptions are proposed by the actuaries as experts in their field and are disclosed to management in advance of the year end valuations being calculated, giving the opportunity for scrutiny and challenge.</p> <p>The assumptions made, and the subsequent movement in the liabilities are reviewed by management to check for reasonableness, with any queries referred to the actuaries for resolution.</p> <p>It is estimated that, for both pension schemes combined, a 0.1% increase in the discount rate would decrease the liability by £16.7m (2019/20: £15.8m), a 0.1% increase in inflation would increase the liability by £15.1m (2019/20: £13.1m), a 0.1% increase in pay growth would increase the liability by £2.2m (2019/20: £2.0m). In addition, a 1 year increase in the assumed life expectancy would increase the liability by £8.6m (2019/20: £6.6m).</p> <p>The above rates are updated by the actuaries each year, which in turn affects the overall liability calculated.</p>
<p>Valuation of LGPS pension asset</p>	<p>2020/21 LGPS asset carrying value £68.3m (2019/20: £61.9m)</p> <p>The LGPS scheme assets attributable to the Authority are calculated by Mercers (with the Authority's 25% share in North West Fire Control calculated by Hymans Robertson LLP). The assets are valued using the value of assets as assessed at the last full valuation, taking account of any changes since then. The asset value is re-based at each full valuation.</p>

	<p>The Authority is attributed a proportionate share of the assets of the Lancashire County Pension fund, in line with all organisations participating in the scheme. Both the direct and indirect property assets held by the pension fund carry a risk of over/understating for the accounts, both in terms of the proportion attributed to the Authority, and the impact of market volatility seen during the global pandemic, although the actuaries consider this to have reduced since the last year end.</p> <p>The assumptions made, and the subsequent movement in the assets are reviewed by management to check for reasonableness, with any queries referred to the actuaries for resolution.</p>
<p>Fair value measurements – PFI schemes</p>	<p>2020/21 PFI liability carrying value £13.2m (2019/20: £13.6m); 2020/21 PFI liability fair value £17.3m (2019/20: £16.6m)</p> <p>The liability initial carrying value is calculated from the present value of the future payments due and grant received for the life of the PFI scheme. This carrying value is then updated each year to reflect any inflationary increases and any repayments made. The fair value is calculated using the forecast payments and grant income for the remaining life of the scheme and applying a discount rate (we use the current AA rated bond yield rate forecast) to arrive at the fair value. The Fair Value is the estimated price at which the Authority would transfer the liability to another body.</p> <p>As the fair value of the Authority’s two PFI schemes cannot be measured based on quoted prices in active markets, their fair value is calculated using the Discounted Cash Flow method, which uses forecast future annual net cash flows to estimate the current value.</p> <p>In order to calculate the fair value, forecast bond yield rates are provided to us by LCC Treasury management section, who receive them from their Treasury Management advisors, Arlingclose.</p> <p>The bond yield rate forecasts have reduced since last year end, reflecting the reduction in expected future Bank of England base rate forecasts and the uncertainties about future economic recovery. This reduction in the future interest rates is reflected in the increased fair value of the liability, when the underlying liability has reduced by the repayments made during the year.</p>

<p>Expenditure accruals – pensionability of allowances</p>	<p>2020/21 total expenditure accrual £2.4m (2019/20: £2.4m)</p> <p>In line with the ongoing discussions with representative bodies regarding pensionability of allowances following the High Court ruling on Norman v Cheshire Fire Service in March 2019, the 2019/20 statement of accounts included an accrual of £2.4m, calculated as the Authority’s potential liability in respect of backdated employers pension contributions should agreement be reached with representative bodies.</p> <p>This sum was calculated using historic payroll data and applying the relevant Firefighters pension scheme employer’s contribution rates (which vary dependent on the scheme).</p>
<p>Revenue Accrual – S31 grant re business rates additional reliefs in 2020/21</p>	<p>2020/21 income accrual £1.9m (2019/20: nil)</p> <p>The 2020/21 accounts include an accrual of £1.9m in relation to additional business rates reliefs in respect of items such as retail, nursery and newspapers, announced in November 2020, to offset the shortfall carried forwards on the business rate collection fund at March 2021.</p> <p>This sum was calculated based on each billing authorities’ initial estimate of the relief’s impact on their collection fund and receipt of the final grant amount is expected to be received during quarter four of 2021/22, after the reconciliation of the year end billing authority business rates returns for 2020/21 which have a deadline of 7 July 2021.</p>
<p>Holiday pay expenditure accrual</p>	<p>2020/21 expenditure accrual £0.9m (2019/20: £0.8m)</p> <p>Each year end the Authority is required to calculate the balance owed to employees in relation to untaken annual leave, time owing and flexitime.</p> <p>Various systems and records are used to determine the underlying data, such as the payroll system for annual leave, the support staff flexitime system, and the on-call availability system. The relevant balances (by employee) then have the relevant payment rate applied to arrive at the accrual for the whole organisation.</p> <p>Note this balance is not expected to result in any cash payments to employees – it is simply recognising the cash value of outstanding balances at a point in time, in accordance with accounting rules.</p>

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In addition to the above, each year Executive Board are asked to consider whether there are any transactions, events, or conditions (or changes in these) that might trigger the recognition of an additional significant accounting estimate, or the potential recognition, known as a contingent liability.

Based on the returns received back from Executive Board, the contingent liabilities note has been updated to reflect the current position, but there were no further significant events or transactions identified by this process.

Financial Implications

As outlined in the report

Human Resource Implications

None

Equality and Diversity Implications

None

Environmental Impact

None

Business Risk Implications

If external audit does not consider that we have properly considered our estimates and significant judgements, we could be subject to a qualified audit opinion.

Local Government (Access to Information) Act 1985

List of Background Papers

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

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LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 20 July 2021

CORE FINANCIAL STATEMENT 2020/21

(Appendices 1, 2, 3, 4, 5 and 6 refer)

Contact for further information:

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

Executive Summary

This report presents the Core Financial Statements, which form part of the Statement of Accounts, for the Combined Fire Authority for the financial year ended 31 March 2021.

Members should note that the 2020/21 core statements presented do not include the adjustments required for recognising the Authority's share of the collection fund income position for both Council Tax and Business Rates, as the information was not received from all billing authority's in time for inclusion in this report (this will be updated for the final version of the accounts).

The Authority's 25% share of the North West Fire Control accounts ending 31 March 2021 has been included.

Recommendation

The Committee is asked note and endorse the draft Core Financial Statements.

Information

The Combined Fire Authority's Core Financial Statements, which form part of the Statement of Accounts, are attached as Appendix 1.

The Statement of Accounts contains estimated figures that are based on assumptions about the future or that are otherwise uncertain, relating to areas such as pension liabilities, property asset valuations etc, as reported elsewhere on the agenda.

Members should note that the 2020/21 core statements presented do not include the adjustments required for recognising the Authority's share of the collection fund income position for both Council Tax and Business Rates, as the information was not received from all billing authorities in time for inclusion in this report (this will be updated for the final version of the accounts).

The Authority's 25% share of the North West Fire Control (NWFC) accounts ending 31 March 2021 has been included.

Narrative Report

This sets out the financial context in which the Combined Fire Authority operates and provides an overview of the financial year 2020/21 as well as details of future plans.

Comprehensive Income & Expenditure Account

This statement shows the accounting cost in the year of providing services. It is a summary of the resources that have been generated and consumed in providing services and managing the Authority during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

The main points to note are: -

	2020/21	2019/20	
Service Delivery	32,645	33,738	The cost of Service Delivery shows a decrease when compared with the previous year, largely attributable to Training and Operational Review moving into the Strategy & Planning Directorate during the year to align structures with the creation of the Prevention & Protection department, offset in part by additional costs in dealing with the pandemic (the grant income is shown towards the bottom of the table).
Strategy & Planning	12,415	8,576	The cost of Strategy & Planning shows an increase when compared with the previous year, due to Training and Operational Review moving into the Strategy & Planning Directorate during the year.
People & Development	1,611	1,633	The cost of People & Development is broadly comparable with last year.
Corporate Services	4,821	5,021	The cost of Corporate Services is broadly comparable with last year.
Fire Fighters Pensions	1,285	1,283	These are the ongoing pension costs relating to previous ill health or injury retirements, which have remained at a similar level to the previous year.
Overheads	1,574	1,846	This heading includes all capital financing charges, refunds made in respect of the LGPS surplus, and depreciation and impairment charges made in respect of assets. The reduction is attributable to changes associated with the adjustment required in respect of pension liabilities under IAS 19.

Gain On Disposals Of Fixed Assets	(17)	(14)	This relates to the sale of surplus vehicles.
Interest Payable	1,439	1,461	This heading includes the interest payable in respect of current loans, and the interest charges associated with the PFI scheme and finance leases, which are in line with the previous year's charges.
Pension Interest Cost And Expected Return On Assets	18,207	21,130	This relates to adjustments required under IAS 19 requirements and is designed to show the expected increase in costs of the scheme less the expected increase in asset values. As the Fire-fighters pensions' scheme is unfunded there is no increase in asset value to offset the increase in scheme costs resulting in the charge to the Income and Expenditure Account.
Interest Receivable	(253)	(332)	The level of interest earned on investments has decreased, largely attributable to the reduction in the call account interest rate at the end of 2019/20, in line with the Bank of England base rate reduction. We continue to hold several fixed term investments with other Local Authorities as reported in the Treasury Management Outturn report but are experiencing an overall decrease in the interest receivable from these.
Council Tax*	(31,813)	(30,724)	Amounts raised through council tax, including the Authority's element of council tax collection fund surplus accumulated during the preceding year by the billing authorities. *As we have not yet received the collection fund accounting from District councils, currently the 2020/21 amount reflects the amount of cash received in year and will be updated to reflect the total amount due.
Revenue Support Grant	(8,523)	-	The level of Revenue Support Grant allocated to the Authority by the Government, we did not receive any during 2019/20 due to the Lancashire business rates pool pilot, which we were only part of for that year. Instead, our NNDR increased to compensate for this.
Non-Domestic Rates Redistribution*	(15,757)	(23,930)	Amounts raised through non-domestic rates, including the Authority's element of business rates collection fund surplus accumulated during the preceding year by the billing authorities, in addition to top up grant receivable from the Government as part of the localisation of business rates. The

			change between years reflects the reduction for the business rates pool applicable during 2019/20 only. *As we have not yet received the collection fund accounting from District councils, currently the 2020/21 amount reflects the amount of cash received in year and will be updated to reflect the total amount due
Capital grant income	(253)	(417)	This grant is the Authority's 25% share of the capital grant received by NWFC.
Business rates S31 grant	(1,284)	(1,654)	This grant is allocated to the Authority by the Government and relates to small business rates reliefs allowed by the Government as part of the localisation of business rates.
Business rates additional reliefs S31 grant	(1,925)	-	The 2020/21 balance relates to additional business rates relief funding announced prior to 31 March which will be received during 2021/22 but relates to 2020/21.
Covid 19 S31 grant	(1,346)	-	This reflects the S31 grant received during 2020/21, the majority of which has been spent during the year as previously reported, and the balance transferred into an earmarked reserve for future use.
Deficit On The Provision Of Services	12,825	17,618	The overall deficit shows that expenditure incurred exceeded income generated over the last twelve months and is measured in terms of the resources consumed and generated. However, this includes a number of accounting entries which do not impact on council tax levels, most notably those relating to the pensions schemes. As such this does not show the actual surplus when comparing spend against council tax.
(Surplus)/Deficit On Revaluation Of Non-Current Assets	(2,523)	(4,240)	This is a notional change in the value of fixed (non-current) assets, based on changes in market conditions etc. No actual change in value will be achieved until such time as the asset is disposed of.
Actuarial (Gains) / Losses On Pensions Assets And Liabilities	61,444	(68,795)	This is a notional charge arising from the Actuary changing their assumptions on which future pensions liabilities are calculated, such as mortality rates, future interest rates, pay and pension increases, return on assets etc. In 2019/20 actuarial gains reduced the overall pensions liability, as the forecast rates of CPI (and therefore future salary and pensions increases) had reduced from the year before, largely due to market uncertainties surrounding the pandemic.

