

Public Document Pack

Lancashire Combined Fire Authority Audit Committee

**Tuesday, 25 July 2023 in Main Conference Room, Service Headquarters,
Fulwood commencing at 10.00 am.**

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

Agenda

Part 1 (open to press and public)

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

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

1. **Apologies for Absence**
2. **Disclosure of Pecuniary and Non-Pecuniary Interests**

Members are asked to consider any pecuniary and non-pecuniary interests they may have to disclose to the meeting in relation to matters under consideration on the agenda.
3. **Minutes of the Previous Meeting (Pages 1 - 6)**
4. **External Audit - Audit Plan 2022/23 (Pages 7 - 32)**
5. **Internal Audit Monitoring Report (Pages 33 - 38)**
6. **Internal Audit Annual Report 2022/23 (Pages 39 - 54)**
7. **Annual Governance Statement (Pages 55 - 78)**
8. **Accounting Estimates (Pages 79 - 86)**
9. **Financial Statements Update (Pages 87 - 92)**
10. **External Audit - Understanding How the Audit Committee Gains Assurance from Management (Pages 93 - 116)**
11. **Date of Next Meeting**

The next scheduled meeting of the Committee has been agreed for 10:00 hours on **26 September 2023** in the Main Conference Room, Service Headquarters, Fulwood.

Further meetings are: scheduled for 28 November 2023 and 28 March 2024
proposed for 25 July 2024

12. **Urgent Business**

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

13. **Exclusion of Press and Public**

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

PART 2

14. **Urgent Business (Part 2)**

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

Lancashire Combined Fire Authority Audit Committee

**Tuesday, 28 March 2023, at 10.00 am in the Main Conference Room,
Service Headquarters, Fulwood.**

Minutes

| | |
|-------------------------|--|
| Present: | |
| | |
| Councillors | |
| J Shedwick (Chair) | |
| N Hennessy (Vice-Chair) | |
| S Clarke | |
| 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 |
| |
| L Rix, Internal Audit, Lancashire County Council G Jones, External Audit, Grant Thornton K Wilkie, Fire Brigades Union |

| | |
|-------|--|
| 21/22 | Apologies for Absence |
| | Apologies for absence were received from County Councillor Munsif Dad BEM. |
| 22/22 | Disclosure of Pecuniary and Non-Pecuniary Interests |
| | None received. |
| 23/22 | Minutes of the Previous Meeting |
| | It was noted that the Minutes had been reformatted due to an error with the tables on pages 18-20. An attachment with the amendment had been provided to Members. Resolved: - That the Minutes of the last meeting held on 29 November 2022 be confirmed as a correct record and signed by the Chairman. |

| | |
|-------|--|
| 24/22 | <p>Internal Audit Monitoring Report</p> |
| | <p>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 5 March 2023 was presented by Laura Rix, Senior Auditor.</p> <p>To date, 50.5 days had been spent this financial year on completion of the 2022/23 plan, equating to 72% of the total planned audit activity of 70 days. The table in the report showed the current status of all audit work.</p> <p>No areas of concern had come to the attention of the auditors which needed to be brought to the attention of the Committee.</p> <p>In response to a question from County Councillor Singleton regarding the completion dates for those areas on the audit plan which were listed as 'progressing' on page 24 of the agenda, Laura Rix confirmed that work remained ongoing which would conclude in the annual report due for the next meeting. County Councillor Hennessy asked if side notes could be provided as to the reason for those areas of work listed as progressing and Laura Rix agreed this would be added to future reports.</p> <p>Resolved: - That the Committee noted and endorsed the report.</p> |
| 25/22 | <p>Internal Audit Plan 2023/24</p> |
| | <p>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 2023/24 which equated to an overall cost of £23,450 which was in line with budget provision.</p> <p>A proposed plan was presented by Laura Rix, Senior Auditor.</p> <p>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.</p> <p>Individual items were proposed for inclusion in the annual audit programme based on 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.</p> <p>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.</p> |

| | | | | | | | | | | | | | |
|---------------------------------------|---|---------------------------------------|--------|------------------------------|---------|--------------------|---------|--------------------------|--------|------------------------------------|---------|--------------|----------------|
| | <p>The deployment of audit resources was proposed as follows:-</p> <table border="0"> <tr> <td>Governance and business effectiveness</td> <td>3 days</td> </tr> <tr> <td>Service delivery and support</td> <td>20 days</td> </tr> <tr> <td>Business processes</td> <td>35 days</td> </tr> <tr> <td>Follow up audit activity</td> <td>2 days</td> </tr> <tr> <td>Other components of the audit plan</td> <td>10 days</td> </tr> <tr> <td>Total</td> <td>70 days</td> </tr> </table> <p>Laura Rix advised that extra time had been allocated to the financial managements systems audit due to the implementation of the Oracle Fusion system.</p> <p>In response to a question raised by CC Singleton, Laura Rix advised that once the plan had been agreed, dates for undertaking the work would be arranged with the Director of Corporate Services and these would be flexible to bear in mind the Service’s operational needs.</p> <p>Resolved:- That the Audit Committee agreed the internal Audit Plan for 2023/24.</p> | Governance and business effectiveness | 3 days | Service delivery and support | 20 days | Business processes | 35 days | Follow up audit activity | 2 days | Other components of the audit plan | 10 days | Total | 70 days |
| Governance and business effectiveness | 3 days | | | | | | | | | | | | |
| Service delivery and support | 20 days | | | | | | | | | | | | |
| Business processes | 35 days | | | | | | | | | | | | |
| Follow up audit activity | 2 days | | | | | | | | | | | | |
| Other components of the audit plan | 10 days | | | | | | | | | | | | |
| Total | 70 days | | | | | | | | | | | | |
| 26/22 | <p>External Audit - Auditors Annual Report 2021/22</p> | | | | | | | | | | | | |
| | <p>Georgia Jones, Audit Manager presented the report.</p> <p>The Auditor’s Annual Report confirmed the final opinion on the financial statements and the outcome of the review of the Authority’s value for money arrangements for securing economy, efficiency and effectiveness in its use of resources.</p> <p>The report re-affirmed the draft opinion on the accounts previously reported to the Committee that they had completed their audit of the Authority’s financial statements and issued an unqualified audit opinion on 30 November 2022.</p> <p>The review of value for money arrangement covered the 3 areas of: i) financial sustainability; ii) governance and iii) improving economy, efficiency and effectiveness. The auditor’s review did not identify any significant weaknesses in arrangements across any of these areas, but had made 2 improvement recommendations as set out pages 63 and 64 of the agenda pack as now considered by Members:</p> <ol style="list-style-type: none"> 1. Recommendation – That the Authority should continue to closely monitor the delivery of its savings and efficiency plans to minimise the reduction of reserves and achieve strategic objectives. Management Comment - Agreed, this was usual practice but had slipped due to staff vacancies; 2. Recommendation – That the Authority should closely track the delivery of its capital programme to ensure any ongoing slippage did not impact the | | | | | | | | | | | | |

