

# Public Document Pack

## LANCASHIRE COMBINED FIRE AUTHORITY

### AUDIT COMMITTEE

Tuesday, 5 July 2022 in Main Conference Room, Service Headquarters, Fulwood commencing at 10.00 am.

If you have any queries regarding the agenda papers or require any further information, please initially contact Diane Brooks on telephone number Preston (01772) 866720 and she will be pleased to assist.

<u>AGENDA</u>	
<u>PART 1 (open to press and public)</u>	

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

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

1.	<u>APOLOGIES FOR ABSENCE</u>
2.	<u>DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS</u>  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.	<u>MINUTES OF THE PREVIOUS MEETING</u> (Pages 1 - 6)
4.	<u>INTERNAL AUDIT ANNUAL REPORT</u> (Pages 7 - 24)
5.	<u>EXTERNAL AUDIT - AUDIT PLAN</u> (Pages 25 - 48)
6.	<u>ANNUAL GOVERNANCE STATEMENT</u> (Pages 49 - 76)
7.	<u>ACCOUNTING ESTIMATES</u> (Pages 77 - 84)
8.	<u>INTERNAL AUDIT MONITORING REPORT</u> (Pages 85 - 90)
9.	<u>RISK MANAGEMENT</u>  Verbal report.
10.	<u>DATE OF NEXT MEETING</u>  The next scheduled meeting of the Committee has been agreed for 10:00 hours on <u>27 September 2022</u> in the Main Conference Room, Service Headquarters, Fulwood.

	Further meetings are: scheduled for 29 November 2022 and for 28 March 2023 proposed for 5 July 2023
11.	<p><u>URGENT BUSINESS</u></p> <p>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.</p>
12.	<p><u>EXCLUSION OF PRESS AND PUBLIC</u></p> <p>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.</p>
<u>PART 2</u>	
13.	<p><u>URGENT BUSINESS (PART 2)</u></p> <p>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.</p>

## LANCASHIRE COMBINED FIRE AUTHORITY

### AUDIT COMMITTEE

Tuesday, 29 March 2022, at 10.00 am in the Washington Hall, Service Training Centre, Euxton.

### MINUTES

#### PRESENT:

##### Councillors

J Shedwick (Chairman)  
N Hennessy (Vice-Chair)  
S Clarke  
M Dad  
F Jackson  
A Kay  
J Singleton

##### Officers

K Mattinson, Director of Corporate Services (LFRS)  
D Brooks, Principal Member Services Officer (LFRS)  
L Barr, Member Services Officer (LFRS)

##### In attendance

J Taylor, Internal Audit, Lancashire County Council  
G Jones, External Audit, Grant Thornton

#### 31-20/21 APOLOGIES FOR ABSENCE

None received.

#### 32-20/21 DISCLOSURE OF PECUNIARY AND NON-PECUNIARY INTERESTS

None received.

#### 33-20/21 MINUTES OF THE PREVIOUS MEETING

RESOLVED: - That the Minutes of the last meeting held on 30 November 2021 be confirmed as a correct record and signed by the Chairman.

#### 34-20/21 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 10 March 2022 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 to date that, 69 days had been spent this financial year on the 2021/22 plan of the totalled planned activity of 70 days.

Progress in relation to the plan was provided and discussed by Members. It was noted that:

- Audit work across the 3 key financial systems: accounts payable, accounts receivable, general ledger had been completed and an opinion of substantial assurance provided;
- Payroll and Human Resources audit work reviewed and tested the adequacy and effectiveness of the controls and processes, and an opinion of substantial assurance was provided;
- Substantial assurance was also provided in relation to audit work for treasury management with no areas for improvement suggested.
- In relation to training, learning and development, overall a moderate assurance over the adequacy and effectiveness of the training, learning and development control framework. Whilst the provision of training and internal assurance arrangements were appropriately structured to support firefighters in maintaining the competencies required for their role, some actions had been identified to improve the overall monitoring and reporting arrangements which would provide greater assurance that training was being undertaken appropriately and learning embedded.

The report also included details of follow up work in relation to:

- Safeguarding - the previous audit provided substantial assurance. Three low risk actions were agreed with management to address areas identified for improvement. Two of the three actions had been implemented with one still ongoing relating to the delivery of Safeguarding Awareness talks, which were to be delivered to staff; and;
- GDPR – the previous audit provided an opinion of moderate assurance. Eleven actions were agreed with management to address areas for improvement, with only three (all low risk/ priority) being completed to date due to vacant staff posts.

#### Proposed changes to the plan

It was noted that internal audit programme for 2021/22 originally included provision for an audit to assess whether recruitment activity adopted a Positive Action approach, and additionally whether on call contracts being offered were commensurate with need. Whilst the current audit programme continued to include provision for a review of the management of on call firefighter provision, which would seek to assess whether there were appropriate controls in place, that operated effectively to ensure stations had sufficient on call cover to provide the required operational response to any incident, the review of recruitment had been deferred until 2022/23 as Covid had delayed the application of a Positive Action approach during 2021/22.

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

35-20/21 INTERNAL AUDIT PLAN - 2022/23

The Internal Auditors were required to produce an Annual Audit Plan, setting out areas they intended to review during the year. The plan amounted to a total resource of 70 audit days in 2022/23 which equated to an overall cost of £23,450 which was in line with budget provision.

A proposed plan was presented by Mrs Judith Taylor.

The internal audit plan was designed to provide the evidence necessary to support an opinion of governance, risk management and control as well as sufficient coverage over operations as a whole either on an annual or periodic basis to enable production of a robust annual audit opinion.

Individual items were proposed for inclusion in the annual audit programme based on planned work deferred from 2021/22 which was still considered important; known changes to operational activity, systems or processes and information obtained from the annual governance review, from the review of the corporate risk register and by liaising with the Director of Corporate Services to establish his view of those areas where independent assurance would be welcomed.

Where it was known that assurance would be provided from another body the Internal Audit Service would not duplicate work but would take it into account if it was relevant to the overall opinion on governance, risk management and control.

The deployment of audit resources was proposed as follows:-

Governance and business effectiveness	3 days
Service delivery and support	24 days
Business processes	32 days
Follow up audit activity	2 days
Other components of the audit plan	9 days
Total	70 days

RESOLVED:- That the Audit Committee agreed the internal Audit Plan for 2022/23.

36-20/21 EXTERNAL AUDIT - AUDIT REPORT AND SECTOR UPDATE

The Chairman welcomed Georgia Jones who had taken over from Andy Smith as engagement lead. She advised that her colleague, Helen Stevenson had taken over from Andy Ayre and their contact details were identified on page 39 of the agenda pack.