			In 2021 the forecast rate of CPI recovered to slightly more than the 2018/19 figure, although the salary and pension forecasts increased, they are still lower than the pre 2019/20 percentages, again reflecting the ongoing impacts of the pandemic.
Total Comprehensive Income And Expenditure	71,746	(55,416)	This shows the total cost of providing services, presented in accordance with generally accepted accounting practices, rather than showing the amount funded from taxation.

In order to aid understanding the following table shows the comparison between the revenue budget position, as reported to Resources Committee, and the Total Comprehensive Income and Expenditure figure set out above:-

	£m
Revenue Outturn	(0.363)
Transfer to DFM Earmarked reserve	0.015
Transfer for capital funding reserve	0.348
NWFC Outturn	(0.113)
Accounting for pensions under IAS19	13.584
Revenue Contributions to Capital Outlay	(2.491)
Adjustments between accounting basis and funding basis under regulations	1.847
Deficit on the provision of services	12.825
Surplus on revaluation of non-current assets	(2.523)
Actuarial loss on pensions assets and liabilities	61.444
Total Comprehensive Income and Expenditure	71.746

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into:-

- Usable Reserves - those that the Authority may use to provide services or reduce local taxation, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use
- Unusable Reserves – those include reserves that hold unrealised gains and losses (e.g. the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences 'between accounting basis and funding basis under regulations'.

The main points to note are:-

	Usable Reserves	Unusable Reserves	Total Reserves	
Balance at 1 April	33,860	(727,029)	(693,169)	
Deficit on the provision of service	(12,825)	-	(12,825)	This shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. As set out earlier it is not accounted for on the same basis as we account for council tax and hence does not tie into the actual revenue position set out in the Year End Revenue Outturn report.
Other Comprehensive Income And Expenditure	-	(58,921)	(58,921)	This relates to the surplus on revaluation of non-current assets and the actuarial loss on pensions assets and liabilities
Charges for depreciation and impairment of non-current assets	4,953	(4,953)	-	This shows the costs charged to the revenue budget for the utilisation of fixed assets in the year
Amortisation of intangible assets	221	(221)	-	This shows the costs charged to the revenue budget for the utilisation of intangible assets (Software) in the year
Amount by which the Code and the statutory pension costs differ	13,584	(13,584)	-	This shows the difference between the change in pension liability from one year to the next and the level of employer pension contributions and retirement benefits allowed for in the revenue budget/council tax calculation.
Amount by which collection fund income in the comprehensive income and expenditure statement is different from	-*	(-)*	-	*Not completed collection fund accounting – awaiting details from District Councils. This shows the difference in value between the amount due to be raised from council tax and

collection fund income calculated for the year in accordance with statutory requirements				business rates, as agreed as part of the budget setting process, and the amount collection authorities have actually collected on our behalf in the year, i.e. the difference between the assumed collection rate and the actual collection rate.
Statutory provision for the repayment of debt	(412)	412	-	This is the charge made against the revenue budget to reduce future borrowing requirements, and includes an element relating to debt associated with PFI and finance leases
Voluntary provision for the repayment of debt	(10)	10	-	In line with the approved Treasury Management Strategy for 2020/21, the Authority has prudently set aside MRP in relation to borrowing.
Capital expenditure charged against General Fund Balance	(2,491)	2,491	-	This is the level of capital expenditure which has been funded from contributions from the 2020/21 revenue budget, as agreed as part of the budget setting process and as shown in the Year End Capital Outturn report.
Net increase/decrease before transfers to earmarked reserves	3,020	(74,766)	(71,746)	This shows the Usable Reserves Balance change in year before any discretionary transfers to or from Earmarked Reserves undertaken by the Authority.
Transfers (to)/from capital funding reserves	(163)	163	-	These represents the transfers from the capital funding reserve referred to in the Year End Capital Outturn report and the Year End Usable Reserves and Provisions report.
Amount by which remuneration charged on an	130	(130)	-	This represents the movements on the Accumulated Absences

accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements				Adjustment Account, which reflects the increase in the amount of leave owing to staff as at year end.
Increase/Decrease in the year	2,988	(74,734)	(71,746)	This is the net change to reserves, comprising the Surplus/Deficit on provision of services, less any adjustments for items which don't affect council tax and any transfers to/from earmarked reserves and ties into the overall change in Usable reserves included in the Year End Usable Reserves and Provisions Outturn report
Balance at 31 March	36,848	(801,763)	(764,915)	These are the final reserve balances which are reflected in the balance sheet in the statement of accounts, and which tie in to the values shown in the Year End Usable Reserves and Provisions Outturn report.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority.

The main points to note are: -

	2020/21	2019/20	
Long Term Assets			
Property, Plant & Equipment	99,538	99,314	The value of property, plant & equipment has increased by £0.2m, due to the level of capital expenditure (£2.7m as shown in the Year End Capital Outturn report) and the net revaluation gains of £1.7m compared with depreciation charges of £4.2m.
Intangible assets	639	859	Intangible assets are assets which do not have a physical form, such as software, the reduction in value reflecting the level of amortisation of these assets, representing their usage in year.
Long Term Investments	10,000	5,000	The Authority holds two investments with Local Government bodies which is classed as long-term investments, i.e. over 12 months in duration, as shown in the Year End Treasury Management Outturn report.
Current Assets			
Inventories	279	238	The value of stock held has remained broadly in line with last year.
Short-Term Investments	5,000	5,000	The Authority holds one investment with Local Government bodies which are classed as short-term investments, i.e. under 12 months in duration, as shown in the Year End Treasury Management Outturn report.
Short-Term Debtors*	10,800	8,801	Debtors represent monies owed to the Authority on 31st March 2021. In order to improve cash flow this figure should be as low as possible however, it is inevitable that there will always be a balance on this due to the timing of invoices and the debt recovery process. The main debt relates to Council Tax, Business Rates (which represent our share of debts that billing authorities hold) and amounts owed to the Authority by the FF pension fund in the form of top up grant due during September 2021. *Note the collection fund accounting has not been completed for 2020/21, therefore the carrying values relating to Council Tax and Business Rates remain at the closing balances from 2019/20. These will be updated.

			The level of debtors at the year-end has increased as a result of S31 government grants relating to 2020/21 which will be received during 2021/22.
Cash & Cash Equivalents	22,603	27,922	This represents the cash book balance at the year end, which is held in a call account by Lancashire County Council (LCC) as shown in the Year End Treasury Management Outturn report. The reduction reflects the placing of fixed term investments during the year.
Current Liabilities			
Other Short-Term Liabilities	(452)	(417)	This relates to short term liabilities in respect of the Authorities PFI contracts with PFF Lancashire Ltd and Balfour Beatty Fire and Rescue NW Ltd and in addition the short-term element of finance leases.
Short-Term Creditors*	(9,581)	(10,252)	This figure represents the amount of money we owe to other bodies at 31st March 2021. The overall balance has reduced during the year as there was a large receipt in advance at the end of 2019/20. *Note the collection fund accounting has not been completed for 2020/21, therefore the carrying values relating to Council Tax and Business Rates remain at the closing balances from 2019/20. These will be updated.
Long Term Liabilities			
Provisions*	(1,536)	(1,580)	This shows the outstanding provisions, relating to the potential cost of outstanding insurance claims, which will have to be met by the Authority in future years, the remaining balance of the Authorities share of billing authority's business rates outstanding appeals. *Note the collection fund accounting has not been completed for 2020/21, therefore the carrying values relating to Council Tax and Business Rates remain at the closing balances from 2019/20. These will be updated.
Long-Term Borrowing	(2,000)	(2,000)	This represents the amount of long-term debt that the Authority holds which does not mature within the next 12 months. The balance of £2.0m is due to mature between 2035-2037.

Other Long-Term Liabilities	(900,205)	(826,053)	<p>This majority of this relates to adjustments required under IAS 19, and shows the extent to which the authority's liability to pay pension benefits in the future exceeds the value of assets held. This is particularly significant for the Fire Authority due to the unfunded nature of the fire-fighters pension scheme, resulting in a net liability of £887m.</p> <p>This also includes liabilities covering the remainder of the contract associated with the two PFI contracts;</p> <ul style="list-style-type: none"> • PFF Lancashire Ltd for the provision of two fire stations, • Balfour Beatty Fire and Rescue for the provision of four fire stations within Lancashire, as part of the joint contract to provide sixteen stations across Lancashire, Cumbria and Merseyside. <p>In addition, this also includes liabilities relating to an outstanding finance lease.</p>
Total Assets Less Liabilities	(764,915)	(693,169)	

Financed By			
Usable Reserves:			
Revenue Reserves	(17,100)	(14,177)	<p>This is the level of reserves that the Authority currently holds which can be utilised to offset future revenue expenditure, subject to the need to maintaining a prudent level of reserves and any statutory limitations on their use. It includes the general reserves as well as any earmarked reserves.</p> <p>The increase in year represents several government grants recognised in 2020/21 which will be spent during 2021/22, plus the transfer of £0.6m into a Covid timing reserve as referred to in the Year End Revenue Outturn report, and the Usable Reserves and Provisions Outturn report.</p>
Capital Funding Reserve	(17,967)	(17,583)	<p>This reserve holds £18.0m of balances to fund future capital expenditure, as referred to in the Year End Capital Outturn and Usable Reserves and Provisions Outturn reports.</p>
Capital Grant Unapplied	(101)	(438)	<p>The capital grant unapplied relates to the Authority's share of the NWFC end of year balances.</p>

Usable Capital Receipts Reserve	(1,680)	(1,663)	This represents the proceeds from the sale of fixed assets which are used to finance capital investment. The increase in value representing the sale proceeds for vehicles, as referred to in the Year End Usable Reserves and Provisions Outturn reports.
Unusable Reserves:			
Revaluation Reserve	(47,400)	(46,544)	This account holds unrealised revaluation gains, or losses, from holding fixed assets, as such any revaluations that have taken place since 1 April 2007 are reflected in this reserve. These reserves are matched by fixed assets within the Balance Sheet and are not resources available to spend.
Capital Adjustment Account	(38,893)	(39,325)	The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the Code and are financed through the capital controls system. These reserves are matched by fixed assets within the Balance Sheet and are not resources available to spend.
Collection Fund Adjustment Account*	(589)	(589)	This account reflects the net effect of the adjustments required to show our share of each billing authority's council tax and business rates debtors and creditors at year end. *Note the collection fund accounting has not been completed for 2020/21, therefore the carrying values relating to Council Tax and Business Rates remain at the closing balances from 2019/20. These will be updated.
Accumulated Absences Adjustment Account	941	811	This account represents the value of leave accrued at the year end, but which has not yet been taken, and hence has been carried forward into the new financial year. However, given that the leave year for Fire Fighters runs from January to December leave entitlement is calculated on a pro-rata basis which can distort the overall position. The increase reflects the effect of untaken leave for both Fire Fighters and support staff.
Pensions Reserve	887,704	812,676	This relates to adjustments required under IAS 19, and is a notional reserve required in order to offset the net liability of the Authority in respect of the pension schemes.
	764,915	693,169	

Cash Flow Statement

The cash flow statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The main points to note are:-

	2020/21	2019/20	
Net Cash Flows Arising From Operating Activities	3,388	7,786	This shows the level of net cash generated by revenue activities, i.e. the level of income received in the form of grant, council tax etc., offset by payments made in respect of employee costs and non-pay costs etc. The reduction in 2020/21 reflects both the increase in debtors for the S31 grants relating to 2020/21 expected during 2021/22, and the reduction in the IAS19 adjustment for the net pensions charges applied to the CIES.
Investing Activities	(6,874)	7,116	This shows the cash outflows which have been made for resources that are intended to contribute to the Authority's future service delivery, such as placing an additional £5m on fixed term deposit, and £2.0m of expenditure on capital assets.
Financing Activities	(1,833)	(1,822)	This relates to the repayment of long-term debt, including that associated with PFI and finance leases.
Net increase/(decrease) in cash and cash equivalents	(5,319)	13,080	This shows the movement in the net cash immediately available within the Authority in a call account with LCC. This shows a reduction in year, reflecting the fixed term investments placed during the year.

Signing of the Statement of Accounts

The unaudited Statement of Accounts will be signed by the Treasurer to certify that it presents a true and fair view of the financial position of the Authority as at 31 March 2021.

This will be subject to review by the Authority's external auditors, Grant Thornton, which is scheduled to take place in July to September. A further report will be presented to the Audit Committee in September, following completion of the external audit. At this meeting, the Chair of the Audit Committee will be asked to sign the final statement of accounts, as well as the Treasurer.