| | |
|-------|---|
| | <p>delivery of its strategic objectives and longer-term plans. Management Comment – Agree, we already do this.</p> <p>The Director Corporate Services explained that the Service faced challenges with the deadline for the completion of the accounts for a number of reasons: i) the deadline had moved several times over previous years (including due to the Covid pandemic), ii) experienced officers had left the finance team; iii) and with the Service implementing the new Oracle Fusion financial system. It was noted that the government deadline for preparing the draft accounts was by the end of May (with the creation of the accounts by the end of July) however, there was a consultation taking place to extend this deadline.</p> <p>Georgia Jones advised that the external audit could not take place until the accounts were finalised and therefore the outcome of the consultation was awaited. Even if the deadline for audited local authority accounts to be published moved into September, it still may not be achieved given the challenges outlined. She provided reassurance however, that she would work closely with the newly appointed Director of Corporate Services. CC Singleton queried whether there were any implications if the deadline could not be met. In response, Georgina Jones explained that the government wanted to bring the deadline forward to enable it to generate its own accounts (which included public sector accounts such as from local authorities and other bodies). This was for efficiency purposes and to support decision-making. There was no real impact on the Authority if the deadline could not be met (ie: there were no punitive measures however, questions were sometimes asked at a Public Accounts Committee).</p> <p>In response to a question from County Councillor Hennessy regarding the improvement recommendation outlined on page 64 of the agenda pack, the Director of Corporate Services provided reassurance that the delivery of the capital programme was monitored by the Resources Committee.</p> <p>Resolved: - That the Committee noted and endorsed the report.</p> |
| 27/22 | <p>Risk Management</p> |
| | <p>The report highlighted actions taken in respect of corporate risk since the last Audit Committee meeting.</p> <p>The latest review of the corporate risk register had not identified any new risks which warranted consideration for inclusion on the corporate risk register.</p> <p>An updated corporate risk register was considered by Members with changes summarised in the report. The Director of Corporate Services highlighted the following key areas:-</p> <p>Risk no. 3 – Insufficient staffing resources Following the agreement of the grey book pay award for 22/23 and 23/24 the likelihood of industrial action had reduced.</p> |

| | |
|-------|---|
| | <p>Risk no. 9 – Retention and recruitment of RDS/on-call staff impacts on appliance availability</p> <p>The numbers of vacancies within the on-call system had increased in the current year, as recruitment had not matched leavers, which had led to a reduction in availability therefore the risk had been revised and increased to a high-risk. It was noted that various groups within the Service were looking at how availability could be improved.</p> <p>It was acknowledged that this was a national issue and the Deputy Chief Fire Officer was the National Fire Chief Council lead for this. It was noted that many Fire and Rescue Services struggled to achieve 50% availability whereas LFRS availability was currently circa 70% (although it had been over 90% in the past).</p> <p>Risk no. 29 – High levels of staff absence due to the pandemic</p> <p>Given the reductions in absence due to the pandemic, it was proposed to reduce the risk to low-risk.</p> <p>Risk no. 33 – Removal of DCP/Outcome of Emergency Cover Review (ECR)</p> <p>The Emergency Cover Review was approved by the CFA in December 2022, and was reflected in the Medium-Term Financial Strategy. The implementation of the recommendations would take place over the next 2 years starting with engagement sessions with affected station-based staff (these had already commenced).</p> <p>Risk no. 36 – Increase in pay costs</p> <p>The 23/24 budget allowed for pay awards of 5%. This was in line with the agreed pay award for grey book and exceeded the pay offer for green book. Hence, it was considered sufficient to meet future costs.</p> <p>Resolved: - That the Audit Committee noted the actions taken and endorsed the revised corporate risk register.</p> |
| 28/22 | Date of Next Meeting |
| | <p>The next meeting of the Committee would be held on Tuesday 25 July 2023 at 10:00 hours in the Main Conference Room at Lancashire Fire and Rescue Service Headquarters, Fulwood.</p> <p>Further meeting dates were noted for 26 September 2023 and 28 November 2023 and agreed for 28 March 2024.</p> |

**LFRS HQ
Fulwood**

**M Nolan
Clerk to CFA**

This page is intentionally left blank

Lancashire Combined Fire Authority Audit Committee

Meeting to be held on 25 July 2023

External Audit – Audit Plan 2022/23 (Appendix 1 refers)

Contact for further information:

Steven Brown - Director of Corporate Services – Telephone Number 01772 826804

Executive Summary

The attached report sets out the proposed external audit plan for 2022/23.

Decision Required

The Committee is asked to agree the external audit plan for 2022/23 and consider the increased fee proposal.

Information

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

Financial Implications

The proposed audit fee takes account of the agreed base fee of £29.3k (as set by PSAA) plus a further £14.5k to reflect the additional work required reflected in the audit plan as presented. This results in a total fee of £43.8k. (Last year's agreed fee was £40.8k.)

Business Risk Implications

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

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

Local Government (Access to Information) Act 1985

List of background papers

N/a



Lancashire Combined Fire Authority audit plan

Year ending 31 March 2023

June 2023
Page 9



Contents



Your key Grant Thornton team members are:

Georgia Jones

Key Audit Partner

T 0161 214 6383

E Georgia.S.Jones@uk.gt.com

Helen Stevenson

Audit Manager

T 0161 234 6354

E Helen.L.Stevenson@uk.gt.com

Muhammad Afzal

In-charge Auditor

T 0161 214 3690

E Muhammad.T.Afzal@uk.gt.com

| Section | Page |
|---|------|
| Key matters | 3 |
| Introduction and headlines | 5 |
| Significant risks identified | 7 |
| Other matters | 10 |
| Progress against prior year recommendations | 11 |
| Our approach to materiality | 12 |
| IT Audit Strategy | 15 |
| Value for Money Arrangements | 16 |
| Audit logistics and team | 17 |
| Audit fees | 18 |
| Independence and non-audit services | 21 |
| Communication of audit matters with those charged with governance | 22 |

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.