Ms Jones presented the external audit progress and sector update report which detailed progress at March 2022 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.

County Councillor Clarke expressed concern regarding the timing for completion of the audit reports in November 2022 due to delays the previous year. In response, Ms Jones advised that it was intended that the auditors would be on site; this should facilitate better timing of responses. She confirmed the aim was to be completed ahead of the deadline to enable plenty of time for consideration of the report.

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

37-20/21

EXTERNAL AUDIT - UNDERSTANDING HOW THE AUDIT COMMITTEE GAINS ASSURANCE FROM MANAGEMENT

It was noted that in order to comply with Auditing Standards, the External Auditors, Grant Thornton needed to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with laws and regulations. They were also required to make enquiries of both management and those charged with governance as to their knowledge of any actual, suspected or alleged fraud. International auditing standards placed certain obligations on auditors to document managements' view on some key areas that affected the financial statements. In addition to the request to management, they also needed to gain an understanding of how those charged with governance maintained oversight of the above processes as set out in letters to management (Executive Board) and the Chair of the Audit Committee as now considered alongside separate responses.

RESOLVED: - That the Committee noted and endorsed the response submitted by the Executive Board and approved the response by the Chair of the Audit Committee for submission.

38-20/21

RISK MANAGEMENT

The Director of Corporate Services presented the report. The report highlighted action taken in respect of corporate risk since the last Audit Committee meeting. The latest review of the corporate risk register identified 1 new risk which warranted inclusion on the corporate risk register:

Removal of Day Crewing Plus (DCP) / Outcome of Emergency Cover Review (ECR)

It was noted that there was a risk that the ECR would be unable to identify suitable and affordable alternative duty systems for the DCP stations. ECR working groups had been set up to engage with existing DCP staff to look at future duty systems. Potential cost implications would be closely monitored to ensure they were reflected in future updates to the medium-term financial strategy. This was currently classed as a high risk as the review was in its early stages and the cost implications if all stations returned to the 2-2-4 shift system were very significant.

An updated corporate risk register was considered by Members with changes summarised in the report.

County Councillor Shedwick queried whether sufficient allowance had been made in the budget for an increasing inflation rate. In response, the Director of Corporate Services advised that 2.5% inflation was built into the budget with some exceptions including 25% for energy. He confirmed that there was sufficient funding in the reserves to cover any variations which would be kept under review and reported to the Resources Committee.

County Councillor Hennessy expressed concern regarding the cost implications surrounding the risk that the Emergency Cover Review (ECR) process would not identify alternative duty systems for day crewing plus stations. The Director of Corporate Services confirmed that the ECR would be subject to an external consultation process which included with staff and unions.

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

39-20/21 DATE OF NEXT MEETING

The next meeting of the Committee would be held on Tuesday 5 July 2022 at 10:00 hours in Washington Hall, Service Training Centre, Euxton.

Further meeting dates were noted for 27 September 2022 and 29 November 2022 and agreed for 28 March 2023.

M NOLAN  
Clerk to CFA

LFRS HQ  
Fulwood

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## Lancashire Combined Fire Authority

### Audit Committee

Meeting to be held on 5 July 2022

### Internal Audit Annual Report 2021/22

(Appendix 1 refers)

Contact for further information – (Director of Corporate Services, Keith Mattinson)

Tel: 01772 866804

*Table 1 Executive Summary and Recommendations*

#### **Executive Summary**

The Internal Audit Annual Report summarises the work that the Internal Audit Service undertook during 2021/22 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.

#### **Recommendation**

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.

#### **HR Implications**

None.

## **Business Risk Implications**

The work of the 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:

Reason for inclusion in Part 2 if appropriate: N/A

**Lancashire Combined Fire Authority**

**Internal Audit Service**

**Annual report of the head of internal audit for the year  
ended 31 March 2022**

## 1 Introduction

### **Purpose of this report**

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2021/22 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 2021/22 and 2022/23 in relation to the 2021/22 audit plan, approved by the Audit Committee in March 2021.
- 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.

Andrew Dalecki  
Head of Internal Audit, Lancashire County Council  
May 2022

## **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 information available from less formal sources than planned audit engagements.
- 2.3 No significant areas of weakness in overall governance, risk management or control have been identified from our audit work, and although we have provided opinions of moderate assurance in relation to both operational service areas we reviewed this year, we are satisfied that management action is being taken to address the areas for improvement identified.

### **Wider sources of assurance available to the Combined Fire Authority**

- 2.4 Assurance is provided by Grant Thornton as the Authority's external auditor. Grant Thornton issued an unqualified opinion on the 2020/21 financial statements on 30 September 2021, and on 30 November 2021 they confirmed their opinion that there were no significant weaknesses in the arrangements for financial sustainability, governance and economy, efficiency and effectiveness in the use of resources.

## **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 Committee, the Performance Committee and the Planning Committee, held during 2021/22, and from the minutes produced following the meetings of the Executive Board, the Service Management Team, the Corporate Programme Board, the Health, Safety and Environment 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 result 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 We assessed whether Treasury Management borrowing, and investment activity and reporting has been undertaken in accordance with the approved Treasury Management Strategy and in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities and the CIPFA Treasury Management Code of Practice.

3.5 An opinion of substantial assurance was provided, and no areas for improvement were identified.

***Accounts payable, accounts receivable, general ledger***

3.6 The above audits considered whether there are adequate and effective controls in place to ensure:

- 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.
- Invoices are raised on a timely basis for all goods and services provided.
- Invoices are cancelled or written off appropriately.
- Debtors are actively managed so as to reduce the level of bad debts and loss of income.
- 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.

3.7 An opinion of substantial assurance has been provided over these three key financial systems. There is a sound system of internal control, adequately designed to meet service objectives, and controls are being applied consistently.

***Payroll and human resources (HR)***

3.8 We reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:

- Operation of the payroll service
- Managing access to the payroll system and documentation
- Starters: enrolment checks and accuracy of pay
- Leavers
- Amendments to pay
- Routine payroll processing checks

- 3.9 An opinion of substantial assurance has been provided. A strong control environment exists over payroll and HR processes, to ensure that valid appointments have been 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, and a good working relationship continues to be maintained with Greater Manchester Fire and Rescue Service who provide a managed payroll system to LFRS.

***Training, Learning and Development***

- 3.10 We completed a review to determine the adequacy and effectiveness of the controls in place to ensure that operational personnel are able to demonstrate ongoing compliance with the competencies required for their role.
- 3.11 Overall, we can provide moderate assurance over the adequacy and effectiveness of the training, learning and development control framework. Whilst we found that the provision of training and internal assurance arrangements are appropriately structured so as to support firefighters in maintaining the competencies required for their role, we have identified some actions to improve the overall monitoring and reporting arrangements which will provide greater assurance that training is being undertaken appropriately and learning is embedded.