Effect of IAS19 Pensions accounting on the Core Statements

To assist members understanding of the financial position at 31 March 2021, Appendix 6 contains the four core statements with the Pensions accounting for IAS19 removed. Most notable within these is the Balance Sheet which shows our true net worth at £123m.

Financial Implications

As outlined in the report

Business Risk Implications

The Statement of Accounts sets out how the Authority has performed financially in the year, and as such is a key means of stakeholders monitoring the Authority and assessing how it is performing.

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact
SORP and Guidance	February 2021	Keith Mattinson, Director of Corporate Services
Final Account Working Papers	May 2021	Keith Mattinson, Director of Corporate Services
Reason for inclusion in Part II, if appropriate:		

NARRATIVE REPORT

The Lancashire Combined Fire Authority (CFA) (the Authority) was established as a free-standing body from 1 April 1998. It sets its own budget, holds its own reserves, raises its own council tax and receives funding direct from the Government and through business rates.

The Authority must prepare and publish a Statement of Accounts annually. Its purpose is to give electors, local taxpayers, Fire Authority Members, employees and other interested parties clear information about the Fire authority's finances.

The aim is to provide information on:

- the cost of providing Fire Authority services in the financial year 2020/21
- how these services were paid for
- what assets the Fire Authority owned at the end of the financial year, and
- what was owed, to and by, the Fire Authority at the end of the financial year.

This narrative report gives a guide to the most important matters included in the Statement of Accounts.

Contents of this Statement of Accounts

This Statement of Accounts covers the financial year ended on 31 March 2021 (referred to as 2020/21). It has been prepared in accordance with the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021 and the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. The Statement contains:

Statement on Annual Governance Arrangements – Sets out the Authority's responsibilities with regard to the system of internal control and corporate governance.

Independent Auditor's Report to the Members of Lancashire Combined Fire Authority – The Auditor's report to the CFA on the accounts for 2020/21, which are set out in the sections shown below.

Statement of Responsibilities for the Statement of Accounts – Sets out the responsibilities of the Authority and the Treasurer with regards to the statement of accounts.

Comprehensive Income & Expenditure Statement - This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Fire Authority raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Movement In Reserves Statement – This statement shows the movement in year on the different reserves held by the Fire Authority analysed between usable and other

reserves. The surplus or (deficit) on the Provision of Services line shows the true economic cost of providing the Fire Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

Balance Sheet – This shows information on the financial position of the Fire Authority as at the 31 March 2021, including the level of balances and reserves at the Fire Authority's disposal, its long term indebtedness and the value of the assets held by the Fire Authority.

Cash Flow Statement – This shows the cash and cash equivalent movements in and out of the Fire Authority due to transactions with third parties for revenue and capital purposes.

Fire Fighters Pension Fund Account and Net Assets Statement – Shows the financial position of the fire fighters pension fund account, showing whether the Authority owes, or is owed, money by the Government in order to balance the account, together with details of its net assets.

Review of the Year

We have remained financially secure and are in a strong position not only to face future challenges but to lead innovation and improvements in our sector. We have continued to invest in people, training and equipment; prioritised operational effectiveness and efficiency to meet the challenges of an increasingly complex environment; embedded clear values and strong leadership throughout the organisation; and looked for new ways to collaborate to improve services for local people.

In 2020 we faced the unprecedented effects of the Covid-19 pandemic and invoked our Business Continuity Plan to ensure we responded appropriately and proportionately. In terms of the impact on our provision of services, we continue to attend fires and road traffic collisions as before, but have had to temporarily cease some activities, such as Home Fire Safety checks where a member of staff enters the home, and the Fire Cadets programme. We continue to monitor the latest guidance and have prepared detailed plans to bring back on line all ceased activities when it is safe to do so.

Whilst operational crews continued to attend fire stations and provide services, the majority of non-operational staff were, where possible, provided with equipment to enable them to work from home. Where staff could not carry out their ordinary role from home, we utilised them to assist the Lancashire Resilience Forum in various duties benefitting the public of Lancashire, such as assistance with distribution of food parcels and maintaining telephone contact with vulnerable adults, and latterly with the role out of the vaccine. Within the sector Lancashire has been at the forefront of these activities, with over 300 staff volunteering to support the delivery of over 350,000 vaccinations.

In 2018/19 Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) undertook its first independent inspection of the Service. Lancashire was one of only two services in the country to receive an outstanding rating along with all

other areas rated as good, and no areas requiring improvement in any of the 11 categories assessed. A second round of inspections is anticipated in 2021/22, and we remain focussed on continuous improvement with progress being made in improving protection services, identifying high potential staff and aspiring leaders and prioritising our risk-based inspection programme.

As a result of the pandemic Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) undertook a thematic review of the Fire Sectors, and individual authorities, response to the crisis. Whilst no overall rating is provided the report stated *"In summary, the service adapted and responded to the pandemic effectively. It used on-call and wholetime firefighters to respond to emergencies, and it gave additional support to the community during the first phase of the pandemic. Prevention and protection staff made home fire safety visits to the most vulnerable people and businesses. They used appropriate personal protective equipment (PPE) for these visits. This meant the people of Lancashire were well supported throughout the pandemic. The service was able to effectively deal with some significant incidents, such as wildfires and flooding, during this period."*

The Authority recruited 43 new whole-time firefighters and 32 new on call firefighters, of which 13% were female and 4% were from a BME background.

We have continued to develop collaborative opportunities. We are continuing to review further opportunities for site sharing with both North West Ambulance Service and Lancashire Constabulary. We continue to support Lancashire Constabulary by use of a shared drone, as well as assisting in missing persons searches.

2020/21 activity has increased marginally to just over 17,334 incidents, and the number of accidental dwelling fires increased by 58 from the previous year. Deliberate dwelling fires reduced to 105. A total of 811 gaining entry incidents were undertaken in 2020/21, broadly the same as the previous year.

The 2020/21 Financial Overview

The Authority's spending is planned and controlled by an annual budget process, which leads to the setting of its budget requirement. Expenditure on the day-to-day running costs of the service is determined through the Revenue Budget and is recorded in the Comprehensive Income and Expenditure Statement.

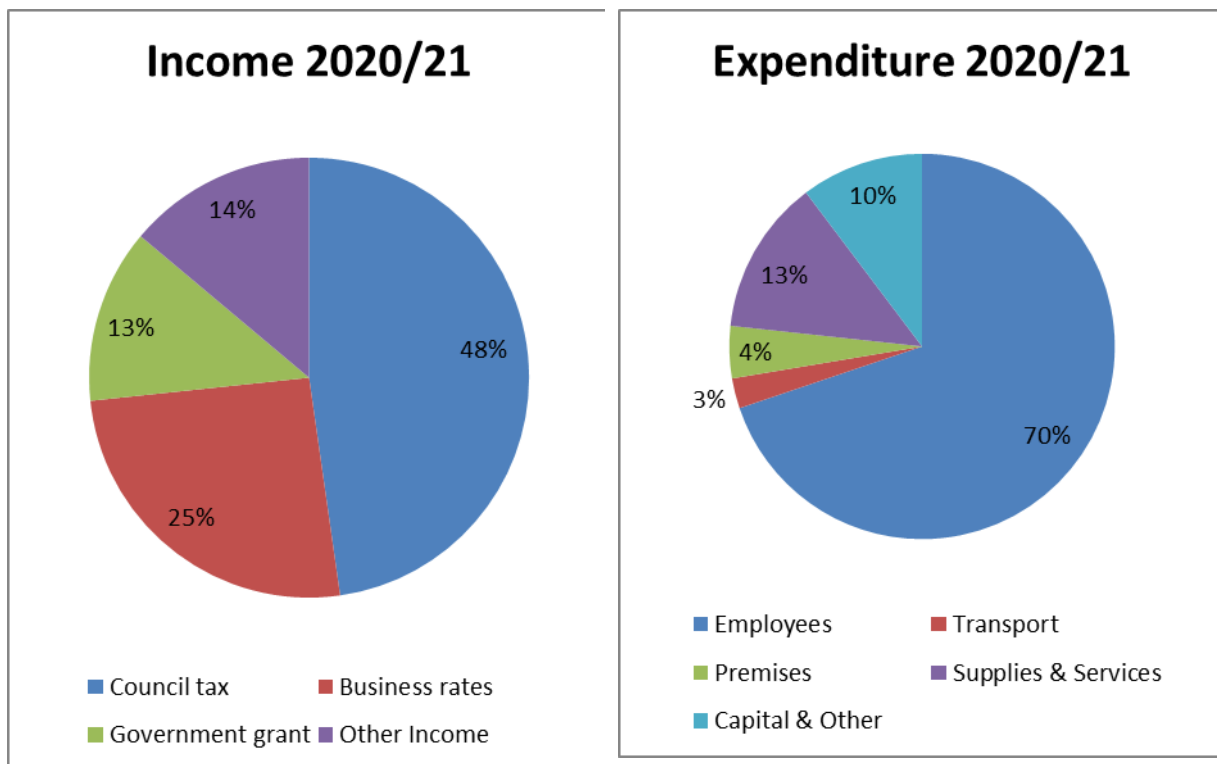
In setting its budget the Authority aims to balance the public's requirement for and expectations of our services with the cost of providing this. As such the revenue budget focuses on the need to:-

- deliver services as outlined in the Risk Management Plan and other plans
- maintain future council tax increases at reasonable levels
- continue to deliver efficiencies in line with targets
- continue to invest in improvements in service delivery and facilities
- set a robust budget that takes account of known and anticipated pressures
- maintain an adequate level of reserves

Despite an increase in Government funding of £0.4m, the Authority had to identify efficiencies of £0.8m and a potential draw down of £0.4m reserves in order to offset financial pressures and deliver an acceptable budget. This resulted in a gross revenue budget of £57.3m, an increase of just over 2%, and a council tax of £70.86. This represented a 1.99% increase in council tax, in line with the referendum limit. Based on this the budget was considered affordable, prudent and sustainable, whilst ensuring that the Authority was able to deliver against its corporate priorities.

The net revenue position shows an overall underspend of £0.4m, with the main variances relating to vacant posts, as early leavers/retirements have outstripped budgetary allowances, which is partly offset by increased capital financing costs associated with changes to the capital programme. This has negated the need for any drawdown from reserves to support the budget.

The following charts show a breakdown of where the monies we received come from and how we spent this:



A summarised comparison of the Fire Authority's expenditure for the year compared with budget is set out below:

SofA forward spend analysis			
Spend/Income type	£000		
	Budget	Spend	(Under)/ over spend
Employees: pay costs	45,885	45,228	(657)
Other employee related costs	1,114	1,030	(84)
Premises	2,910	2,900	(10)
Transport	2,073	1,678	(395)
Supplies & services	8,828	8,617	(211)
Capital financing costs & other	5,825	6,814	989
Total Expenditure	66,635	66,268	(367)
Other Income	(9,296)	(9,253)	43
Budget requirement	57,340	57,015	(324)
Funded by:			
Council tax	(31,813)	(31,813)	-
Business rates	(17,003)	(17,041)	(38)
Government grant	(8,524)	(8,524)	-
	(57,340)	(57,378)	(38)
Net Underspend	-	(363)	(363)

The following reconciliation shows the comparison between the revenue budget position, as set out above, and the Total Comprehensive Income and Expenditure figure reported in the accounts on page 19.

	£m
Revenue Outturn	(0.363)
Transfer to DFM Earmarked reserve	0.015
Transfer for Capital Funding reserve	0.348
Recognise 25% share in North West FireControl Limited	(0.113)
Accounting for pensions under IAS19	13.584
Revenue Contributions to Capital Outlay	(2.491)
Adjustments between accounting basis and funding basis under regulations	1.845
Deficit on the provision of services	12.825
Surplus on revaluation of non-current assets	(2.523)
Actuarial loss on pensions assets and liabilities	61.444
Total Comprehensive Income and Expenditure	71.746

As the Authority's current general fund balance stands at £6.0m and given the scale of the capital programme the revenue underspend of £0.4m has been transferred into the capital funding reserve, reducing future borrowing requirement. The Authority's (excluding North West FireControl) general fund balance therefore remains at £6.0m within the target level identified by the Treasurer (a minimum of £3.2m and a maximum of £10.0m). (Note the General Fund Balance including our share of North West FireControl general reserves is £6.5m.) This still provides capacity to cope with anticipated funding cuts in the short term whilst appropriate efficiencies are identified, and the on-going use of reserves remains a key element of the Authority's future financial plans. It is worth noting that the latest medium term financial strategy,

identified at the time of setting the 2021/22 budget, shows over £4m of this reserve being used to balance the anticipated revenue budget funding gap by 2026.