Key matters



National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands and increases in supplies and services. These are increased costs which all bodies are facing, including the fire authorities.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical to early sign off that draft local authority accounts are prepared to a high standard and supported by strong working papers.

Key matters



Our Responses

- 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 out 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 audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- 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 8.

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 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 for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order 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.



Introduction and headlines

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 (Journals)
- Valuation of Land and Buildings
- 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 £1,181.5k (2021/22 £1,245k) for the Authority, which equates to 2% of your prior-year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £59.1k (2021/22 £62.3k).

Value for Money arrangements

Our initial risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. We will continue to update our risk assessment until we issue our Auditor's Annual Report.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our interim visit took place in March 2023 and our final visit will take place in July - September. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £43,795 (2021/22 £43,884), subject to the Authority delivering a good set of financial statements and working papers.

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.

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 |
|---------------------------------|---|--|
| ISA240 revenue/expenditure risk | <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.</p> <p>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 Authority, we have determined that the risk of fraud arising from revenue recognition and expenditure manipulation can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition and expenditure are very limited • classes of expenditure that could be prone to manipulation, such as management expenses and payments to and on account of leavers are not material • the culture and ethical frameworks of local authorities, including Lancashire Combined Fire Authority, mean that all forms of fraud are seen as unacceptable <p>Therefore, we do not consider these to be significant risks for 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> |

Page 15

‘Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.’ (ISA (UK) 315)

Significant risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|----------------------------------|---|--|
| Management over-ride of controls | <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Authority, which is one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. |
| Valuation of land 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 (£100.3m in 2021/22) 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 is one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's valuation of land and buildings are not materially misstated and evaluate the design of the associated controls • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year including investment properties, to see if they had been input correctly into the Authority's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. |

Significant risks identified

| Risk | Reason for risk identification | Key aspects of our proposed response to the risk |
|---|---|--|
| Valuation of the Pension Fund net liability | <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability (£883.2m in 2021/22) is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of 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. |

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

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 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 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.

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the Authority's financial statements, which resulted in a recommendation being reported in our 2021/22 Audit Findings Report.

Page 19

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---------------|--|--|
| Medium | <p>Password Security</p> <p>We Identified a weakness in Oracle password configuration. The password length is set to 6 characters and does not include a minimum password length of 8 characters as per leading practices.</p> | <p>To be followed up during the 2022-23 audit</p> <p>Management Response</p> <p>This relates to the existing finance system which is currently being replaced in December 2022, as such we do not propose to amend this in the existing system.</p> |

Our approach to materiality

The concept of 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.

| Matter | Description | Planned audit procedures |
|--------|--|--|
| 1 | <p>Determination</p> <p>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 £1,181.5k (2021/22 £1,245k) for the Authority, which equates to 2% of your prior year gross expenditure for the year.</p> <p>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.</p> | <p>We determine planning materiality in order to:</p> <ul style="list-style-type: none">– establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements– assist in establishing the scope of our audit engagement and audit tests– determine sample sizes and– assist in evaluating the effect of known and likely misstatements in the financial statements |
| 2 | <p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p> | <p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <ul style="list-style-type: none">– Although the amount for senior officers remuneration is minimal, it can be a sensitive area because of public interest in senior officer remuneration disclosures. Therefore, we apply specific audit procedures and have not set a materiality level. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be applicable for senior officer remuneration disclosures. We will apply heightened auditor focus in the completeness and clarity of disclosures in this area and will request amendments to be made if any errors would alter the bandings reported for any individual. |

Our approach to materiality

The concept of 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.

| Matter | Description | Planned audit procedures |
|--------|--|--|
| 3 | Reassessment of materiality Our assessment of materiality is kept under review throughout the audit process. | 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. |
| 4 | Other communications relating to materiality 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. | We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £59.1k (2021/22 £62.3k). 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. |

Our approach to materiality

The concept of 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.

| | Amount (£) | Qualitative factors considered |
|--|------------|--|
| Materiality for the Authority's financial statements | 1,181,560 | This equates to 2% of your gross operating expenditure for the 2021/22 year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Authority has expended its revenue and other funding. |
| Performance materiality | 886,170 | The performance materiality has been set at 75% of financial statement materiality. This reflects a standard benchmark based on risk assessed knowledge of potential for errors arising. |
| Trivial matters | 59,100 | This is the threshold for matters that are clearly inconsequential, whether taken individually or in aggregate. It is a standard benchmark set at 5% of materiality. |

Page 22



IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. 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 and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 18.

The following IT systems have 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:

Page 23

| IT system | Audit area | Planned level IT audit assessment |
|---|---------------------|---|
| Oracle Fusion: E-Business Suite Finance and Payroll | Financial reporting | <ul style="list-style-type: none">Detailed ITGC assessment (design and operating effectiveness) |

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Page 24



Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



Governance

How the body ensures that it makes informed decisions and properly manages its risks.

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report. You should also delete the 'Potential types of recommendations' table

Audit logistics and team

Planning and risk assessment

Interim audit
March 2023

Audit committee
July 2023

Audit Plan

Year end audit
August 2023

Audit committee
TBC

Audit Findings Report/Audit Opinion

Audit committee
TBC

Auditor's Annual Report

Page 25

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.

Muhammad Afzal, Audit In charge

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

Audited Entity 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 audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity 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 an entity 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 deadline you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Lancashire Combined Fire Authority to begin with effect from 2018/19. The fee agreed in the contract was £23,669. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Authority's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Authority's business model, which may result in us needing to perform additional inquiries to understand the Authority's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £2,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with the Director of Corporate Services.