***Management of On Call Provision***

- 3.12 In this audit we have reviewed and tested the adequacy and effectiveness of the controls and processes established by management to mitigate the key risks relating to the following areas:
- Policy and procedure supporting operation of the On-Call service
  - Monitoring compliance with the Working Time Directive
  - Formal performance reporting arrangements
  - Managing compliance with agreed contractual hours to ensure appliance availability
- 3.13 The On-Call service is currently operating below its optimum availability target, with the main reason for this being a significant number of staff leaving the Service in a short space of time and lengthy absences due to the pandemic. Despite this, we are satisfied that overall, the framework of control is adequately designed and in the main effectively operated to mitigate the risk that stations have insufficient or inappropriate On-Call cover to provide the required operational response to an incident. In particular, there are policy and procedure documents in place and Service managers appropriately review compliance with contractual hours, with actions being raised where appropriate to address availability issues. We did however raise a high risk action for the service to introduce formal monitoring of hours worked, in order to ensure that where applicable, firefighters are asked to sign the UK Working Time Directive 'opt out' form.

***Follow-up work***

- 3.14 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.

***Safeguarding - follow up***

- 3.15 Our previous audit provided substantial assurance over the adequacy and effectiveness of the controls in place to support the safeguarding referral process and the working arrangements with partner agencies to help prevent abuse and neglect and to provide a consistent approach when responding to safeguarding concerns.
- 3.16 Three low risk actions were agreed with management to address areas identified for improvement. Two of the three actions have been implemented with one still ongoing relating to the delivery of Safeguarding Awareness talks, which are to be delivered to staff.

***General Data Protection Regulations – follow up***

- 3.17 Our previous audit provided an opinion of moderate assurance. Overall, a good framework of control is in place to support compliance with GDPR, and whilst we did not identify any significant gaps or weaknesses in the adequacy of the design of the overall control framework, we did note that as the production of the Record of Processing Activity was incomplete this created a risk that additional information assets would be identified and further work would be needed to put in place all necessary documentation required to demonstrate compliance with GDPR.
- 3.18 Of the eleven actions agreed with management to address areas for improvement, only three (all low risk/ priority) have been completed to date. Progress has been hampered due to key staff posts being vacated in the time since we completed our review, although we note that recruitment activity is being progressed.

***Fraud/ special investigations***

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

***National Fraud Initiative (NFI)***

- 3.20 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.
- 3.21 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 were identified from the matches processed and no overpayment resulted from the error, which was in relation to a deferred member.

Category of data	Number of matches identified	Number of matches processed	Number of matches in progress	Errors
Pensions	16	16	0	1
Payroll	15	15	0	0
Creditors	269	269	0	0
<b>Total</b>	<b>300</b>	<b>300</b>	<b>0</b>	<b>1</b>

## 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 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 2021/22 that require specific identification in the annual governance statement.

## 5 Internal audit inputs and performance

- 5.1 Work carried out during 2021/22 was in accordance with the audit plan presented and approved by the Audit Committee in March 2021. 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 74 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 2022/23 audit plan.

## 6 Internal audit quality assurance and improvement

### Client satisfaction

- 6.1 Internal Audit invites feedback on the quality of service provided by issuing a 'satisfaction questionnaire' at the end of each audit. This is an important process in terms of identifying how the audit was received and it

is also an important means of identifying aspects of the audit process that can be improved.

- 6.2 Our auditees have told us in every case that, overall, they were satisfied with the way we conducted our work with them. We also seek more detailed feedback in relation to our audit planning, the audit process and reporting, our behaviour, and our management and service to our auditees. Our auditees have provided positive feedback across all these areas. There were no common themes in the responses received that highlighted any particular areas for improvement.

### **Ongoing and periodic assessments**

- 6.3 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.
- 6.4 The findings of the last external quality assessment undertaken by the Chartered Institute of Internal Auditors were reported to the committee in January 2018. This confirmed that the Internal Audit Service 'generally conforms' to the full range of standards set out in the International Professional Practice Framework, PSIAS and Local Government Application Note. There were no departures from these arrangements in 2021/22. Another external review is due to be completed in 2022/23 the findings of which will be reported to this committee.
- 6.5 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 manager assesses the quality of each audit concurrently as it progresses, and a post-audit file review process has been undertaken. These reviews indicate that there is good evidence of compliance with our audit methodology and input from the audit managers to support the work of the auditors.
- 6.6 In addition to these periodic file reviews, the service's methodology includes a step which requires the Head of Internal Audit to read each report as it is finalised. This does not entail an additional detailed review and the auditors' reports remain theirs, using their own style and wording, but is intended to ensure that each assignment can be adequately understood and is properly communicated.
- 6.7 This year the Internal Audit team has adopted a hybrid approach to work, with staff predominantly being home-based but undertaking client site visits as the requirements of the audit has dictated. In response to this, some revised performance management and support arrangements have been put in place for the Internal Audit team, including the agreement of

delivery timescales with clients and identifying the audits that will aim to be completed for each meeting of the Committee.

## 7 Summary of findings

### Overall summary and assurance provided

- 7.1 The table on the following pages sets out a 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	
<b>Governance and business effectiveness</b>						
Governance, risk management and control arrangements	3	3	0	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 April 2022, and no areas of concern were noted.
<b>Service delivery and support</b>						
Training, Learning and development	12	16	(4)	✓	✓	Our audit report was finalised in August 2021 and four medium, and three low residual risk actions have been agreed to enhance the internal review and reporting arrangements in relation to compliance with mandatory training timescales and the recording of training needs, and the formal approval and distribution of the current training plan and policy documents.
				Moderate assurance		
Management of On Call provision	12	17	(5)	✓	✓	Our report was finalised in April 2022. One high and three medium risk actions have been agreed in relation to: <ul style="list-style-type: none"> <li>Monitoring and management of compliance with the Working Time Directive.</li> <li>Analysis of exit interviews.</li> <li>Undertaking regular reviews of the hours worked by On call firefighters versus contracted hours.</li> <li>Identification of responsible officers and implementation dates for actions raised in the Service On Call Key Performance Indicator report prepared for reporting to the Performance Committee.</li> </ul>
				Moderate assurance		

Lancashire Combined Fire Authority  
Annual report for the year ended 31 March 2022