The Authority also holds an additional £10.6m of earmarked revenue reserves and £19.6m of capital reserves and receipts. The Capital reserves and receipts are fully utilised within the medium-term financial strategy, reducing to zero in 2025/26. It is also worth noting that over half of the earmarked reserve relates to the Authorities two PFI schemes, whereby monies are set aside in the early years of the schemes to meet future costs, thus smoothing out the impact of inflationary pressures.

The Authority has continued to invest in its asset base, with capital expenditure incurred in the year totalling £2.7m, as set out below:-

	Spend
Vehicles	
<ul style="list-style-type: none"> • Pumping Appliances – completion of stage payments for 7 Pumping Appliances from the 2018/19 capital programme • Operational Support Vehicles –various support vehicles, such as vans and cars 	<p style="margin: 0;">£0.3m</p> <p style="margin: 0;">£0.4m</p>
Buildings	
<ul style="list-style-type: none"> • Training Centre – STC Workshop • South Shore Fire Station refurbishment & extension 	<p style="margin: 0;">£1.7m</p> <p style="margin: 0;">£0.3m</p>
Total	£2.7m

The Balance Sheet shows that the Authority’s Total Net Liabilities have increased to £765m. This reflects the Authority’s compliance with International Accounting Standards and in particular the requirement to show the full pensions liability in the accounts. Whilst the liability on the Local Government Pension Scheme is partly funded the Fire-fighters Pension Scheme is unfunded, i.e. there are no assets from which future liabilities will be paid, and hence the Authority’s overall pension liability of £888m is extremely large. If this liability was excluded the Authority’s Total Net Assets would be £123m. The pension liability includes estimated costs in relation to the McCloud judgement, further details can be found in Note 20.

Long term assets have increased slightly in value to £110m, reflecting the increase in long term investments.

Future Financial Plans

Due to economic uncertainty the anticipated 4 year Spending Review was reduced to a single year review, covering 2021/22, with a new Spending Review planned for next year. This is anticipated to cover 2022-2025. This year should also have seen the outcome of the Fair Funding review, which looked to re-assess the methodology under which funding was allocated to individual authorities, and the implementation of a 75% Business Rates Retention Scheme, however given current pandemic and economic uncertainty both of these have been put on hold for at least a further 12 months. As a result the 2021/22 Local Government Finance Settlement showed an increase in the Governments Settlement Funding Assessment of 0.19%.

The Authority has plans to deliver £0.2m of cashable efficiencies in 2021/22 but these are more than offset by increased costs associated with the need to build additional capacity into support departments and the additional costs associated with the increase in Firefighter numbers following ongoing recruitment campaigns. Overall, these changes result in a revenue budget of £58.5m. However, in order to deliver a council tax increase within the referendum limit (2%) the Authority needed to either identify further savings or utilise reserves of £0.3m, resulting in a net revenue budget requirement is £58.2m, an increase of 1.5%, resulting in a council tax of £72.27, an increase of 1.99%. It should be note that no allowance was built in for pay awards in 21/22, following the government announcement for an intended public sector pay freeze. Based on this the budget, as presented, is considered affordable, prudent and sustainable, whilst ensuring that the Authority is able to deliver against its corporate priorities.

Given economic uncertainty, particularly surrounding the Covid-19 pandemic, the longer term implications of Brexit, the potential impact of the Fair Funding Review and the roll out of greater local retention of Business rates, it is extremely difficult to anticipate what funding will look like beyond the existing settlement, hence for the purpose of medium term financial strategy we had assumed that the funding will increase broadly in line with inflation, at 1.5% per annum.

Based on this we will be faced with a funding gap in future years, the extent of which depends on future council tax decisions, and we will continue to utilise reserves and identify savings in order to deliver a balanced budget in the medium term.

Overall, the Authority is well placed to meet the financial challenges that it faces in the medium term, and will continue to balance future council tax levels and the need for investment whilst maintaining effective service delivery.

The capital budget continues to invest in our asset base, in particular vehicle replacement, refurbishment/replacement of stations, new IT requirements and new operational equipment. This gives rise to a capital program of £44m over the next five years.

We will continue to invest in training assets, with work on-going to provide new workshop/BA training facilities at the Training Centre. We will undertake a more detailed feasibility study on the relocation of Service Headquarters.

We will continue to invest in our operational equipment to ensure that our staff have the best equipment available, and the programme includes the replacement of our Breathing Apparatus sets and telemetry, our cutting/extrication equipment, defibrillators and light portable pumps over the next five years.

When the national Emergency Services Mobile Communications Programme (ESMCP) progresses to a stage where we can purchase replacement radio and mobilising equipment we will upgrade our current provision. This project has incurred delays and is outside of our control. It is assumed that any costs to the Authority will be funded by specific capital grant

Whilst the majority of this can be funded from a combination of revenue contributions, specific capital grant provided by the government, capital reserves and receipts and general reserves. Should the replacements of both Service Headquarters and Preston Fire Station go ahead, over the five years there is a potential shortfall in funding of £11m in the final year of the programme. However, the programme is based on many assumptions which will be refined over time. Over the next three years the capital programme is affordable, sustainable and prudent.

The following significant financial risks have all been assessed and the Treasurer feels that these are adequately covered within the budget estimates or within the level of reserves currently held:-

- Reductions in funding levels over and above those forecast;
- Reduction in funding via Business Rates retention scheme;
- Reduction in council tax funding due to changes in collection rates, localisation of council tax support, reducing tax base and/or council tax referendum limits;
- Higher than anticipated inflation;
- Larger increases in future pension costs/contributions;
- Significant changes in retirement profiles;
- Increase in costs arising from demand led pressures, i.e. increasing staff numbers, overtime due to spare conditions or major equipment replacement requirements;

Financial plans will continue to be reviewed in light of the pandemic with particular reference to Council Tax and Business Rates income funding projections.

Accounting Changes

The accounts have been prepared in accordance with the requirements of the latest Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice 2020/21 (the Code).

Comprehensive Income & Expenditure Account

Comprehensive Income & Expenditure Account						
	2020/21			2019/20		
	Gross Expenditure	Income	Net Expenditure	Gross Expenditure	Income	Net Expenditure
	£000	£000	£000			
Continuing operations						
Service Delivery	34,637	(1,992)	32,645	35,760	(2,022)	33,738
Strategy & Planning	13,238	(823)	12,415	9,065	(489)	8,576
People & Development	1,613	(2)	1,611	1,633	-	1,633
Corporate Services	4,880	(58)	4,821	5,081	(60)	5,021
FF Pensions	1,307	(23)	1,285	1,310	(27)	1,283
Overheads	6,587	(5,014)	1,574	6,776	(4,930)	1,846
Net cost of services	62,262	(7,912)	54,350	59,625	(7,528)	52,097
Other operating expenditure						
(Gain)/Loss on disposal of fixed assets			(17)			(14)
Financing & investment income & expenditure						
Interest payable and similar charges			1,439			1,461
Pensions interest cost and expected return on pensions assets			18,207			21,130
Interest and investment income			(253)			(332)
Taxation and non-specific grant income						
Council tax			(31,813)			(30,724)
Revenue support grant			(8,523)			-
Non-domestic rates redistribution			(15,757)			(23,930)
Non specific grant income:						
Capital grant			(253)			(417)
Business rates S31 grant			(1,284)			(1,654)
Business rates additional reliefs S31 grant			(1,925)			-
Covid relief S31 grant			(1,346)			-
Deficit on provision of services			12,825			17,618
(Surplus)/Deficit on revaluation of fixed assets			(2,523)			(4,240)
Actuarial (gains)/losses on pension fund assets			61,444			(68,795)
Other comprehensive income & expenditure			58,921			(73,035)
Total Comprehensive Income and Expenditure			71,746			(55,416)

Movement in Reserves Statement

	Usable Reserves							Unusable Reserves						Total reserves
	General Fund	Earmarked Reserves	Total General Fund Balance	Capital Fund	Capital grant unapplied	Usable Capital Receipts	Usable Reserves	Reval Reserve	CAA	AAAA	Coll Fund	Pension Reserve	Unusable Reserves	
Bal at 1.4.20	6,350	7,827	14,177	17,582	438	1,663	33,860	46,544	39,325	(811)	589	(812,676)	(727,029)	(693,169)
Surplus/(Deficit) on provision of services	(12,825)		(12,825)				(12,825)						-	(12,825)
Other comprehensive income & expenditure			-				-	2,523				(61,444)	(58,921)	(58,921)
Total comprehensive income & expenditure	(12,825)	-	(12,825)	-	-	-	(12,825)	2,523	-	-	-	(61,444)	(58,921)	(71,746)
Adjustments between accounting basis and funding basis under regulations:														
Depreciation & impairment of non-current assets	4,953		4,953				4,953	(1,667)	(3,286)				(4,953)	(0)
Amortisation of intangible assets	221		221				221		(221)				(221)	-
Write off of assets disposed	(17)		(17)			17	-	-					-	-
Utilisation of capital grant unapplied	337		337		(337)		-		-				-	-
Amount by which the code & statutory pension costs differ	13,584		13,584				13,584				(13,584)		(13,584)	-
Amount by which the collection fund income in CI&E is different to the amount taken from the GFB	-		-				-				-		-	-
Statutory provision for the repayment of debt	(412)		(412)				(412)		412				412	-
Capital expenditure charged to the GFB	(2,491)		(2,491)				(2,491)		2,491				2,491	-
Voluntary provision for the repayment of debt	(10)		(10)				(10)		10				10	-
	16,165	-	16,165	-	(337)	17	15,845	(1,667)	(594)	-	-	(13,584)	(15,845)	(0)
Net increase/decrease before transfers to earmarked reserves	3,340	-	3,340	-	(337)	17	3,020	856	(594)	-	-	(75,028)	(74,766)	(71,746)
Tfr to/(from) earmarked reserves	(3,010)	3,010	-				-						-	-
Tfr to/(from) capital fund	(347)	(200)	(547)	384			(163)		163				163	-
Postings between the GFB and AAAA	130		130				130			(130)			(130)	-
Net tfr to/(from) earmarked reserves	(3,226)	2,810	(417)	384	-	-	(32)	-	163	(130)	-	-	32	-
Increase/Decrease in the year	113	2,810	2,923	384	(337)	17	2,988	856	(432)	(130)	-	(75,028)	(74,734)	(71,746)
Bal at 31.3.21	6,463	10,636	17,100	17,966	101	1,680	36,847	47,400	38,893	(941)	589	(887,704)	(801,763)	(764,915)

Balance Sheet

SUMMARY	2020/21	2019/20
	LFRS	LFRS
	£000	£000
Property, plant & equipment	99,538	99,314
Intangible assets	639	859
Long-term investments	10,000	5,000
Total Long Term Assets	110,177	105,172
Inventories	279	238
Short term investments	5,000	5,000
Short term debtors	10,800	8,801
Cash & cash equivalents	22,603	27,922
Current Assets	38,683	41,960
Other short term liabilities	(452)	(417)
Short term creditors	(9,581)	(10,252)
Current Liabilities	(10,034)	(10,668)
Provisions	(1,536)	(1,580)
Long term borrowing	(2,000)	(2,000)
Other long term liabilities	(900,205)	(826,053)
Long Term Liabilities	(903,740)	(829,633)
TOTAL ASSETS LESS LIABILITIES	(764,915)	(693,169)
FINANCED BY:		
Revenue Reserves	(17,100)	(14,177)
Capital Funding Reserve	(17,967)	(17,583)
Capital grants unapplied	(101)	(438)
Usable Capital Receipts Reserve	(1,680)	(1,663)
Usable Reserves:	(36,848)	(33,861)
Revaluation Reserve	(47,400)	(46,544)
Capital Adjustment Account	(38,893)	(39,325)
Collection Fund Adjustment Account	(589)	(589)
Accumulated Absences Adjustment Account	941	811
Pensions Reserve	887,704	812,676
Unusable Reserves:	801,763	727,029
Total Net Worth	764,915	693,169