Audit fees

| | Actual Fee 2020/21 | Actual Fee 2021/22 | Proposed fee 2022/23 |
|--|--------------------|--------------------|----------------------|
| Lancashire Combined Fire Authority Audit | £38,919 | £43,844 | £43,795 |
| Total audit fees (excluding VAT) | £38,919 | £43,844 | £43,795 |

Page 27

Assumptions

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

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

Relevant professional standards

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

Audit fees – detailed analysis

| | | |
|---|--|----------------|
| Scale fee published by PSAA 2022/23 | | £29,295 |
| <i>Issues not included in the above</i> | | |
| Additional work on Value for Money (VfM) under new NAO Code | | £8,000 |
| Increased audit requirements of revised ISA 540 | | £1,800 |
| Enhanced audit procedures on journals testing (not included in the Scale Fee) | | £2,000 |
| Enhanced audit procedures for Payroll – Change of circumstances | | £500 |
| Local risk factors | | £200 |
| Increased audit requirements of revised ISA 315 | | £2,000 |
| Total audit fees 2022/23 (excluding VAT) | | £43,795 |

All variations to the scale fee will need to be approved by PSAA

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 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.

Communication of audit matters with those charged with governance

| Our communication plan | Audit Plan | Audit Findings | |
|--|------------|----------------|---|
| Respective responsibilities of auditor and management/those charged with governance | • | | <p>ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.</p> <p>This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.</p> <p>We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.</p> <p>Respective responsibilities</p> <p>As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.</p> <p>The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p> |
| Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters | • | | |
| Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons | • | • | |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. | • | • | |
| Details of safeguards applied to threats to independence | | • | |
| Significant matters in relation to going concern | • | • | |
| Significant findings from the audit | | • | |
| Significant matters and issue arising during the audit and written representations that have been sought | | • | |
| Significant difficulties encountered during the audit | | • | |
| Significant deficiencies in internal control identified during the audit | | • | |
| Significant matters arising in connection with related parties | | • | |
| Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud) | | • | |
| Non-compliance with laws and regulations | | • | |
| Unadjusted misstatements and material disclosure omissions | | • | |
| Expected modifications to the auditor's report, or emphasis of matter | | • | |

Page 30



© 2023 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their audited entities and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to . GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

This page is intentionally left blank

Lancashire Combined Fire Authority Audit Committee

Meeting to be held on 25 July 2023

Internal Audit Monitoring Report (Appendix 1 refers)

Contact for further information:

Steven Brown - Director of Corporate Services – Telephone Number 01772 826804

Executive Summary

The attached report sets out the current position in respect of the internal audit plan for 2023/24.

Decision Required

The Committee is asked to note/endorse the report.

Information

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

Financial Implications

None

Business Risk Implications

None

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

Local Government (Access to Information) Act 1985

List of background papers

N/a

Lancashire Combined Fire Authority

**Internal Audit Service monitoring report: period ended
12 June 2023**

1 Purpose of this report

1.1 The Internal Audit Plan for 2023/24 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, 1 day has been spent this financial year on completion of the 2023/24 plan. The table at section 3 below provides a summary of the assignments that comprise the 2022/23 audit plan.

2.2 Time spent between 1 April 2023 and 12 June 2023 in completing assignments from the 2022/23 audit programme, has been accounted for within the 2022/23 Annual Report of the Head of Internal Audit.

2.3 Since the 2022/23 audit plan was agreed, an additional Audit has been requested by the Director of Corporate Services on District Planning. The proposed additional resources that would be required for this is approximately 10 days and have been provisionally added to the Plan.

Use of this report

2.4 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 Progress

| Audit review | Audit days | | | Status | Assurance Opinion |
|--|------------|--------|-----------|-------------|-------------------|
| | Planned | Actual | Variation | | |
| <i>Governance and business effectiveness</i> | | | | | |
| Overall governance, risk management and control arrangements | 3 | 0 | 3 | Not started | |
| <i>Service delivery and support</i> | | | | | |

| | | | | | |
|--|-----------|----------|-----------|-----------------|-----|
| Equality Impact Assessments | 10 | 0 | 10 | Started scoping | N/A |
| Management of change within LFRS | 10 | 0 | 10 | Not started | N/A |
| District Planning Activity (provisional) | 10 | 0 | 10 | Not started | N/A |
| <i>Business processes</i> | | | | | |
| Accounts payable | 9 | 0 | 9 | Not started | N/A |
| Accounts receivable | 6 | 0 | 6 | Not started | N/A |
| General ledger | 6 | 0 | 6 | Not started | N/A |
| HR/ Payroll | 10 | 0 | 10 | Not started | N/A |
| Treasury management | 4 | 0 | 4 | Not started | N/A |
| <i>Follow up audit activity</i> | | | | | |
| Follow up activity | 2 | 0 | 2 | Not started | N/A |
| <i>Other components of the audit plan</i> | | | | | |
| Management activity | 9 | 1 | 8 | Ongoing | |
| National Fraud Initiative | 1 | 0 | 1 | | |
| Total | 80 | 1 | 79 | | |

Audit assurance levels and residual risks

Appendix 1

Note that our assurance may address the adequacy of the control framework's design, the effectiveness of the controls in operation, or both. The wording below addresses all of these options and we will refer in our reports to the assurance applicable to the scope of the work we have undertaken.

- **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.
- **Limited assurance:** there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of its 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 its objectives.

Classification of residual risks requiring management action

All actions agreed with management are stated in terms of the residual risk they are designed to mitigate.

- **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 LRFS services, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to the LRFS 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 LRFS 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 LRFS 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 when combined with others could give cause for concern. *Specific remedial action is desirable.*

Lancashire Combined Fire Authority Audit Committee

Meeting to be held on 25 July 2023

Internal Audit Annual Report 2022/23 (Appendix 1 refers)

Contact for further information:

Steven Brown - Director of Corporate Services – Telephone Number 01772 826804

Executive Summary

The Internal Audit Annual Report summarises the work that the Internal Audit Service undertook during 2022/23 and the key themes arising from it. It provides an opinion on the overall adequacy and effectiveness of the systems of governance, risk management and internal control.

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

Decision Required

The Committee is asked to note and endorse the report.