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
<b>Business processes</b>						
Accounts payable	7	6.5	0.5	✓	✓	Our audit work across each of these three key financial systems was completed in November 2021. No areas for improvement were identified.
				Substantial assurance		
Accounts receivable	4	3.5	0.5	✓	✓	
				Substantial assurance		
General ledger	4	3	1	✓	✓	Our review was completed in January 2022. Two low risk actions were agreed relating to the need to ensure all electronic documents are saved on electronic personal folders, and HR need to remind managers of the need to submit payroll amendments in advance of the date of change to avoid under or overpayments of salary arising.
				Substantial assurance		
HR and Payroll	10	8.5	1.5	✓	✓	
				Substantial assurance		
Pension Fund Assurance	1	1	0	Moderate assurance		Our assurance on pension arrangements is derived from our own audit activity, in relation to pension overpayments, admission of employers to the fund, accounting through the council's general ledger and employers' contributions (follow up) and is additionally informed by information made available to us from other external assurance providers.
Treasury management	4	4.5	(0.5)	✓	✓	Our review was completed in October 2021. No areas for improvement were identified.
				Substantial assurance		
<b>Follow up audit activity</b>						
Safeguarding	1	1	0	N/A	N/A	Our follow up work was completed during January 2022. Refer paragraphs 3.15-3.16.

Lancashire Combined Fire Authority  
Annual report for the year ended 31 March 2022

Review area	Audit days			Assurance		Comments
	Planned	Actual	Variation	Adequacy	Effectiveness	
General Data Protection Regulations	1	1	0	N/A	N/A	Our follow up work was completed during February 2022. Refer paragraphs 3.17-3.18.
<b>Other components of the audit plan</b>						
National Fraud Initiative	3	1	2	N/A	N/A	All matches from the current exercise have now been investigated. One error was identified, with no financial impact.
Management activity	8	8	0	N/A	N/A	Work in the period has included: <ul style="list-style-type: none"> <li>• Production of the 2020/21 Annual Report of the Head of Internal Audit.</li> <li>• Preparation of the Audit Committee monitoring reports.</li> <li>• Reissue of the Internal Audit Charter.</li> <li>• Preparation of the 2022/23 Internal Audit Plan.</li> <li>• General management and quality assurance procedures.</li> </ul>
<b>Total days</b>	<b>70</b>	<b>74</b>	<b>(4)</b>			

## **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 2021/22.
- 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 2021/22 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.*

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## Lancashire Combined Fire Authority

### Audit Committee

Meeting to be held on 05 July 2022

### External Audit – Audit Plan 2021/22 (Appendix 1 refers)

Contact for further information – (Director of Corporate Services, Keith Mattinson)  
Tel: 01772 866804

*Table 1 Executive Summary and Recommendations*

#### **Executive Summary**

The attached report sets out the proposed external audit plan for 2021/22.

#### **Recommendation**

The Committee is asked to agree the external audit plan for 2021/22 and consider the increased fee proposal.

#### **Information**

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

#### **Financial Implications**

The proposed audit fee takes account of the agreed base fee of £23.7k (as set by PSAA) plus a further £17.1k to reflect the additional work required reflected in the audit plan as presented. This results in a total fee of £40.8k. (Last years agreed fee was £38.9k).

#### **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.

#### **HR Implications**

None.

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

Paper:

Date:

Contact:

Reason for inclusion in Part 2 if appropriate: N/A

# Lancashire Combined Fire Authority audit plan

Year ending 31 March 2022

Lancashire Combined Fire  
Authority  
June 2022  
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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 updated its Revenue Budget 22/23 – 26/27 (incorporating the Medium Term Financial strategy (MTFS) in February 2022. This was based upon the latest Local Government Funding Settlement which covered one year. The Authority has set a balanced budget over the 5 year period but recognises the uncertainties in the funding forecasts without a multi year settlement. The current MTFS includes a 1.1% increase in funding for 2022/23 with presumed increases of 1% in subsequent years, a new 'Service Grant' the Authority's share of which was £1.1m, with some element assumed for future years, and a £5 increase in 2022/23 council tax with a 2% increase in future years.

### Impact of Covid-19 pandemic/ Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS)

The outbreak of the coronavirus pandemic continues to impact organisations across the public sector. Over the last two years the Authority has had to adapt to work differently and be able to deliver all of its required services effectively. 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.

In December 2021 HMICFRS published its Annual Assessment of Fire and Rescue Services in England 2021 to provide an overall view of the state of the fire and rescue sector. The report highlighted that overall, nationally there had been progress from round 1 inspections with improvements in culture and people and investment in fire protection. An area identified as being problematic was the resourcing and prioritising of prevention work. Other areas identified as requiring further improvement included the diversity of recruitment and challenges around the on-call duty system.

Lancashire Fire and Rescue Service were inspected in November 2021, the results of which are due to be published in the summer 2022. We will consider this assessment as part of our value for money work 2022.

## 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, will be discussed with the Director of Corporate Services and is subject to PSAA agreement.
- 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 around management override of controls – refer to page 9.

# 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's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and we consider whether there are sufficient arrangements in place at the Authority's for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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 £1,245k (2020-21 £1,192.5k) 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 £62.3k (2020/21 £59.6k).

## 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 17 and 18 outline the approach for 2021/22 and the additional work which we are required to perform and report upon.

## Audit logistics

Our interim visit will take place in March 2022 and our final visit will take place in July - October. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £40,884 (PY: £38,919) 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"><li>• there is little incentive to manipulate revenue recognition</li><li>• opportunities to manipulate revenue recognition and expenditure are very limited</li><li>• classes of expenditure that could be prone to manipulation, such as management expenses and payments to and on account of leavers are not material</li><li>• the culture and ethical frameworks of local authorities, including Lancashire Combined Fire Authority, mean that all forms of fraud are seen as unacceptable</li></ul> <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 override 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"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>
Valuation of land and 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 the Authority requests a confirmation through a desktop exercise from its engaged valuation expert to ensure that there is no material difference. This valuation (£89.983m in 2020/21) 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"> <li>• 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</li> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• discuss with the valuer the basis on which the valuation was carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• test revaluations made during the year including investment properties, to see if they had been input correctly into the Authority's asset register</li> <li>• 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.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the net Pension Fund 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 (£887.280m in 2020/21) 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"><li>• 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;</li><li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li><li>• assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;</li><li>• assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li><li>• 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;</li><li>• 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</li><li>• obtain assurances from the auditor of Lancashire 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.</li></ul>

# Accounting estimates and related disclosures

The Financial Reporting Council 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 2022.

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
- Valuation of defined benefit net pension fund liabilities

## 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 sent planning enquiries letters i.e., Informing the audit risk assessment and Accounting estimate management summary, which consist of a series of questions about obtaining an understanding of management processes and those charge with governance's oversight of the following areas: general enquiries of management, fraud, laws and regulations, related parties, and accounting estimates.