Cash Flow Statement

	2020/21	2019/20
	£000	£000
Net deficit on the provision of services	(13,249)	(17,618)
Adjustments to net deficit on the provision of services for non-cash movements	15,319	24,150
Adjustments to net deficit on the provision of services for investing/financing activities	1,318	1,255
Net cash inflows from operating activities	3,388	7,786
Investing activities		
Purchase of fixed assets & other capital spend	(1,972)	(3,068)
Increase in long term deposits	(5,000)	-
(Increase)/Decrease in short term deposits	-	10,000
Receipts from investing activities	98	184
	(6,874)	7,116
Financing activities		
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(417)	(384)
Repayment of long term borrowing	-	-
Payments for financing activities	(1,416)	(1,439)
	(1,833)	(1,822)
Net increase or (decrease) in cash and cash equivalents	(5,319)	13,080
Cash and cash equivalents at the beginning of the reporting period	27,922	14,841
Cash and cash equivalents at the end of the reporting period	22,603	27,922

Core statements without IAS19 pension fund accounting

Comprehensive Income and Expenditure Statement

Comprehensive Income & Expenditure Account - non IAS19						
	2020/21			2019/20		
	Gross Expenditure £000	Income £000	Net Expenditure £000	Gross Expenditure	Income	Net Expenditure
Continuing operations						
Service Delivery	39,438	(1,992)	37,447	41,389	(2,022)	39,366
Strategy & Planning	13,642	(823)	12,819	9,339	(489)	8,850
People & Development	1,398	(2)	1,396	1,419	0	1,419
Corporate Services	4,628	(58)	4,569	4,867	(60)	4,807
FF Pensions	1,307	(23)	1,285	1,310	(27)	1,283
Overheads	6,472	(5,014)	1,458	5,850	(4,930)	921
Net cost of services	66,885	(7,912)	58,974	64,174	(7,528)	56,646
Other operating expenditure						
(Gain)/Loss on disposal of fixed assets			(17)			(14)
Financing & investment income & expenditure						
Interest payable and similar charges			1,439			1,461
Interest and investment income			(253)			(332)
Taxation and non-specific grant income						
Council tax			(31,813)			(30,724)
Revenue support grant			(8,523)			-
Non-domestic rates redistribution			(15,757)			(23,930)
Non specific grant income:						
Capital grant			(253)			(417)
Business rates S31 grant			(1,284)			(1,654)
Business rates additional reliefs S31 grant			(1,925)			-
Covid relief S31 grant			(1,346)			-
(Surplus) / Deficit on provision of services			(758)			1,037
(Surplus)/Deficit on revaluation of fixed assets			(2,523)			(4,240)
Other comprehensive income & expenditure			(2,523)			(4,240)
Total Comprehensive Income and Expenditure			(3,282)			(3,203)

Movement in Reserves Statement

	Usable Reserves							Unusable Reserves						Total reserves
	General Fund	Earmarked Reserves	Total General Fund Balance	Capital Fund	Capital grant unapplied	Usable Capital Receipts	Usable Reserves	Reval Reserve	CAA	AAAA	Coll Fund	Pension Reserve	Unusable Reserves	
Bal at 1.4.20	6,350	7,827	14,177	17,582	438	1,663	33,860	46,544	39,325	(811)	589	-	85,647	119,507
Surplus/(Deficit) on provision of services	758		758				758						-	758
Other comprehensive income & expenditure			-				-	2,523				-	2,523	2,523
Total comprehensive income & expenditure	758	-	758	-	-	-	758	2,523	-	-	-	-	2,523	3,282
Adjustments between accounting basis and funding basis under regulations:														
Depreciation & impairment of non-current assets	4,953		4,953				4,953	(1,667)	(3,286)				(4,953)	(0)
Amortisation of intangible assets	221		221				221		(221)				(221)	-
Write off of assets disposed	(17)		(17)			17	-	-					-	-
Utilisation of capital grant unapplied	337		337		(337)		-		-				-	-
Amount by which the collection fund income in Cl&E is different to the amount taken from the GFB	-		-				-				-		-	-
Statutory provision for the repayment of debt	(412)		(412)				(412)		412				412	-
Capital expenditure charged to the GFB	(2,491)		(2,491)				(2,491)		2,491				2,491	-
Voluntary provision for the repayment of debt	(10)		(10)				(10)		10				10	-
	2,582	-	2,582	-	(337)	17	2,262	(1,667)	(594)	-	-	(0)	(2,262)	(0)
Net increase/decrease before transfers to earmarked reserves	3,340	-	3,340	-	(337)	17	3,020	856	(594)	-	-	(0)	262	3,282
Tfr to/(from) earmarked reserves	(3,010)	3,010	-				-						-	-
Tfr to/(from) capital fund	(347)	(200)	(547)	384			(163)		163				163	-
Postings between the GFB and AAAA	130		130				130			(130)			(130)	-
Net tfr to/(from) earmarked reserves	(3,226)	2,810	(417)	384	-	-	(32)	-	163	(130)	-	-	32	-
Increase/Decrease in the year	113	2,810	2,923	384	(337)	17	2,988	856	(432)	(130)	-	(0)	294	3,282
Bal at 31.3.21	6,463	10,636	17,100	17,966	101	1,680	36,847	47,400	38,893	(941)	589	(0)	85,941	122,788

Balance Sheet

Balance Sheet Non IAS19	2020/21	2019/20
	LFRS	LFRS
	£000	£000
Property, plant & equipment	99,538	99,314
Intangible assets	639	859
Long-term investments	10,000	5,000
Total Long Term Assets	110,177	105,172
Inventories	279	238
Short term investments	5,000	5,000
Short term debtors	10,800	8,801
Cash & cash equivalents	22,603	27,922
Current Assets	38,683	41,960
Other short term liabilities	(452)	(417)
Short term creditors	(9,581)	(10,252)
Current Liabilities	(10,034)	(10,668)
Provisions	(1,536)	(1,580)
Long term borrowing	(2,000)	(2,000)
Other long term liabilities	(12,501)	(13,377)
Long Term Liabilities	(16,037)	(16,957)
TOTAL ASSETS LESS LIABILITIES	122,789	119,507
FINANCED BY:		
Revenue Reserves	(17,100)	(14,177)
Capital Funding Reserve	(17,967)	(17,583)
Capital grants unapplied	(101)	(438)
Usable Capital Receipts Reserve	(1,680)	(1,663)
Usable Reserves:	(36,848)	(33,861)
Revaluation Reserve	(47,400)	(46,544)
Capital Adjustment Account	(38,893)	(39,325)
Collection Fund Adjustment Account	(589)	(589)
Accumulated Absences Adjustment Account	941	811
Pensions Reserve		
Unusable Reserves:	(85,941)	(85,647)
Total Net Worth	(122,789)	(119,507)

Cashflow Statement

CASH FLOW STATEMENT Non IAS19			
	2020/21	2019/20	
	£000	£000	
Net deficit on the provision of services	758	(1,037)	
Adjustments to net deficit on the provision of services for non-cash movements	1,312	7,569	
Adjustments to net deficit on the provision of services for investing/financing activities	1,318	1,255	
Net cash inflows from operating activities	3,388	7,786	
Investing activities			
Purchase of fixed assets & other capital spend	(1,972)	(3,068)	
Increase in long term deposits	(5,000)	-	
(Increase)/Decrease in short term deposits	-	10,000	
Receipts from investing activities	98	184	
	(6,874)	7,116	
Financing activities			
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(417)	(384)	
Repayment of long term borrowing	-	-	
Payments for financing activities	(1,416)	(1,439)	
	(1,833)	(1,822)	
Net increase or (decrease) in cash and cash equivalents	(5,319)	13,080	
Cash and cash equivalents at the beginning of the reporting period	27,922	14,841	
Cash and cash equivalents at the end of the reporting period	22,603	27,922	

LANCASHIRE COMBINED FIRE AUTHORITY

AUDIT COMMITTEE

Meeting to be held on 20 July 2021

RISK MANAGEMENT

(Appendix 1 refers)

Contact for further information:

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

Executive Summary

The report highlights action taken in respect of corporate risk since these were last reported to the Audit Committee.

Recommendation

The Committee is asked to note the actions taken and endorse the revised corporate risk register.

Information

The latest review of the corporate risk register has identified one new risk which warrants consideration for inclusion on the corporate risk register: -

Increase in costs associated with major Property projects due to changes in Building Regulations

A proposed upgrade of the Building Regulations was published as draft legislation in January 2021 and is subject to an on-going consultation. The construction industry was expecting a significant increase in the environmental standards for new buildings with a zero-carbon requirement anticipated, this has been confirmed in the draft legislation. However, the draft legislation also applies to existing buildings, whereby there will be a requirement to substantially upgrade the environmental credentials of existing buildings when a major refurbishment is undertaken.

This will potentially see significant increase in upfront costs with more energy efficient heating/insulation being required, such as air-source heat pumps, PV panels, triple glazing etc, all of which are dearer than our current standards.

In order to mitigate this, we will need to account for this in cost estimates for all major property projects and increase the contingency on projects to provide scope to meet potential cost increases.

Given the scale of the Authority's Capital programme over the next 5 years this is considered a high risk at the present time, as if the legislation is implemented it will increase costs significantly on all projects commencing after June 2022, and this was not allowed for in the initial budget estimates.

Existing Risks

Of the existing risks 7 have been reviewed, and an updated corporate risk register is attached as appendix 1, with changes summarised below: -

		Update since last meeting	Proposed Risk Score	
1	Insufficient resources due to poor funding settlement, inability to make required savings, additional financial pressures such as RDS pensions etc., plus council tax limits via local referendum resulting in Authority being unable to set a balanced budget	No change, not due to report till 31/3/22	16	High
2	Premises Risk Information: That operational staff do not have available adequate and reliable premises information to efficiently resolve operational incidents: Risk information is provided to operational staff based on premises information and premises risk are identified on a continuous basis although this is not consistent throughout the Service.	No change, not due to report till 30/11/21	9	Medium
3	Insufficient staffing resources, due to Industrial Action, to deal with operational demand and fulfil statutory responsibilities	LFRS has a separate contingency plan in place that is specific to industrial action. The Home Office has previously undertaken an audit of our arrangements, with the final report noting our arrangements. We continue to monitor the position regarding national pay awards, pensions and related role map reviews.	Remains at 12	Medium
4	Lack of availability of water supplies for fire fighting prevents effective fire fighting resulting in additional damage to property and increased risk to life.	Previously discharged		

5	The increasing age profile of operational staff could adversely affect our ability to deliver effective emergency response.	Previously discharged		
6	Operational staff do not have the required skills to operate safely at an incident with the potential to result in F/F injuries or fatalities.	The Operational Assurance Team continues to assess operational readiness through station visits, incident / exercise monitoring and debriefing. The team publishes a quarterly performance report to promote staff awareness of key operational performance issues, and monitor knowledge/understanding of issues identified in this. The dedicated Incident Command Training team continues to evaluate performance in this area, and Incident Commanders are now required to maintain a command license. TOR continue to work closely with Service Delivery to ensure attendance on Safety Critical mandatory training.	Remains at 9	Medium
7	Failure of key ICT systems resulting in disruption to services	In terms of the new WAN all Stations and Data centre links complete, direct internet access to be completed by Financial year. The accelerated adoption of Microsoft 365 and Teams is driving cloud services. Work has commenced on upgrading the Exchange infrastructure and is due completion in September. The majority of devices have migrated onto Windows 10 and the roll out of Office 2019 is complete.	Remains at 9	Medium
8	Loss of corporate reputation through negative publicity	No change, not due to report till 31/3/22	9	Medium
9	Retention and recruitment of RDS staff impacts on RDS appliance availability	No change, not due to report till 31/3/22	9	Medium