Information

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

Financial Implications

None

Business Risk Implications

None

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

Local Government (Access to Information) Act 1985

List of background papers

N/a

Lancashire Combined Fire Authority

Internal Audit Service

**Annual report of the Head of Internal Audit for the year
ended 31 March 2023**

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2022/23 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 2022/23 and 2023/24 in relation to the 2022/23 audit plan, approved by the Audit Committee in March 2022.
- 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
June 2023

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. No significant areas of weakness in overall governance, risk management or control have been identified from our audit work
- 2.2 Although we acknowledge that the introduction of Fusion has caused some practical issues within the Lancashire Fire and Rescue Service (LFRS), we are satisfied that additional controls have been introduced to mitigate any risks.
- 2.3 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.

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 2021/22 financial statements on 30 November 2022. They also 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.
- 2.5 His Majesty's Inspector of Fire and Rescue Services and Constabulary undertook their latest inspection in between November 2021 and January 2022. This assessment graded LFRS as 'Good' in the three principal areas assessed, these are: effectiveness, efficiency, and how well the Service looks after its people.
- 2.6 Assurance over the operation of the Pension Fund has been obtained from work conducted directly by Lancashire County Council's Internal Audit Service, work undertaken by the Local Pensions Partnership (Administration) Ltd, (LPPA) Internal Audit, and by KPMG for the Local Pension Partnership (Investments) Ltd (LPPi).

3 Internal audit work undertaken

- 3.1 The table below reports the status of each audit completed during the year and the assurance opinion. This shows that all the budgeted days (70) have been spent in delivering the audit plan. All 2022/23 work has been completed.

| Audit review | Audit days | | | Status | Assurance Opinion |
|--|------------|--------|-----------|----------------------------|-----------------------------------|
| | Planned | Actual | Variation | | |
| <i>Governance and business effectiveness</i> | | | | | |
| Overall governance, risk management and control arrangements | 3 | 3 | 0 | Completed | |
| <i>Service delivery and support</i> | | | | | |
| Recruitment-Positive Action | 12 | 11 | 1 | Completed January 2023 | ● Substantial |
| Carbon Management Arrangements | 12 | 12 | 0 | Completed April 2023 | ● Substantial |
| <i>Business processes</i> | | | | | |
| Accounts payable | 8 | 5 | 3 | Completed March 2023 | ● Substantial |
| Accounts receivable | 5 | 3 | 2 | Completed March 2023 | ● Substantial |
| General ledger | 5 | 3 | 2 | Completed March 2023 | ● Substantial |
| HR/ Payroll | 9 | 8 | 1 | Completed November 2022 | ● Substantial |
| Pensions administration | 1 | 1 | 0 | See 2.6 | |
| Treasury management | 4 | 5 | -1 | Completed October 2022 | ● Substantial |
| <i>Follow up audit activity</i> | | | | | |
| Training, Learning and Development | 1 | 5 | -4 | Completed February 2022 | Six actions have been implemented |

| | | | | | |
|---|-----------|-----------|----------|---------------------|---|
| | | | | | and one superseded. |
| Management of On Call provision | 1 | 4 | --3 | Completed June 2023 | Two actions have been implemented and two are progressing |
| Other components of the audit plan | | | | | |
| Management activity | 8 | 9 | -1 | N/A | |
| National Fraud Initiative | 1 | 1 | 0 | | |
| Total | 70 | 70 | 0 | | |

Follow up work

- 3.2 Under the Public Sector Internal Audit Standards, 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
- 3.3 Our follow up audit work has involved obtaining explanations and evidence where appropriate that actions have been implemented. We have not re-performed any testing on controls which were found to be adequately designed and operating effectively at the time of our original review, and neither have we re-assessed the overall control environment.
- 3.4 As detailed in the above table good progress has been made in the implementation of actions. Of the 11 agreed actions, 8 (72%) have been implemented, with 2 (18%) progressing and 1(10%) superseded.

4 Extracts from Audit Reports

- 4.1 Extracts of assurance summaries are shown in Appendix A for the audits finalised since the March 2023 Audit Committee.

5 Fraud/special investigations

- 5.1 In October 2022, a bank mandate fraud occurred with a value of £1,465.45. However, we are satisfied that additional controls have been put in place to mitigate the risk of this happening again. We verified that these were operating effectively as part of the 2022/23 Payroll Audit.

National Fraud Initiative (NFI)

- 5.2 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.
- 5.3 Following the submission of data in October and November 2022, the resulting matches were released by the Cabinet Office in January and February 2023. The table below details the total number of matches identified. Limited action has been taken on processing the matches due to the timing of the release and LFRS operational pressures such as Fusion. Action will progress later in the year.

| Category of data | Number of matches identified | |
|------------------|------------------------------|------------|
| | 2022/23 | 2021/22 |
| Pensions | 25 | 16 |
| Payroll | 24 | 15 |
| Creditors | 213 | 269 |
| Procurement | 0 | 0 |
| Total | 262 | 300 |

6 Implications for the Annual Governance Statement

- 6.1 In making its annual governance statement the Combined Fire Authority should consider this report in relation to internal control, risk management and corporate governance.
- 6.2 We do not consider there are any matters arising from the audit work conducted during 2022/23 that require specific identification in the annual governance statement.

7 Internal audit quality assurance and improvement

Client satisfaction

- 7.1 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.
- 7.2 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.