### 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 Council'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)



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# 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 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 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.

# 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 prior financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1,124.5k (2020/21 £1,192.5k) for the Authority, which equates to 2% of your forecast 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 officer 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.

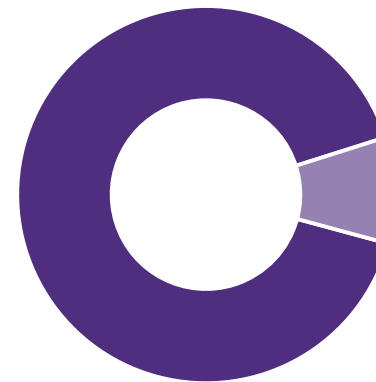
## Matters we will report to the Audit Committee

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 £62.3k (2020/21 £59.6k).

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

£62.262m Authority  
(2020/21: 59.625m)



- Prior year gross operating costs
- Materiality

## Materiality

£1,245k  
Authority financial statements materiality  
(2020/21: £1,192.5k)



£62.3k  
Misstatements reported to the Audit Committee  
(2020/21: 59.6k)



# IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT system has been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle E-Business Suite Finance	Financial reporting	<ul style="list-style-type: none"><li>Streamlined assessment</li></ul>
I-Trent	Payroll	<ul style="list-style-type: none"><li>Streamlined assessment</li></ul>

# Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires 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. We did not identify any risks of significant weakness in the Fire Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. The potential different types of recommendations we could make are set out in the second table below.

## Risks of significant weakness

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, similar to 2020/21, this represents a more detailed level of audit work required under the new VFM Code than previously (prior to 2020/21). We will be commenting on the Authority's arrangements across the three criteria in our Auditor's Annual Report.

We will continue to monitor the Authority's finances from its outturn for 2021/22 to its planned position for 2022/23 and beyond.

We will keep under review the possibility of a significant weakness arising as part of our ongoing 2021/22 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



## Georgia Jones, Key Audit Partner

Leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meaning the highest professional standards and adding value to the Authority.

## Helen Stevenson, Audit Manager

Plans and manages the delivery of the audit including regular contact with senior officers.

## Isaac Awomokun, Audit Incharge

Key audit contact responsible for the day-to-day management and delivery of the audit work.

## 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 items 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 [insert client name] to begin with effect from 2018/19. The fee agreed in the contract was £x. 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 2021/22 audit.

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 detailed on page [X] in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

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 2021/22, as set out below, is detailed overleaf and has been agreed with the Director of Corporate Services.

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	Actual Fee 2019/20	Actual Fee 2020/21	Proposed fee 2021/22
Lancashire Combined Fire Authority Audit	£28,169	£38,919	£40,844
<b>Total audit fees (excluding VAT)</b>	<b>£28,169</b>	<b>£38,919</b>	<b>£40,844</b>

## Assumptions

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

- prepare a good quality set of financial statements, 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.

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# 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 Council'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

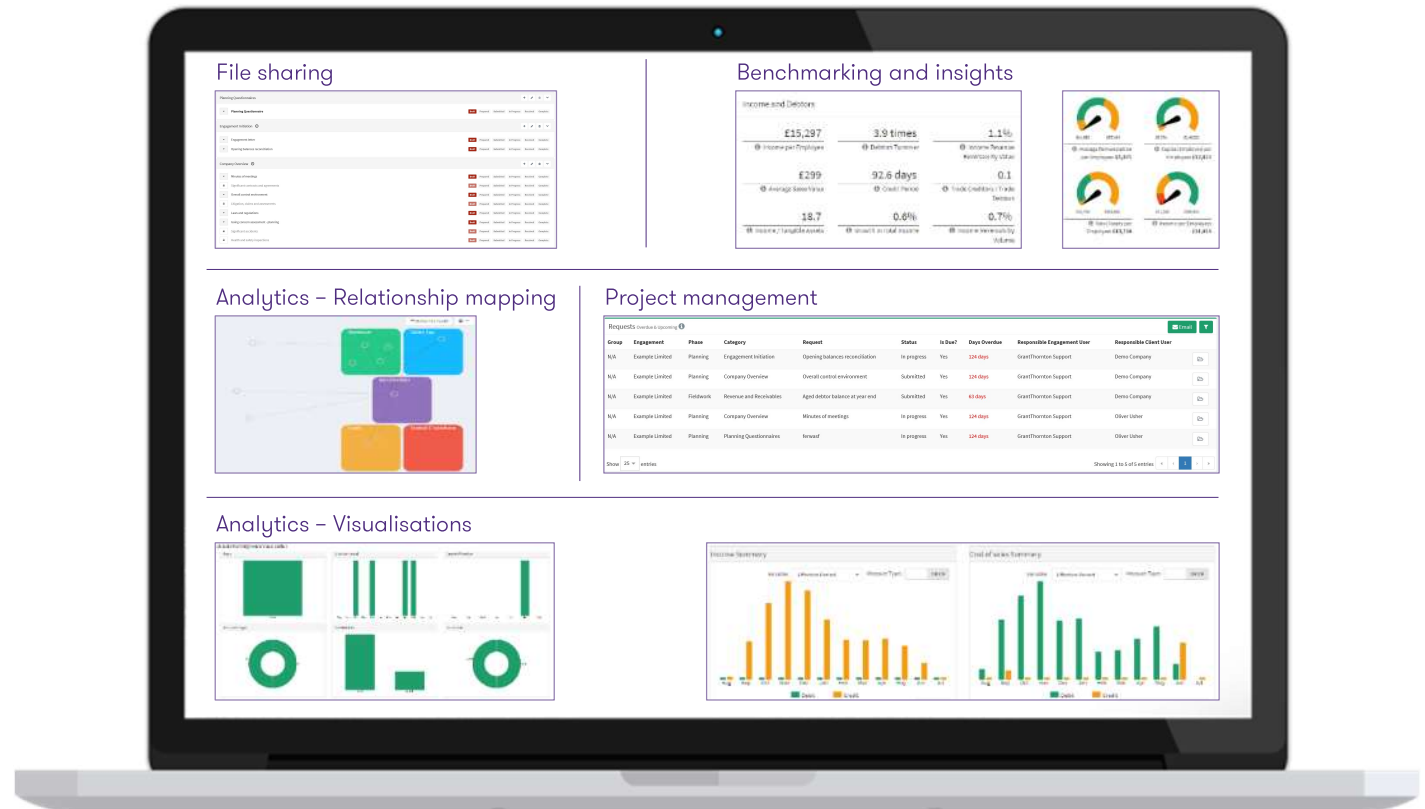
No other services provided by Grant Thornton were identified.

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.

# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology



# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



## Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



## File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



## Project management

- Facilitates oversight of requests
- Access to a live request list at all times



## Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

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## How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

### Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

### More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.



# Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the Authority's financial statements, which resulted in one recommendation being reported in our 2020/21 Audit Findings Report. We will be following up on the implementation of our recommendations in the 2021/22 audit.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Low	<p>Self-authorisation of journals</p> <p>Our risk assessment of journal controls identified that there are no automated controls on the finance system to prevent members of finance staff approving their own journals.</p> <p>Whilst our audit work on journals did not identify any significant issues as a result of this weakness in internal controls, we recommended that the Authority establishes an authorisation control to reduce the risk of financial reporting fraud and/or error in future.</p>	To be followed up during 2021-22



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## Lancashire Combined Fire Authority

### Audit Committee

Meeting to be held on 5 July 2022

### Annual Governance Statement 2021/22

(Appendices 1 and 2 refer)

Contact for further information

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

*Executive summary and recommendations*

#### **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(s)**

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 2021/22.

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 the HMICFRS Inspection which rated the Service as Good.

The assessment also considers recommendation 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 is operational and being utilised across many different departments to manage and track items such as Debriefs / National Operational Learning / Grenfell Tower Inquiry	Completed	Head of Digital Transformation
Performance manage the completion of appraisals and introduce new tools to improve the appraisal conversation	This has been rolled out	Completed	Head of Human Resources

An updated CRMP covering the period 2022/27 will be produced	Updated CRMP agreed and published	Completed	CFO
The outcome of the Staff Survey will be published and, where relevant, acted upon	The outcomes were published in May 2021, with improvements being implemented such as: <ul style="list-style-type: none"> <li>• Improved maternity, adoption and paternity pay at LFRS</li> <li>• Installed new Teams equipment at every station</li> <li>• Implemented a Hybrid Flexible working policy</li> </ul>	Completed	Head of Corporate Communications
A project to replace the existing Performance Management System will commence	This project has commenced but is in the early stages due to capacity issues.	March 2023	Head of Service Development
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	LCC have delayed implementation of the system, with a revised target date of Autumn 2022.	December 2022	Head of Finance
Develop business cases where required to ensure that value for money is evidenced	A new template has been designed and utilised as part of the budget setting process	Completed	Director of Corporate Services

As a result of the various reviews the following area has been identified for further improvements:-

- Embed the Core Code of Ethics into our corporate policy, and recruitment and promotion process

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 2022	
External Auditors Annual Report	November 2021	
HMICFRS Inspection Report	June 2022	
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 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 2022 and is on-going, with the following improvements on-going/proposed.

- Deliver a new Performance Management
- Deliver an upgraded Finance system
- Embed the Core Code of Ethics into our corporate policy, and recruitment and promotion process

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 2021/22**

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>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2021/22**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.	Good	<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>
Documenting a commitment to openness and acting in the public interest, and compliance with the principles of Data Transparency	Good	<p>Compliance with Transparency code</p> <p>Publication scheme on the website.</p> <p>Compliance with FOI requirements</p> <p>Pay Policy Statement approved by the full Authority and published on the service website</p> <p>Annual Report</p> <p>Annual Assurance Statement</p> <p>Public meetings</p> <p>Publication of information on website, including Committee agenda and minutes</p> <p>Information Management Strategy updated</p>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2021/22**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
<p>Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.</p>	<p>Good</p>	<p>Comprehensive communication and consultations strategies in place</p> <p>Positive evidence of proposals being amended following outcomes of consultation</p> <p>Annual report</p> <p>Key documents published on internet</p> <p>Constructive dialogue with representative bodies</p> <p>Register of complaints and compliments, no substantiated complaints against the service</p> <p>Annual Assurance Statement available on the website</p> <p>The External Auditors Annual Audit Letter did not identify any issues</p> <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>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2021/22**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
<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>New Community Risk Management Plan agreed covering 2022/27</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"> <li>• Business Process Improvement Programme</li> <li>• Workforce Development Programme</li> <li>• Service Delivery Change Programme</li> <li>• Capital Projects Programme Board</li> </ul> <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 2021/22**

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>Committee terms of reference agreed, supported by Standing Orders, and Scheme of Delegation and Financial Regulations.</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>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2021/22**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
<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"> <li>• operational preparedness</li> <li>• operational response</li> <li>• operational learning</li> <li>•</li> </ul> <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 by December 22 to further improve this</p> <p>Medium Term Financial Plan and balanced budget in place</p> <p>Service reviews identified to deliver savings</p> <p>Resources redirected into priority areas</p>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2021/22**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
		Consistently exceeded efficiency targets
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.	Good	<p>Committee terms of reference agreed, supported by Standing Orders, and Scheme of Delegation and Financial Regulations</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"> <li>• Equality, Diversity and Inclusion</li> <li>• Community Safety</li> <li>• Road Safety</li> <li>• Health and Wellbeing</li> </ul> <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>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2021/22**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
<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 Exec Board and reports directly to Chief Fire Officer</p> <p>Regular appraisal, with updated process implemented.</p> <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>



**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2021/22**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
Ensuring effective arrangements are in place for the discharge of the head of paid service function.	Good	CFO is the head of paid service  Regular appraisal with Chairman
Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training	Good	Member Training and Development Committee  All Members subject to a one to one to identify training and development needs. Specific Member training budget to address outcomes of this.  Senior Officers subject to appraisal system, including identification of training and development needs
Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability.	Good	Comprehensive Risk Mgt Strategy  Corporate Risk Register  Corporate Programme Board items include an assessment of risk  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.  HMICFRS undertook a C-19 Thematic inspection which concluded that “the service adapted and responded to the pandemic effectively”  Additional resilience built into ICT network  Appropriate insurance arrangements

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2021/22**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained.	Good	Anti-fraud policy Fraud risk assessment updated in May 2021 Full compliance with National Fraud Initiative
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	Internal Audit is outsourced to Lancashire County Council Internal Audit Charter in place Internal Audit Service Quality Assurance and Improvement Programme process agreed Lancashire County Council Internal Audit comply with CIPFA statement Head of Internal Audit has direct access to Audit Committee, Treasurer, Clerk and Chief Fire Officer as well as Members of the Authority
Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities.	Good	Audit Committee established and terms of reference agreed, covering core functions of an Audit Committee Audit Committee have access to both Internal and external auditors, and are provided with an opportunity to discuss issues without Officers being present