10	Lack of workforce planning resulting in significant over/under provision of staff and resulting impact on service and finances	Previously discharged		Medium
11	Lack of compliance with legislation resulting in prosecution or compliance order	Previously discharged		
12	Ineffective Health and Safety in the workplace, resulting in prosecution, intervention fees etc.	No change, not due to report till 30/11/21	9	Medium
13	Lack of effective Information management impacting on service delivery and support or leading to a breach of data protection/freedom of information or a loss of sensitive/personal information	No change, not due to report till 31/3/22	9	Medium
14	Delayed mobilisation, impacting on service delivery	No change, not due to report till 30/11/21	9	Medium
15	High levels of staff absence due to outbreak of ebola.	Previously discharged		
16	Lack of clarity on future of FRS, leading to inertia	Previously discharged		
17	Failure of ESMCP to deliver a viable communication facility.	The ESMCP Programme has consulted upon a refresh of the 2016 approved Full Business Case (FBC) and LFRS leads have engaged fully in the process in order to ensure that the proposed changes to the 2021 FBC are fully understood. Technical lead colleagues in LFRS and NWFC continue to work closely with the NFCC team to ensure that our NWFC mobilising system and internal supporting aspects such as station end equipment and vehicle mounted data terminals remain fit for purpose through and beyond ESMCP transition. Work to evaluate transition	Remains at 9	Medium

		planning remains ongoing and includes aspects such as dual device (Airwave and ESMCP) fitting within fire engines, device convergence opportunities, coverage testing and early trials and pilot of the voice product.		
18	Inability to maintain service provision in spate conditions	Previously discharged		
19	Failure to maximise the opportunities that technological advances present due to a lack of capacity within the ICT department, and an inability of staff to keep pace with new development that are implemented	Work has commenced on upgrading the Exchange infrastructure and is due completion in September. The majority of devices have migrated onto Widows 10 and the roll out of Office 2019 is complete. The Digital Transformation department, which was created last year, is now fully staffed, and delivering priorities as defined by BPIP, CPB & Exec board. By the end of July an additional 4 apprentices will have commenced in ICT and Digital Transformation departments.	Remains at 9	Medium
20	Loss of support for Vector Incident Command product with the product name Command Support System (CSS) leading to ineffective command function at large incidents	No change, not due to report till 31/3/22	9	Medium
21	Risk of rapid external fire spread in high rise premise resulting in a major incident	No change, not due to report till 30/11/21	10	Medium
22	Failure to maximise collaborative opportunities presented by Policing and Crime Act 2017	No change, not due to report till 30/11/21	9	Medium
23	Lack of leadership capacity impacting on delivery of services	The Talent Management workshops were postponed due to Covid-19 but will be relaunched at the end of July. Leadership development programmes continue to be	Remains at 9	Medium

		delivered despite Covid-19. Crew Manager Promotion Board currently advertised and Middle Manager promotion Board will be advertised September 2021. Future workforce needs have been reviewed as part of the development of the Workforce Plan.		
24	Insufficient preparation for inspection programme leading to opportunities being lost in terms of national learning and Lancashire's ability to effectively communicate its progress and awareness	Previously discharged		
25	The outcome of the EU court ruling on the Matzak case relating to on-call arrangements in Belgium has a detrimental impact on service provision and/or cost.	Previously discharged		
26	Increase in costs of and/or lack of availability of goods and services, following Brexit	<p>We have started to see an increase in the price of construction materials in the last few months, as well as delays in obtaining them. With the contractor on our Workshop/BA school project awaiting some metal stud partitioning to finish one section of the building internally, this is indicative of the supply market at the present time.</p> <p>Furthermore the cost of some raw materials is anticipated to increase further in the coming months:</p> <ul style="list-style-type: none"> • Steel/ Copper up 30% • Sealants up 30% • Glass up 15% <p>In order to address this we need to increase the contingency on construction projects to provide scope to meet potential cost increases.</p>	Remains at 12	Medium

27	Increase in costs associated with changes to pensionability of allowances	No change, not due to report till 30/11/21	16	High
28	Discontinued or long-term malfunction in the KPI management software product (CORVU)	No change, not due to report till 30/11/21	6	Low
29	High levels of staff absence due to pandemic.	No change, not due to report till 30/11/21	15	High
30	Changes to Emergency Response Driver Training leading to a reduction in trained appliance drivers and hence impacting pump availability.	No change, not due to report till 31/3/22	12	Medium

Financial Implications

None

Human Resource Implications

None

Equality and Diversity Implications

None

Environmental Impact

None

Business Risk Implications

The improvement in risk management arrangements should result in reduced business risk

Local Government (Access to Information) Act 1985

List of Background Papers

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

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CORPORATE RISK REGISTER

July 21

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KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
1 Insufficient resources due to poor funding settlement, inability to make required savings, additional financial pressures such as pay, pensions etc., plus council tax limits via local referendum resulting in Authority being unable to set a balanced budget.	<p>We had previously anticipated a new 4-year Spending Review being published, however due to uncertainty this has been delayed. As such 21/22 is a one-year settlement, with a four-year settlement anticipated later this year.</p> <p>Running alongside this is a Fair Funding and the prospect of moving to a 75% Business Rates Retention model, both of which will impact future funding, have also been put on hold.</p> <p>As such it is impossible to predict what future funding will look like, which is reflected in the Medium-Term Financial Strategy.</p> <p>The budget for 22/23 and beyond assumes a funding increase of 1.5% reach year, and based on assumptions contained within the MTFS shows a funding gap of up to £1.0m in subsequent years.</p> <p>The Authority holds sufficient reserves to meet this in the short to medium term, until March 2024.</p>	4	4	16	Continue to monitor position and review implications arising from Spending Review, Fair funding review and Local Retention of Business Rates. Continue to identify savings opportunities	31/03/2022	DoCS	DoCS	Corp Serv
2 Premises Risk Information: That operational staff do not have available adequate and reliable premises information to efficiently resolve operational incidents: Risk information is provided to operational staff based on premises information and premises risk are identified on a continuous basis although this is not consistent throughout the Service.	<p>The gathering of operational risk information is a key activity within LFRS. The service has adopted an integrated approach to managing the risk; thereby ensuring safe systems of work for all employees.</p> <p>LFRS will undertake incident pre planning and the gathering of operational risk information to enable:</p> <ul style="list-style-type: none"> *The prevention of injury and ill health of firefighters and other emergency responders *Management and mitigation of risks in the community *Continual improvement in the provision of, accurate, relevant and timely operational information *Compliance with the legal duties on Fire and Rescue Authorities in relation to operational risk information *Compliance with formal guidance and "best practice" models; and Audit and review mechanisms. <p>Premises based risks are assessed using the Provision of Risk Information to Staff (PORIS) methodology. The risk based information is formulated via an application on the iPad and categorised from Level 1 through to Level 5 (e.g. Top Tier COMAH Sites.)</p> <p>All known high risk premises are recorded on the system.</p>	3	3	9	A key priority through 20 / 21 is the maintenance via an agreed position developed with the FBU of a review programme of SSRI plans associated with built environment risks. Agreement was reached that this aspect of Service Delivery remained a Core Function and should be safeguarded during the C19 pandemic, given the potential that risk sites may very well have reviewed their own operating procedures and policies in light of the impact of the national crisis. REP are in addition undertaking assurance (dip samples) of Level 4 PORIS sites and have subsequently developed a series of best practice templates (L4 Tactical Plans) , along with a series of proposals to introduce such plans across the organisation.	30/11/2021	HoSD	DoSD	Serv Delivery

CORPORATE RISK REGISTER

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	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
3	Insufficient staffing resources, due to Industrial Action, to deal with operational demand and fulfil statutory responsibilities.	LFRS has a separate contingency plan in place that is specific to industrial action. This has been reviewed and reissued to all SMT and relevant staff. The Home Office has undertaken an audit of our arrangements, with the final reported noting our arrangements.	3	4	12	Continue to monitor the position regarding national pay awards, pensions and related role map reviews.	31/07/2022	HoSDD	DoSP	Strategy & Planning
4	Lack of availability of water supplies for fire fighting prevents effective fire fighting resulting in additional damage to property and increased risk to life.	The Service commissions, adopts, systematically inspects and repairs mains fed fire fighting hydrants across the County. We maintain operational plans that display the location of available hydrants and open water supplies. Accurate hydrant information now provided to FES. Hydrant inspections moved to a risk based programme. New SSI Hydrant Manager update - Central system (within FES) is now up and running with current information being available on appliance MDT's. Hydrant tech's now moved over to Toughbook's for hydrant management and reporting of defects. We have Strategic Hydrants (those with a flow rate of above 1,500 litres per minute), then Risk Category 1, 2 and 3. Strategic are tested annually, Risk 1 annually, Risk 2 every two years, and Risk 3 every three years. Defects are repaired either in-house by the Hydrant Technicians, or reported to United Utilities (Strategic being marked urgent). Strategic Hydrants are always flow tested and this is recorded on the hydrant asset in SSI. Other hydrants are dry tested Increased use of HVP for larger incidents.	2	3	6	Discharged				
5	The increasing age profile of operational staff could adversely affect our ability to deliver effective emergency response.	Fitness Assessments introduced and included as part of the Crew Training as of 1st April 14. Remedial action to ensure that acceptable levels of fitness are developed and maintained. Provision of facilities for physical exercise and training on operational stations. Currently staff are timetabled to take a fitness test, are subject to health monitoring and managers can refer staff to OHU if they have concerns. The Service provides a physiotherapy service, critical incident debriefing and counselling if needed.	3	2	6	Discharged				

CORPORATE RISK REGISTER

July 21

	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
6	Operational staff do not have the required skills to operate safely at an incident with the potential to result in F/F injuries or fatalities.	Recruitment of Whole-time and RDS staff is undertaken against national standards. Initial and Continuation training delivery is based on National Occupational Standards (NOS), National Operational Guidance (NOG) and Training Specifications. Role related competencies have been identified and recorded within the PDR Pro system with appropriate retraining frequencies identified. Initial and Refresher training delivered to cover a wide range of specialist skills. Particularly risk Critical areas such as Breathing Apparatus are centrally assessed to ensure uniformity. An Operational Assurance policy is in place delivered through a dedicated Operational Assurance Team that continually assesses operational readiness through station visits, incident / exercise monitoring and debriefing. The team publishes a quarterly performance report to promote staff awareness of key operational performance issues. As well as internal learning sources, the team receives National Operational Learning (NOL) in relation to nationwide incidents, Rule 43 Letters and Joint Operational Learning from other blue light Services and Resilience Forum Partners. Such learning results in a range of actions including REC1 safety bulletins, changes to operational policy and training content (both courses and e-learning) and thus constant evolution/improvement in safety and effectiveness. A dedicated Incident Command Training team exists recognising the vital importance of this skill to safe and effective operations. Incident Commanders are now required to maintain a command license. Retained Support Officers have been appointed and their responsibilities include recruitment and training. The Service continues to invest in training props to ensure realistic hot fire training conditions. Through the Operational Assurance Group, Prevention, Protection and Response Task and Strategic Groups along with the Health, Safety and Environment Advisory Groups, internal and external learning are monitored and fed into the Training and Operational Review department to influence operational training.	3	3	9	Monitor effectiveness of Operational Assurance Performance Report in disseminating information. Additionally, TOR to continue to work closely with Service Delivery to ensure attendance on Safety Critical mandatory training.	31/07/2022	HoTOR	DoSP	Strategy & Planning

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KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
7 Failure of key ICT systems resulting in disruption to services.	Separate BCP plans developed, including backup and recovery procedures, desktop exercise completed. Asset replacement policy in place, regularly reviewed. IT Firewall to prevent inappropriate access, moisture detection loop installed in SHQ plant room to identify any early threat of flooding Secondary ICT site constructed at STC to provide enhanced resilience, implementation of Active Directory to enhance security and control of user access, improved virus protection. Strategy to control use of USB devices implemented. Patch and update policy place to ensure servers and workstations are up to date with latest security developments. Wide Area Network (WAN) to all administrative and operations site. New Storage Area Network (SAN) to replicate all essential servers and data to the disaster recovery site at STC. Installed resilient link from STC to County Hall in order to maintain LCC/OCL supplied services in the event of a failure at SHQ or the link to County and also have extended the network to include the new control facility in Warrington.	3	3	9	Complete the implementation of the new WAN Start work to consolidate our 3 data centres to facilitate any potential SHQ relocation. Extend/embed the use of Cloud services where appropriate. Achieve Cyber Essentials Plus. Complete migration to windows 10 and Office 2019	31/07/2022	HoICT	HoICT	Strategy & Planning
8 Loss of corporate reputation through negative publicity.	Emergency communication plan and toolkit covers all aspects of risk including business continuity issues, emergencies and broader reputational risk, and fulfils requirements of the Lancashire Resilience Forum emergency communications plan. Plan regularly tested during exercises. Effective reactive press office and proactive media activity to build positive reputation including on-call arrangements for out-of-hours cover. Media and social media training forms part of middle manager development programme and is delivered to individuals and teams as required throughout the year. This was reduced during the pandemic however a number of social media training sessions were held in 2020 via Microsoft Teams. A media management tool is used to monitor media coverage about the service and a number of platforms are used to monitor and manage social media including, if required, social media activity by stations. Communication plans for corporate projects include internal communication where appropriate to ensure staff are well informed to reduce risk of misinformation. Corporate use of social media is embedded in communication plans with policy and guidance in place. Scanning and planning function helps anticipate and plan for specific reputational risks and daily media monitoring highlights inaccurate reporting and emerging issues that that need to be addressed or corrected. This activity is communicated to members of service management team via a daily media summary email.	3	3	9	Revised image consent forms have been produced in line with GDPR however social media guidelines are yet to be updated in respect of images and personal data, as a preferred method of processing and storing images has yet to be determined by the Service. Plan to update the social media guidance anyway with a holding position in the interim. Revised media and social media training to be delivered	31/03/2022	HoCC	HoCC	People & Development