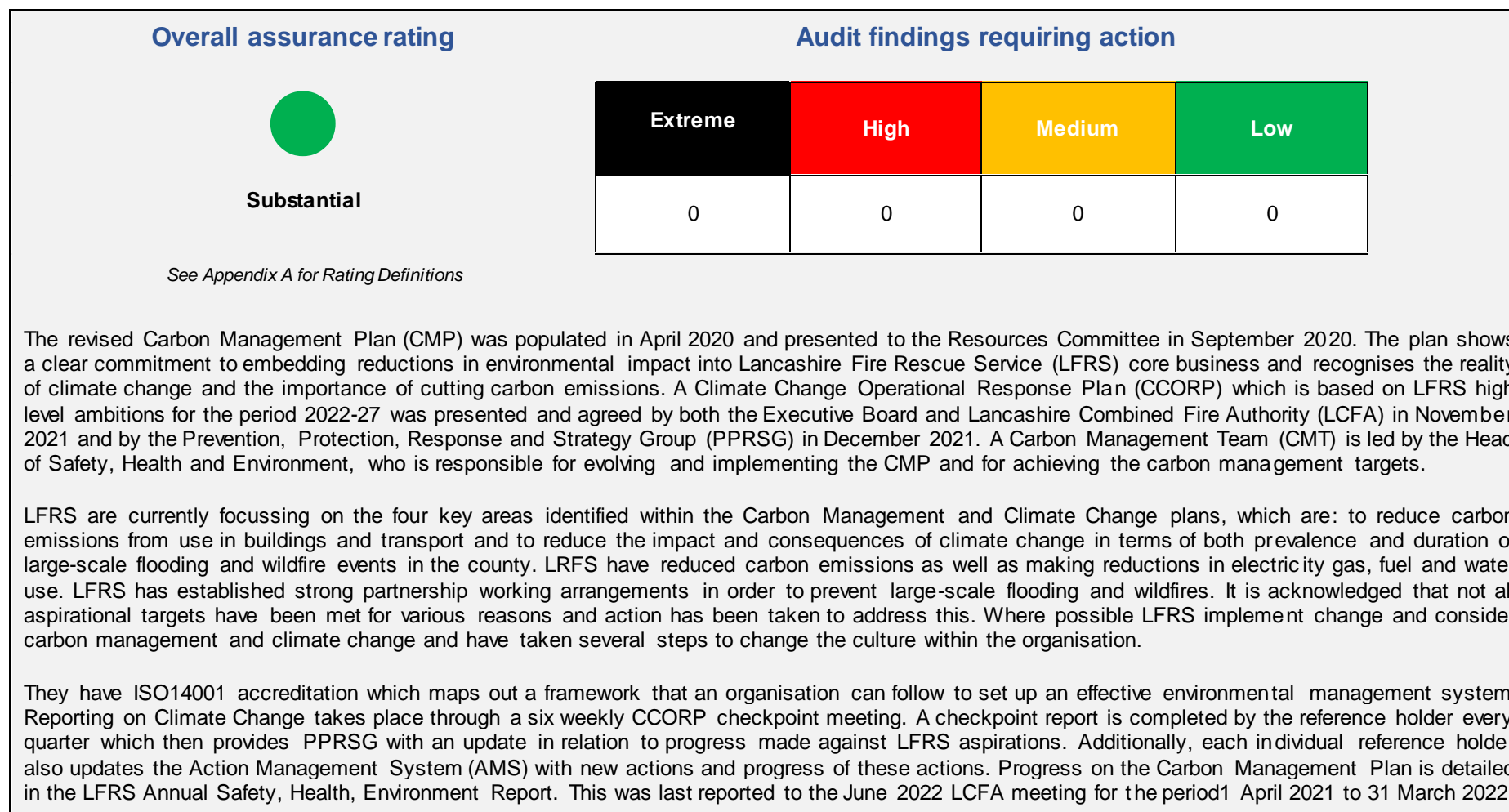
Ongoing and periodic assessments

- 7.3 In accordance with the Public Sector Internal Audit Standards (PSIAS) the Council's Internal Audit function is required to have an external quality assessment (EQA) undertaken at least once every 5 years as part of its Quality Assurance Framework.
- 7.4 To ensure compliance with this requirement the Chartered Institute of Internal Auditors (CIIA) completed an external quality assessment of Internal Audit in February 2023." The assessment included a full validation of the Internal Audit Service's own self-assessment against the PSIAS and the International Professional Practices Framework (IPPF). Interviews with key stakeholders across the Council were held along with discussions with Internal Audit Service team members and a stakeholder survey was issued to managers.
- 7.5 The Internal Audit Service conforms to 56 of the 64 relevant principles, with partial conformance on four principles. Four of the remaining principles were not relevant to Lancashire County Council's Internal Audit Service. This has resulted in an overall opinion that the Internal Audit team "generally conforms" to the IIA Standards. This is the same overall rating that the service achieved at the last assessment completed in November 2017 and is the highest of the three global grading definitions used in an EQA.
- 7.6 Our performance was measured in the below five key areas:
- IIA Standards
 - Focus on performance, risk and adding value
 - Coordination and maximising assurance
 - Operating with efficiency
 - Quality Assurance and Improvement Programme.
- Since our last assessment we have improved in one of these areas (operating with efficiency) moving from satisfactory to good. We have retained the same rating in the other four areas. The report has identified areas for improvement and the aim of the service is to achieve a good standard for all five areas.
- 7.7 The Chartered Institute of Internal Auditors (CIIA) have reported in their EQA annual performance report that on average the number of recommendations they make in an EQA to help improve an internal audit function is 14. Following our assessment, the CIIA have made five recommendations. The Internal Audit Service is working towards addressing these.
- 7.8 The Internal Audit Service has designed procedures and an audit methodology that conform to PSIAS and are regularly reviewed. Every auditor in the team is required to comply with these or document the reasons why not, and to demonstrate this compliance on every audit assignment. The audit managers assess the quality of each audit concurrently as it progresses, and 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.

- 7.9 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.
- 7.10 The Internal Audit Service has a hybrid approach to work, with staff predominantly being home-based but undertaking client site visits as the requirements of the audit has dictated. There are performance management and support arrangements in place to support this including the agreement of delivery timescales with clients and identifying the audits that will aim to be completed for each meeting of the Committee.

Carbon Management



On Call Provision- Follow up

Status of agreed actions

Original audit assurance rating



Moderate

See Appendix A for Rating Definitions

| | Extreme | High | Medium | Low |
|--------------------------|---------|------|--------|-----|
| Number of actions | | 1 | 3 | |
| Implemented | | | 2 | |
| Progressing | | 1 | 1 | |

A follow-up audit has been conducted to determine the progress made by Lancashire Fire and Rescue Service to implement the actions agreed in the Internal Audit report; Management of On-Call Provision, issued in April 2022. Our original review provided moderate assurance over the adequacy and effectiveness of the Management of On-Call Provision arrangements that are in place in ensuring that stations have sufficient or inappropriate On Call cover to provide the required operational response to any incident.

Three medium and one low risk actions were agreed to be implemented by July to September 2022, although this was later extended to March 2023. Based on the information and evidence provided to us, we are satisfied that adequate progress has been made in implementing the agreed actions.