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2021/22**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
<p>Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations</p>	<p>Good</p>	<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>
<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.</p>	<p>Good</p>	<p>Statement of Intent signed with Lancashire Constabulary and NWAS</p> <p>Collaboration Group established, with regular reports to members</p>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2021/22**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
<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, and appropriate guidance and training are in place</p>	<p>Good</p>	<p>Workforce Development Strategy agreed</p> <p>Agreed establishment in line with approved budget. Agreed process for revising establishment.</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"> <li>• Coaching and Mentoring</li> <li>• Leadership Conferences</li> </ul> <p>Operational Assurance Audit Team to review:-</p> <ul style="list-style-type: none"> <li>• operational preparedness</li> <li>• operational response</li> <li>• operational learning</li> </ul> <p>Revised staff survey undertaken in 20/21, the outcome of this was published and, where relevant, acted upon</p>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2021/22**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
		<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 SMT</p> <p>BCP plan tested on a regular basis, and amended as required</p> <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 "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."</p>

**SOURCES OF ASSURANCE:  
LANCASHIRE FIRE AND RESCUE SERVICE/LANCASHIRE COMBINED FIRE AUTHORITY 2021/22**

KEY ELEMENTS OF GOVERNANCE	ASSESS- MENT	COMMENTS
Processes have been established to ensure that corporate and local service policies and procedures are implemented effectively and are periodically reviewed	Good	<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 2022 and up to the date of approval of the 2021/22 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 Community Risk Management Plan (CRMP) 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 2022-2027 can be found on our website at [https://www.lancsfirerescue.org.uk/wp-content/uploads/2022/04/Community-Risk-Management-Plan\\_2022-27-FINAL-VERSION-13-April-22-amends-page-15.pdf](https://www.lancsfirerescue.org.uk/wp-content/uploads/2022/04/Community-Risk-Management-Plan_2022-27-FINAL-VERSION-13-April-22-amends-page-15.pdf)
- Annual Service Plan details the activities we will undertake to deliver the strategy set out in our IRMP. The current plan was approved this year and can be found on our website at [Annual Service Plan 2022-23 - Lancashire Fire and Rescue Service \(lancsfirerescue.org.uk\)](https://www.lancsfirerescue.org.uk/annual-service-plan-2022-23)
- 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, which 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 whistleblowing, 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:-

- A new Community Risk Management Plan covering the five-year period 2022-2027 has been agreed and published in year.
- We updated our Strategic Assessment of Risk.

- We continued to adapt working practices during 2021/22 due to the ongoing impact of the Covid-19 pandemic:-
  - Our business continuity arrangements continued ensuring the 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, most notably supporting the local vaccination programme
  - All aspects of the service experienced a number of changes to working practices, implemented in order to ensure staff safety during the pandemic, with hybrid working continuing where appropriate
  - We continued to support the psychological wellbeing of staff, recognising the additional pressures imposed by the demands of the pandemic
  - Relevant Authority/Committee meetings were cancelled between March and May 2020, with the Authority's Urgent Business process being used as required. Virtual Authority/Committee meetings continued at the start of the year, with in person meetings recommencing 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 wholtime 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."*
  
- A new Annual Service Plan has been published, providing clarity, both internally and externally, on our priorities set out in the CRMP 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.
  
- Statement of Intent: Enhanced Collaboration agreed between LFRS, Lancashire Constabulary and North West Ambulance Services. Collaboration group established with regular reports 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
- 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 2021/22 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 2020/21:
  - Financial statements – *"We gave an unqualified opinion on the Authority's financial statements on 30 September 2021."*
  - Value for money conclusions:-
    - Financial Sustainability – *"We found no evidence of any significant weaknesses in the Authority's arrangements for ensuring the Authority can continue to deliver financially sustainable services"*
    - Governance – *"We found no evidence of any significant weaknesses in the Authority's arrangements for ensuring that it makes informed decisions and properly manages its risks"*
    - Improving economy, efficiency and effectiveness - *"We found no evidence of any significant weaknesses in the Authority's arrangements for improving the way the Authority delivers its services"*
- HMICFRS undertook its second full inspection of the Service in 2021/22, we are still awaiting publication of the outcome of this, which is due at the end of July/early August. Until such time as this is published we remain graded as per our 2019/20 inspection, an overall rating of 'Good', with a 'Good' rating in all categories other than 'Promoting the right values and culture' in which we achieved a rating of 'Outstanding'. *"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: -

<b>Area for Improvement</b>	<b>Action to date</b>	<b>Complete/ On-going</b>	<b>Owner</b>
<b>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</b>	The Assurance Monitoring System is operational and being utilised across many different departments to manage and track items such as Debriefs / National Operational Learning / Grenfell Tower Inquiry	Completed	Head of Digital Transformation
<b>Performance manage the completion of appraisals and introduce new tools to improve the appraisal conversation</b>	This has been rolled out	Completed	Head of Human Resources
<b>An updated CRMP covering the period 2022/27 will be produced</b>	Updated CRMP agreed and published	Completed	CFO
<b>The outcome of the Staff Survey will be published and, where relevant, acted upon</b>	The outcomes were published in May 2021, with improvements being implemented such as: <ul style="list-style-type: none"> <li>• Improved maternity, adoption and paternity pay at LFRS</li> <li>• Installed new Teams equipment at every station</li> <li>• Implemented a Hybrid Flexible working policy</li> </ul>	Completed	Head of Corporate Communications
<b>A project to replace the existing Performance Management System will commence</b>	This project has commenced but is in the early stages due to capacity issues.	March 2023	Head of Service Development
<b>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</b>	LCC have delayed implementation of the system, with a revised target date of Autumn 2022.	December 2022	Head of Finance

<b>Develop business cases where required to ensure that value for money is evidenced</b>	A new template has been designed and utilised as part of the budget setting process	Completed	Director of Corporate Services
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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 area for improvement, are listed below:

- Embed the Core Code of Ethics into our corporate policy, and recruitment and promotion process

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 11 July 2022	J Johnston, Chief Fire Officer, Lancashire Fire and Rescue Service 11 July 2022	K Mattinson CPFA, Treasurer, Lancashire Combined Fire Authority 11 July 2022
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## Lancashire Combined Fire Authority Audit Committee

Meeting to be held on 5 July 2022

### Accounting Estimates 2021/22

Contact for further information:-

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

*Table 1 Executive Summary and Recommendations*

#### **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.”

#### **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 considering past and current trends and/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 2021/22**

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 2022.