CORPORATE RISK REGISTER

July 21

KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
9 Retention and recruitment of RDS staff impacts on RDS appliance availability.	RDS recruitment and retention working group established. Increased RDS basic recruits course population from 12 to 24. Quicker access to BA course on completion of recruit training. TOR support throughout the RDS probationary period. Enhanced retained pay scheme introduced and reviewed regularly. The service allows shorter RDS contracts to improve appliance availability. Encourages dual contract staff to contribute to the RDS. RDS availability targets now reduced to 95%. Proactive recruitment by SDM's. Joint working between HR and service delivery to enhance current recruitment processes. RDS Strengthening & Improving programme in place with the focus on supporting staff through their developmental stages and improving efficiency and effectiveness of recruitment work. A new Recruitment Vehicle has been established. RSO activity around both development and recruitment are paying off with improved levels of support being given across all required skill sets to those in the Service and those looking to join us.	3	3	9	RSO's continue to embed 'core skills' workshops on stations and STC staff routinely delivering Incident Command skills across a variety of topics to RDS staff to improve competency as well as sense of feeling valued. Activity around RDS recruitment campaigns will continue to develop. Work continues between Retained Support Officers (RSOs) and HR on the recruitment of on-call staff. For those who fail the on-call course the RSO's continue to maintain contact and undertake developmental work with a view to attendance on subsequent courses. RSOs/HR additionally monitor success of on-call recruitment initiatives.	31/03/2022	HoSD	HoSD	Serv Delivery
10 Lack of workforce planning resulting in significant over/under provision of staff and resulting impact on service and finances.	A mechanism of workforce planning has now been agreed and this will be reviewed on annual basis. As part of the development of the workforce plan a review of retirement profile is considered which is the main reason for turnover for those staff on grey book terms and conditions, this information is used to plan recruitment and enables us to plan effectively ensuring enough staff. Further to the turnover last year, an internal recruitment campaign and associated recruitment resulted in recruitment to 27 posts. A further recruitment campaign is being conducted for 2017/18 which will be completed by mid-May. Our approach to training and organisational development ensures that staff have the necessary ability, skills and training in order to able to undertake the job role. In terms of managing the risks associated with over establishment, all posts are checked against the post book prior to advertising. Where a post is not established it needs to go through specific authorisation and establishment process which ensures that we control the number of posts we recruit.	2	3	6	Discharged				

CORPORATE RISK REGISTER

July 21

	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
11	Lack of compliance with legislation resulting in prosecution or compliance order.	Clerk of Authority reviews all Committee reports for legality and advises CFA. Clerk and Solicitor review new legislation. Government notify of all new requirements Horizon scanning.	2	2	4	Discharged				
12	Ineffective Health and Safety in the workplace, resulting in prosecution, intervention fees etc.	<ul style="list-style-type: none"> • Health and Safety Management System (HSMS) in place certified to ISO 45001:2018 to develop, maintain and continuously improve the HSMS. • Operational Assurance Programme. • HSA3 – workplace inspection programme. • Publication of risk information – Health and Safety Risk and Opportunities Register resulting in service objectives and targets, Generic Risk Assessments, Service Orders, Standard Operating Procedures etc. • External audit and scrutiny through External Auditors. • Health, Safety and Environment Advisory Group / Health and Safety Consultation Meeting monitor performance. • Annual SHE Report presented to CFA. • LFRS SHE Audit and Development Plan to develop, maintain, ensure compliance, review and continuously improve the HSMS. 	3	3	9	Following the independent audit of Health and Safety and Environmental Management Systems carried out as part of our ISO 45001 and ISO 14001 certification process non-conformances and opportunities for improvement are collated together into the SHE Audit Improvement Action Plan and monitored to conclusion through the Health, Safety and Environment Advisory Group.	30/11/2021	HoSHE	HoSHE	People & Development

CORPORATE RISK REGISTER

July 21

	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
13	Lack of effective Information management impacting on service delivery and support or leading to a breach of data protection/freedom of information or a loss of sensitive/personal information.	A revised structure to deliver Information Management has been implemented. Nominated Data Protection and Freedom of Information Lead Officers to ensure legal obligations met. All freedom of information requests considered by Exec Board. Data encryption in place. Information Management related projects are progressing as scheduled with governance from Programme Board and DCFO as Sponsor. Compliance with the Data Protection Act (DPA) and General Data Protection Regulation (GDPR) remains a priority. A data protection LearnPro module; this will further support the Service in effective information management by increasing staff awareness. The Service has also provided specialist data protection and GDPR training to increase staff knowledge and engagement with the subject matter. Data protection has been added as a standard agenda item to several key Papers in the Service. The appointment of a DPO not only aligns the Service with legislative obligations but also provides the oversight inherent to that post.	3	3	9	Work is ongoing through a number of key projects to align many aspects of this work. This is being covered through the CorVu replacement project and the records management and intranet replacement project, both of which are Corporate Programme Board items. Amendments have been made to the district plans and intelligence profiles to assist with the planning and reporting functions, with a longer-term view of further developing this area of work. The records officer role has now drafted the associated policies to support the above workstreams and with the introduction of MS365 a more robust and secure mechanism will be in place to effectively manage data.	31/03/2022	HoServ Develop	DoSP	Strategy & Planning
14	Delayed mobilisation, impacting on service delivery.	System uses AVLS to locate the nearest available pump, based on anticipated 'run time'. 2014 saw the implementation of a new Global ITN road speed setting developed from historical evidence provided by Cheshire FRS. This implementation along with changes to Station geographical locations, the removal of road restrictions (imposed on the ITN by the developers) and the development of new response plans has seen an improvement in mobilising with appliances arriving with greater accuracy between the proposed and actual run times. Restrictions have been imposed on the system to ensure non critical incidents are attended by the host station whilst preventing a lengthy run time and/or a slow response time. This restriction ensures both the spread of resources is maintain and the continued use of RDS whilst preventing Whole time appliances being taken out of higher risk areas, this also reduces the need for standby/closing in moves.	3	3	9	New road speed algorithms have been deployed at NWFC, ensuring a more accurate travel time is factored into mobilisation decisions. The system is also being updated to reflect historic turn-in times. Both of these changes should enhance mobilisation and ensure that the appropriate appliance is deployed to incidents.	30/11/2021	HoServ Develop	DoSP	Strategy & Planning

CORPORATE RISK REGISTER

July 21

	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
15	High levels of staff absence due to outbreak of Ebola.	On-going liaison with LCC Emergency Planning Dept and LRF. Separate BCP plans developed re large scale staff absence. Enhanced sickness and absence policy implemented. OHU department to provide advice to managers/staff.	1	4	4	Discharged				
16	Lack of clarity on future of FRS, leading to inertia.	<p>The Sir Ken Knight review highlighted a need to review governance arrangements relating to FRAs identified several potential governance models, regional, national, mergers, ambulance, police etc. responsibility for Fire Service has transferred from CLG to Home Office</p> <p>The Policing and Crime Bill (which is currently going through Parliament) introduces measures which require the police, fire and rescue, and ambulance services to collaborate with one another.</p> <p>As a minimum, the legislation requires 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 FRA. Alternatively, PCCs have the option of putting forward a business case which may 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 appear to be:-</p> <ul style="list-style-type: none"> • remain as we are • move towards a PCC 	2	3	6	Discharged				

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KEY RISKS		RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
17	Failure of ESMCP to deliver a viable communication facility.	<p>Emergency Services Mobile Communication Programme (ESMCP) is a national project which will deliver a replacement communications and data service using 4G technology. The new broadband data services will replace the existing private mobile radio system provided by Airwave. Main contracts awarded to EE and Motorola for the network and network equipment respectively. Since the signing of the contract, there has been considerable work done by the suppliers, central programme team and emergency services in the regions.</p> <p>In 2019/20 the Programme awarded contracts to 2 suppliers for the creation and delivery of fixed vehicle devices for use in the fire appliances and wider fleet. The NW region is working closely with these providers to ensure the equipment meets our technical and end user requirements. In April 2020 the Programme made available equipment that has enabled LFRS to commence with the testing of coverage in order to gain the required assurances that the provision of network coverage is to contractual criteria and fit for purpose. The ESMCP Programme has consulted upon a refresh of the 2016 approved Full Business Case (FBC) and LFRS leads have engaged fully in the process in order to ensure that the proposed changes to the 2021 FBC are fully understood. Technical lead colleagues in LFRS and NWFC continue to work closely with the NFCC team to ensure that our NWFC mobilising system and internal supporting aspects such as station end equipment and vehicle mounted data terminals remain fit for purpose through and beyond ESMCP transition.</p>	3	3	9	<p>Work is ongoing at both a service and regional level in order to prepare for transition to ESMCP. This is focussed upon coverage, transition planning, device support requirements and integration with existing systems such as MDT. LFRS is managing the project with a dedicated Project Manager through Home Office allocated funding and key staff members such as Head of ICT are aligned to relevant work packages. Work to evaluate transition planning remains ongoing and includes aspects such as dual device (Airwave and ESMCP) fitting within fire engines, device convergence opportunities, coverage testing and early trials and pilot of the voice product.</p>	31/07/2022	DoSP	DoSP	Strategy & Planning

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	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
18	Inability to maintain service provision in spate conditions	<p>Robust Business Continuity arrangements The published 2017-2022 LFRS Integrated Risk Management Plan recognises the impacts of wide area flooding (P2 increasing weather related events) as does our SOR for 2017. Ensure ESMCP specification recognises communication needs identified Training for LFRS FDOs regarding National Resilience Asset mobilisation and associated Command Support has been delivered, testing via an exercise to be completed</p> <p>LFRS vehicle fleet amended with multi-purpose (4x4) vehicles suitable for use in wide area flooding placed within the fleet, further purchases to follow in 2017/18 to extend the provision to 10.</p> <p>The enhancement of staff PPE with provision of flood suits and associated training is complete.</p> <p>The Lancaster accommodation side (not appliance bay etc.) has been built with flood defences and other mitigation works as per flood risk assessment. Other works include elevating all Station Mobilisation Cabinets that are in Flood risk areas.</p>	3	2	6	Discharged				
19	Failure to maximise the opportunities that technological advances present due to a lack of capacity within the ICT department, and an inability of staff to keep pace with new development that are implemented	<p>ICT Asset Mgt Plan in place, which identifies replacement timeframes for existing systems.</p> <p>ICT Strategy in place and includes work stream to improve user experience. BPIP consider all new ICT systems/developments, as part of this consideration is given to capacity planning in terms of ICT resource and impact on end users</p> <p>CPB consider outcomes from BPIP</p> <p>Digital Transformation created to address development oppriunities within the Service. This enabkes ICT department to focus on core infrastructure and increase development capacity once fully staffed.</p>	3	3	9	<p>Work has commenced on upgrading the Exchange infrastructure, and is due completion in September. Complete migration to windows 10 and Office 2019</p> <p>They have continued to develop bespoke packages, such as Assurance Monitoring System. Review and deliver priorities as defined by BPIP, CPB & Exec board.</p>	31/07/2022	HoICT	DoSP	Strategy & Planning