A new Service Policy 'Management of Working Hours' has been drafted and a monitoring report has been developed to monitor the monthly average working hours of staff. The Policy and monitoring report are programmed to go live 01 July 23. Additionally, a new voluntary opt out form has been developed to ensure all staff that work over an average of 48 hours per week have signed an opt out form by 31 August 23. LFRS includes the On-Call management update and performance figures within the monthly area management meetings, from which any actions are followed up regularly. Additionally, LFRS has introduced a contractual performance report for each station which shows the total of hours over a period of time and what their weekly hours are and an area report which provides an on-call overview including contributing factors of low availability, unit positives and actions proposed. A new exit interview form has been devised, however the implementation of this is still being developed.

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 2022/23.
- 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

Note that our assurance may address the adequacy of the control framework's design, the effectiveness of the controls in operation, or both. The wording below addresses all of these options and we will refer in our reports to the assurance applicable to the scope of the work we have undertaken.

- **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.
- **Limited assurance:** there are some significant weaknesses in the design and/ or operation of the framework of control that put the achievement of its 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 its objectives.

Classification of residual risks requiring management action

All actions agreed with management are stated in terms of the residual risk they are designed to mitigate.

- **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 LRFS services, loss of life, significant environmental damage or significant financial loss, with related national press coverage and substantial damage to the LRFS 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 LRFS 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 LRFS 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 when combined with others could give cause for concern. *Specific remedial action is desirable.*

This page is intentionally left blank

Lancashire Combined Fire Authority Audit Committee

Meeting to be held on 25 July 2023

Annual Governance Statement 2022/23 (Appendix 1 & 2 refers)

Contact for further information:

Steven Brown - Director of Corporate Services – Telephone Number 01772 826804

Executive Summary

The Authority were 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 was that the system of internal controls was adequate, and that no significant governance issues had been identified.

Recommendation

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

Background

The Authority was required to produce an Annual Governance Statement as part of the year end process for 2022/23.

The Audit Committee had 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 were 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 had been undertaken by the Executive Board, which considered the various sources of assurance which supported the core principles outlined above, and the outcome of this was attached as appendix 1. One of the key elements of this was external assurance on our systems, and this was provided by our auditors, both of whom provided positive reports, and by the HMICFRS (His Majesty's Inspectorate of Constabulary and Fire and Rescue Services) Inspection which rated the Service as Good.

The Annual Governance Statement was attached as appendix 2 for the Committee to consider and endorse.

Financial Implications

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.

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

Local Government (Access to Information) Act 1985

List of background papers

N/a

**Sources Of Assurance:
Lancashire Fire and Rescue Service/Lancashire Combined Fire Authority 2022/23**

| Key Elements of Governance | Assessment | 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 were 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 2022/23**

| Key Elements of Governance | Assessment | Comments |
|---|-------------|---|
| <p>Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure was lawful.</p> | <p>Good</p> | <p>All Committee and Authority reports contain section on financial implications. Legal implications were 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> |
| <p>Documenting a commitment to openness and acting in the public interest, and compliance with the principles of Data Transparency.</p> | <p>Good</p> | <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 2022/23**

| Key Elements of Governance | Assessment | 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 Covid-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 2022/23**

| Key Elements of Governance | Assessment | Comments |
|--|-------------|---|
| <p>Developing and communicating a vision which specified intended outcomes for citizens and service users and was 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 would consult with public and service users</p> <p>Assessment of compliance with National Framework</p> <p>Effective Corporate Programme Board arrangements, split into 5 areas:-</p> <ul style="list-style-type: none"> - Business Process Improvement Programme - Service Delivery Change Programme - Capital Projects Programme. - People Strategy - Risk Management <p>All major projects and reviews follow similar format and report to the Corporate Programme Board</p> |

**Sources Of Assurance:
Lancashire Fire and Rescue Service/Lancashire Combined Fire Authority 2022/23**

| Key Elements of Governance | Assessment | Comments |
|---|------------|---|
| | | Terms of reference for all Programme Board items agreed at outset and delivery against these monitored on a quarterly basis |
| 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. | Good | <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>Business Continuity Plan 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 2022/23**

| Key Elements of Governance | Assess- ment | Comments |
|--|-----------------|---|
| <p>Measuring the performance of services and related projects and ensuring that they were delivered in accordance with defined outcomes and that they represented 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 was required</p> <p>KPIs agreed with monitoring arrangements in place</p> <p>Annual Report</p> <p>HMICFRS Inspection regime</p> <p>Operational Assurance Audit Team to review:-</p> <ul style="list-style-type: none"> • operational preparedness • operational response • operational learning <p>The quarterly publication - Safety Health and Environment and Operational Assurance Performance Summary identifies learning from incidents etc.</p> <p>External Audit review</p> <p>Comprehensive financial information reporting framework. An upgraded Finance System was implemented, this would further improve governance arrangements.</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 2022/23**

| Key Elements of Governance | Assessment | Comments |
|--|------------|---|
| | | Consistently exceeded efficiency targets |
| <p>Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements.</p> | 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"> • Equality, Diversity and Inclusion • Community Safety • Road Safety • Health and Wellbeing <p>Job descriptions for all staff</p> <p>Regular briefing sessions before Committees and as and when required</p> <p>Induction/training provided to all members</p> |

**Sources Of Assurance:
Lancashire Fire and Rescue Service/Lancashire Combined Fire Authority 2022/23**

| 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 were 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 2022/23**

| Key Elements of Governance | Assess- ment | Comments |
|---|-----------------|--|
| Ensuring effective arrangements were in place for the discharge of the head of paid service function. | Good | CFO was 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 Management Strategy Corporate Risk Register Corporate Programme Board items include an assessment of risk Strategic BCP (Business Continuity Plan) in place and tested on a regular basis. Departmental Business Impact Assessments and Recovery Plans in place. Specific BCP training provided to Heads of Department. HMICFRS undertook a Covid-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 2022/23**

| Key Elements of Governance | Assessment | Comments |
|---|------------|--|
| Ensuring effective counter-fraud and anti-corruption arrangements were developed and maintained. | Good | <p>Anti-fraud policy</p> <p>Up to date Fraud risk assessment in place</p> <p>Full compliance with National Fraud Initiative</p> |
| Ensuring the assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit and, where they do not, explain why and how they deliver the same impact. | Good | <p>Internal Audit is outsourced to Lancashire County Council</p> <p>Internal Audit Charter in place</p> <p>Internal Audit Service Quality Assurance and Improvement Programme process agreed</p> <p>Lancashire County Council Internal Audit comply with CIPFA statement</p> <p>Head of Internal Audit has direct access to Audit Committee, Treasurer, Clerk and Chief Fire Officer as well as Members of the Authority</p> |
| Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities. | Good | <p>Audit Committee established and terms of reference agreed, covering core functions of an Audit Committee</p> <p>Audit Committee had access to both Internal and external auditors, and were provided with an opportunity to discuss issues without Officers being present</p> |