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 2021/22**

*Table 2 Significant Accounting Estimates for 2021/22*

<b>Nature of the estimate</b>	<b>Estimate value; degree of uncertainty; methodology</b>
Valuation of land & buildings	<p>2021/22 carrying value £108.9m (2020/21: £99.5m)</p> <p>The valuation method applied to LFRS assets is prescribed by the Code, these have not changed since the last financial year. Most 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 building works, with the remaining assets updated by desktop valuation using RICS indices.</p>



	<p>The uncertainty in terms of the market evidence used to form opinions of value, continues. Shortly after the global pandemic, the war in Ukraine and resultant energy crisis has impacted on materials cost coupled with the void in the market for tradesmen because of Brexit, that has led to slippages in most construction targets.</p> <p>Management reviews the underlying assumptions prior to valuation, and review material changes to values and challenged the results with the valuers. To gain understanding of their valuation.</p> <p>The property valuation gains for 2021/22 was £12.2m (2020/21: £4.1m).</p> <p>It is estimated that a 1% increase in DRC values will increase asset values by £0.9m (2020/21: £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 2021/22.</p>
<p>Depreciation of Property &amp; Equipment</p>	<p>2021/22 carrying value £108.9m (2020/21: £99.5m)</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.</p> <p>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>The depreciation charge for 2021/22 is £4.8m (2020/21: £4.2m). The estimated annual depreciation charge for property would increase by £0.1m for every year that asset lives are reduced.</p>
<p>Valuation of both FF and LGPS pension liability</p>	<p>2021/22 net liability carrying value £883.4m (2020/21: £887.7m)</p> <p>The schemes liabilities, 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 projected increased rates of salaries and pensions, mortality rate assumptions, and expected returns on pension fund assets (for LGPS only). These assumptions, proposed by the actuaries as experts in their field, disclosed to management in advance of the year end valuations calculations, giving the opportunity for scrutiny and challenge.</p> <p>These assumptions and the subsequent movement in the liabilities, 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 £16.8m (2020/21: £16.7m), a 0.1% increase in inflation would increase the liability by £13.6m (2020/21: £15.1m), a 0.1% increase in pay growth would increase the liability by £3.4m (2020/21: £2.2m). In addition, a 1year increase in the assumed life expectancy would increase the liability by £8.5m (2020/21: £8.6m).</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>2021/22 LGPS asset carrying value £76.7m (2020/21: £68.3m)</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>
Fair value measurements – PFI schemes	<p>2021/22 PFI liability carrying value £12.8m (2021/22: £13.2m); 2021/22 PFI liability fair value £15.9m (2020/21: £17.3m)</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</p>

	<p>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>Revenue Accrual – S31 grant re business rates additional reliefs in 2020/21</p>	<p>2021/22 income accrual £1.1m (2020/21: £1.9m)</p> <p>The 2022/22 accounts include an accrual of £1.1m in relation to additional business rates reliefs announced during the pandemic, to offset the shortfall carried forwards on the business rate collection fund at March 2022.</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 2022/23, after the reconciliation of the year end billing authority business rates returns for 2021/22.</p>
<p>Holiday pay expenditure accrual</p>	<p>2021/22 expenditure accrual £0.8m (2020/21: £0.9m)</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>

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 2 if appropriate: N/A

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## Lancashire Combined Fire Authority

### Audit Committee

Meeting to be held on 05 July 2022

### Internal Audit Monitoring Report

(Appendix 1 refers)

Contact for further information – (Director of Corporate Services, Keith Mattinson)

Tel: 01772 866804

*Table 1 Executive Summary and Recommendations*

#### **Executive Summary**

The attached report sets out the current position in respect of the internal audit plan for 2022/23.

#### **Recommendation**

The Committee is asked to note and endorse the report.

#### **Information**

The internal auditors produce a summary of progress against the annual plan for each Audit Committee meeting, setting out progress to date and any significant findings. The report for the period up to 10 June 2022 is attached as Appendix 1 and will be presented by the Head of Internal Audit.

#### **Financial Implications**

None.

#### **Environmental Impact**

None.

#### **Equality and Diversity Implications**

None.

#### **HR Implications**

None.

#### **Business Risk Implications**

None.

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

Paper:

Date:

Contact:

Reason for inclusion in Part 2 if appropriate: N/A



**Lancashire Combined Fire Authority**

**Internal Audit Service monitoring report: period ended  
10 June 2022**

## 1 Purpose of this report

1.1 The Internal Audit Plan for 2022/23 was approved by the Audit Committee in March 2022. This report details the progress to date in undertaking the agreed coverage.

## 2 Internal audit work undertaken

- 2.1 To date, no days have been spent this financial year on completion of the 2022/23 plan, and no individual assignments have been scheduled for completion to date. The table at section 3 below provides a summary of the assignments that comprise the 2022/23 audit plan alongside planned audit dates for key audit deliverables.
- 2.2 Time spent between 1 April 2022 and 10 June 2022 in completing assignments from the 2021/22 audit programme, has been accounted for within the 2021/22 Annual Report of the Head of Internal Audit.

### *Use of this report*

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

## 3 Proposed Audit dates

Audit review	Days	Fieldwork Start date w/c	Draft report issued w/c	Final report issued w/c	Audit Committee date
Overall governance, risk management and control arrangements	3	An overall opinion on the adequacy and effectiveness of governance, risk management and control arrangements will be reported in the 2022/23 Annual Report of the Head of Internal Audit.			July 23
Recruitment	12	5/12/22	19/12/22	2/1/23	March 23
Carbon Management Arrangements	12	6/3/23	27/3/23	10/4/23	July 23
Accounts payable	8	13/2/23	6/3/23	13/3/23	March 23
Accounts receivable	5	13/2/23	6/3/23	13/3/23	March 23
General ledger	5	13/2/23	6/3/23	13/3/23	March 23

Lancashire Combined Fire Authority  
 Internal Audit Service monitoring report: period ended 10 June 2022

<b>Audit review</b>	<b>Days</b>	<b>Fieldwork Start date w/c</b>	<b>Draft report issued w/c</b>	<b>Final report issued w/c</b>	<b>Audit Committee date</b>
HR/ Payroll	9	24/10/22	14/11/22	21/11/22	March 23
Pensions administration	1	N/A	N/A	N/A	July 23
Treasury management	4	24/10/22	21/11/22	28/11/22	March 23
Training, Learning and Development follow up	1	January 23			March 23
Management of on call provision follow up	1	October 22			November 22
Management activity	8	Progresses throughout the course of the year			All
National Fraud Initiative	1	Data specifications will be issued to participating bodies at the end of July; data is extracted and uploaded to the NFI web application during October and November; matches will be issued from the end of January 23.			March 23
	<b>70</b>				

## Audit assurance levels and residual risks

## Appendix 1

The assurance we can provide over any area of control falls 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.

We categorise the issues we raise in the context of the residual risk to which the service is exposed. The 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 services, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to 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 business or to service users, significant financial loss, inefficient use of resources, failure to comply with law or regulations, or damage to 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.*