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20	Loss of support for Vector Incident Command product with the product name Command Support System (CSS) leading to ineffective command function at large incidents	The CSS software application (Vector Incident Command) we run on our command units to manage the incident command system, went into administration and the Intellectual Property Rights (IPR) for the software were bought at auction by Telent, who are the prime contractor for the NWFC ICT mobilising and communication. Telent have presented to say they will ensure that the original Vector developments as promised under the NWFC contract will be delivered. However developments have been very slow	3	3	9	A new project has now commenced to deliver a new command software solution and work is on-going to develop the specifications to move the Service forward towards procurement.	31/03/2022	HoServ Develop	DoSP	Strategy & Planning
21	Risk of rapid external fire spread in high rise premise resulting in a major incident	Understanding the range of hazards present in the high rise built environment continues to evolve with new and emerging risks continually being identified both locally and nationally. The latter are shared by the NFCC Protection Policy Reform Unit (incorporating the Building Safety Team), Home Office and MHCLG. Intelligence which in turn steers targeting and inspection activity. Albeit with restrictions on LFRS' ability to fully manage risk in this area due to limitations imposed by current legislation. National policy reform is underway, but still has considerable distance to travel, involving revised Building Regulations, amendments to the Fire Safety Order in 2012 (giving FRS enforcement powers for cladding and flat front doors) and the new Building Safety Bill in 2022 (making FRS a joint regulator with HSE and Building Controls). In 2020/21 (until Dec) LFRS Inspectors are undertaking the MHCLG commissioned 'Building Risk Review' of all 75 High Rise residential premises in Lancashire to identify if any hazards exist beyond the use of ACM cladding. Such hazards include other unsatisfactory cladding systems, combustible balconies, and compartmentation breaches etc. All High Rise owners and managers have been written to signposting the Government Cladding Remediation Fund.	2	5	10	A Protection Transformation Team has been established which includes responsibility to oversee the Building Risk Review (BRR). Revised governance for Fire Protection will be introduced to drive reform with introduction of dedicated AM for P&P and GMs for Prevention and Protection. Comprehensive program is in place to fill all roles and upskill the Protection Workforce to meet the complex demands of the FSO and FSB Future Risk Based Inspection Programs will be informed by the findings of the BRR. Inspectors will work with building owners, managers, and residents, to secure appropriate risk mitigation resorting to enforcement only when justified and necessary to do so. Comprehensive program is in place to fill all roles and upskill the Protection Workforce to meet the complex demands of the FSO and FSB.	30/11/2021	HoServ Develop	DoSP	Strategy & Planning

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	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
22	Failure to maximise collaborative opportunities presented by Policing and Crime Act 2017	Well-developed relationships with Lancashire Constabulary and NWS Regular meetings to discuss issues/opportunities Collaboration already taking place i.e. EMR, Gaining Entry, Missing Persons, Air Support (Drone), Site Sharing etc. Statement of Intent agreed and signed off at Deputy Chief Officer level between LFRS and Lancashire Constabulary External training for both organisations Senior Management Teams delivered by Shares Services Architects. Work areas considered and a 32 item collaboration log has been created. Blue Light Collaboration Board has been extended to NWS and both Programme and Sponsor level attendance at meetings is from the 3 blue light services	3	3	9	3 core projects to be progressed to scope report status:- • multi officer role • response arrangements • public order training at Washington hall Further roll out of EMR is dependent upon outcome of national pay negotiations In order to evaluate the effectiveness of the collaboration work to date consultants have been commissioned to carryout a review of the work to date. This work has been delayed due to the ongoing Covid 19 Pandemic and findings will be considered once the report is completed.	30/11/2021	HoSD	DoSP	Strategy & Planning
23	Lack of leadership capacity impacting on delivery of services	Workforce plan agreed and implemented which clearly identifies our challenges and workforce profile Recruitment policy in place which reviews the success of recruitment campaigns against the knowledge and skills gap Appraisal system in place, to establish opportunities for development feedback, identification of training needs, development opportunities and talent A more formal approach to Talent Management has been introduced with feedback to be given and opportunities for development identified through a lifetime/career conversation Leadership Development programmes in place, including in house leadership development, ILM (Institute of Leadership and Management) ELP (Executive Leadership Programme), Leading into the Future (A cross sectoral leadership programme) etc. Coaching and mentoring system introduced Action Learning Sets introduced Leadership Conferences delivered Promotion Board in place with clear development and promotion pathways established for operational staff	3	3	9	The Talent Management workshops will be relaunched at the end of July. Leadership development programmes continue to be delivered despite Covid-19. Crew Manager Promotion Board currently advertised and Middle Manager promotion Board will be advertised September 2021. Future workforce needs have been reviewed as part of the development of the Workforce Plan.	31/07/2022	HoHR	DoPD	People & Development

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	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
24	Insufficient preparation for inspection programme leading to opportunities being lost in terms of national learning and Lancashire's ability to effectively communicate its progress and awareness	Resources allocated to the required preparatory work to meet the needs of the HMICFRS inspection process. Creation of an internal review and subsequent self-assessment against the draft inspection criteria including the collation of key evidence and identification of any shortfalls of evidence. Completion of the HMICFRS returns including a corporate narrative overview, statements against the diagnostics covering effectiveness, efficiency and people including the submission of associated evidence. Inspection completed week commencing 9 July. Report due completion October (released at same time as other Tranche 1 reports)	1	3	3	Discharged				
25	The outcome of the EU court ruling on the Matzak case relating to on-call arrangements in Belgium has a detrimental impact on service provision and/or cost.	The case looked at the applicability of Working Time in connection with the Belgian Fire Service and their version of On Call Controls. Legal opinion is being sought in connection with the case to identify its impact in the UK. On more detailed examination, the case was not directly applicable to the UK, the issue in question was also resolved before further consideration by the Belgium Courts.	1	5	5	Discharged				
26	Increase in costs of and/or lack of availability of goods and services, following Brexit	We are continuing to monitor any trends in terms of this, with a view to identifying the extent of any impact. If costs increase significantly in the short term we will need to drawdown reserves in order to deliver a balanced budget. We have not seen any evidence that the availability of essential goods/services has been affected at this moment in time.	3	4	12	We have started to see an increase in the price of construction materials in the last few months, as well as delays in obtaining them. With the contractor on our Workshop/BA school project awaiting some metal stud partitioning to finish one section of the building internally, this is indicative of the supply market at the present time. We continue to monitor impact, and will consider the need to increase the contingency on construction projects to provide scope to meet potential cost increases.	31/07/2022	HoProc	DoCS	Corporate Services

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	KEY RISKS	RISK MITIGATION/CONTROLS IN PLACE	LIKELIHOOD	IMPACT	RESIDUAL RISK	ACTIONS RECOMMENDED	BY WHEN	BY WHOM	RISK OWNER	DIRECTORATE
27	Increase in costs associated with changes to pensionability of allowances	Following a High Court decision on allowances within the fire service, which provided a different interpretation to both the historical basis and to previous decisions of the Pensions Ombudsman, the pensionability of various allowances changed with associated cost implications. The Service agreed eligibility with the FBU going forward and this has been implemented. The question of backdating remains unresolved. The current situation is the Service has responded positively to the FBU request for 6 years backdating for relevant allowances (primarily DCP) but the Union has not currently accepted this offer. Since the offer the Pensions Ombudsman has determined an individual case for an active employee within Lancashire and the implications for both the Service and employees is being worked through.	4	4	16	Continue to seek a remedy on backdating issues. Liaison with our pension provider in respect of potential remedy implications. Once we have determined the appropriate action we will need to provide administrative resource to resolve.	31/03/2022	DoPD	DoPD	People & Development
28	Discontinued or long term malfunction in the KPI management software product (CORVU)	Close contract management with the provider to ensure that the product remains functional and fit for purpose. Staff member will lead responsibility is highly trained in the product and can carryout some maintenance in order to support functionality. Some alternative work arounds identified that will be resource intensive and may not provide the existing quality of data and subsequent analysis.	3	2	6	Continue to review the systems utilised in the sector and comparable users in order to identify a replacement product in a timely manner. Carryout a review of alternative work solutions in order to ensure that CFA Performance reports and Service Delivery District level reports remain deliverable. Priorities the upskilling of the new GIS / analyst to reduce the single point of failure risk.	30/11/2021	HoSDD	DoSP	Strategy and Planning

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29	High levels of staff absence due to pandemic.	The pandemic BCP was implemented from March 2020 in response to Covid-19. IMT and various sub-groups were implemented to manage impacts including – enhanced monitoring of staff absence levels, notification processes, H & S guidance, appliance crewing models, increased home and remote working, re-defined core activities and support to LRF work streams. OHU department to provide advice to managers/staff. On-going liaison with LRF/Emergency Planning Depts. Staff absence levels peaked as expected during mid-January, following the Christmas / New Year relaxation of lockdown arrangements. LFRS accessed a provision of Lateral Flow Tests and began a pilot rollout across a number of locations aimed at early identification and isolation of asymptomatic cases of C-19. An ambitious rollout plan followed which resulted in LFT provision being made available in a self-sustaining manner across all 39 fire stations, Service Headquarters, Service Training Centre.	5	5	25	Interim BCP debrief conducted internally to capture learning from the first few months of the pandemic. Further internal and LRF debriefs to be progressed once BCP arrangements stood down.	30/11/2021	HoSDD	DoSP	Strategy and Planning
30	Changes to Emergency Response Driver Training leading to a reduction in trained appliance drivers and hence impacting pump availability	A new Fire Standard for Emergency Response Driver Training has been published. This requires more training for new drivers within the sector, requiring: - <ul style="list-style-type: none"> • Current instructors added to a register and new instructors will need to complete a formal pathway; • A 10-day course with an element of night driving for all new appliance drivers; • A 10 or 15-day Initial Response course for flexi-officers depending on current competency in response driving; • Longer courses for special appliances which are not LGV. All of these will see a marked increase in the length of a driving course. In terms of the initial driving course the extension of time from 5 days to 10 days not only increase instructor time, but may lead to difficulties in the On-Call service as personnel will not be able to take the time away from Primary Employment to undertake training leading to a decline in On-Call appliance availability.	3	4	12	All of these will see a marked increase in the length of a driving course, which may require additional instructor resource and we are currently reviewing the impact on driving instructor and hence the need for additional capacity within the Team. As this only applies to new drivers the impact will be felt gradually over a period of time as personnel leave the service and are replaced. This will be more significant in the on-call service as turnover rates are much higher. We will monitor the impact in the on-call service over time to ensure that new entrants are able to undertake the relevant training and therefore are able to drive appliances. This risk may increase over time as personnel leave the service and new entrants are required to comply with the new standard	31/03/2022	HoTOR	DoSD	Serv Delivery

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31	Increase in costs associated with major Property projects due to changes in Building Regulations	A proposed upgrade of the Building Regulations was published as draft legislation in January 2021, and is subject to an on-going consultation. The construction industry was expecting a significant increase in the environmental standards for new buildings with a zero-carbon requirement anticipated, this has been confirmed in the draft legislation. However, the draft legislations also applies to existing buildings, whereby there will be a requirement to substantially upgrade the environmental credentials of existing buildings when a major refurbishment is undertaken. This will potentially see significant increase in upfront costs with more energy efficient heating/insulation being required, such as air-source heat pumps, PV panels, triple glazing etc, all of which are dearer than our current standards. Whilst contingences are included in major contracts these may not be sufficient to meet future requirements	3	4	12	In order to mitigate this we will need to account for this in cost estimates for all major property projects, and increase the contingency on projects to provide scope to meet potential cost increases. Given the scale of the Authorities Capital programme over the next 5 years this is considered a high risk at the present time, as if the legislation is implemented it will increase costs significantly on all projects commencing after June 2022, and this was not allowed for in the initial budget estimates.	31/03/2022	HoTOR	DoSD	Serv Delivery
					31					
					3	31/03/2022	8			
					18	31/07/2021	0			
					7	30/11/2021	7			
					3	Discharged	9			
					31		24			

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Scores

Likelihood

- 5 Certain, see next sheet
- 4 Very Likely, see next sheet
- 3 Likely, see next sheet
- 2 Unlikely, see next sheet
- 1 Rare, see next sheet

Impact

- Minor, see next sheet
- Noticeable, see next sheet
- Significant, see next sheet
- Critical, see next sheet
- Catastrophic, see next sheet