**Sources Of Assurance:
Lancashire Fire and Rescue Service/Lancashire Combined Fire Authority 2022/23**

| Key Elements of Governance | Assessment | Comments |
|--|-------------|--|
| <p>Ensuring that the authority provided timely support, information and responses to external auditors and properly considered audit findings and recommendations</p> | <p>Good</p> | <p>Audit Committee established</p> <p>All core functions of an Audit Committee were covered by the existing terms of reference</p> <p>Head of Internal Audit had direct access to Audit Committee, Treasurer, Clerk and Chief Fire Officer as well as Members of the Authority</p> <p>Audit Committee had access to both Internal and external auditors, and were provided with an opportunity to discuss issues without Officers being present</p> <p>No significant 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 were 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 2022/23**

| Key Elements of Governance | Assessment | Comments |
|---|-------------|--|
| <p>Staff resources were adequate in numbers and skills to deliver the service objectives. The roles and responsibilities of staff and members had been clearly defined and were understood, and appropriate guidance and training was 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"> • Coaching and Mentoring • Leadership Conferences <p>Operational Assurance Audit Team to review:-</p> <ul style="list-style-type: none"> • operational preparedness • operational response • operational learning <p>Regular staff surveys undertaken, the outcome of this was published and, where relevant, acted upon</p> |

**Sources Of Assurance:
Lancashire Fire and Rescue Service/Lancashire Combined Fire Authority 2022/23**

| Key Elements of Governance | Assessment | Comments |
|----------------------------|------------|--|
| | | <p>Regular and programmed station staff visits by the Executive Team to meet and receive feedback from all staff</p> <p>‘Star’ awards in place where staff nominate ‘star’ colleagues who live our values, and based on a judging panel awards are given to staff (and publicised throughout the organisation).</p> <p>Updated Intranet incorporates social networking to connect staff across the service</p> |

**Sources Of Assurance:
Lancashire Fire and Rescue Service/Lancashire Combined Fire Authority 2022/23**

| Key Elements of Governance | Assessment | Comments |
|---|-------------|--|
| <p>There were adequate contingency procedures to ensure that services could be resumed in case of emergency.</p> <p>Contingency procedures were 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 was 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, HMICFRS undertook a Covid-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> |
| <p>Processes had been established to ensure that corporate and local service policies and procedures were implemented effectively and were periodically reviewed</p> | <p>Good</p> | <p>System of internal control established</p> <p>Policies and service orders were regularly reviewed, in line with an agreed timetable</p> <p>Internal audit reviews had not identified any significant weaknesses</p> <p>External audit reviews had 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 was conducted in accordance with the law and proper standards, and that public money was safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also had a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions were exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The Authority approved and adopted an updated Local Code of Corporate Governance in 2018 and this was reviewed by the Audit Committee in July 2023. It aligned with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government Framework 2016*. Included within the Code were 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 would 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 explained how the Authority had 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 was directed and controlled and its activities through which it accounts to, engages with and leads the community. It enabled the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives had 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 could therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control was 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 had been in place at the Authority for the year ended 31 March 2023 and up to the date of approval of the 2022/23 Statement of Accounts.

The Governance Framework

The Authority's Local Code of Corporate Governance set out its framework for corporate governance. The key elements of the systems and processes that comprise the Authority's governance arrangements in accordance with the seven principles of the Local Code of Corporate Governance include: -

- The Community Risk Management Plan (CRMP) sets out the direction of the Service and how we will make Lancashire safer. It was informed by the greatest risks to the people and communities of Lancashire which are identified in our strategic assessment of risk (opens in a new tab). The plan describes our aim, priorities, equality objectives and values, alongside how we will prevent, protect and respond to the risks in Lancashire. The current plan covering 2022-2027 can be found on our website at [Community Risk Management Plan 2022-2027 - Lancashire Fire and Rescue Service \(lancsfireandrescue.org.uk\)](https://www.lancsfireandrescue.org.uk/Community-Risk-Management-Plan-2022-2027);
- The Strategic Assessment of Risk' (SAoR) seeks to underpin our Community Risk Management Plan (CRMP) by ensuring that risk management drives decision-making within Lancashire. This document can be found on our website at [Strategic Assessment of Risk 2022-2023 - Lancashire Fire and Rescue Service \(lancsfireandrescue.org.uk\)](https://www.lancsfireandrescue.org.uk/Strategic-Assessment-of-Risk-2022-2023);
- The Annual Service Plan details the activities we will undertake to deliver the strategy set out in our CRMP. The current plan was approved this year and can be found on our website at [Annual Service Plan 2023-24 - Lancashire Fire and Rescue Service \(lancsfireandrescue.org.uk\)](https://www.lancsfireandrescue.org.uk/Annual-Service-Plan-2023-24);
- 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 5 areas: -
 - Business Process Improvement Programme
 - Service Delivery Change Programme
 - Capital Projects Programme
 - People Strategy
 - Risk Management

All major projects and reviews followed similar format and report to the Corporate Programme Board;

- The Authority operated 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 operated 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, was responsible for determining policy, monitoring performance and developing service plans in line with the Authority's overall strategic objectives and was 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 were involved in the Authority's decision-making process, and ensure compliance with established policies, procedures, laws and regulations; All Authority reports were 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 aligned 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 ensured 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; and
- 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 was approved by the Authority in December 2022, it sets out the effectiveness of the governance arrangements for which it is responsible,

including the system of internal control. The statement of assurance covered 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 were 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 had been considered: -

- A review of minutes of the Executive Board, Audit Committee and Authority to ensure that periodic monitoring and reviews were being reported appropriately and governance issues were addressed.
- We updated our Strategic Assessment of Risk that underpins our Community Risk Management Plan (CRMP) by ensuring that risk management drives decision-making within Lancashire. We undertook an emergency cover review (ECR) to ensure that its emergency response remains effective and efficient, and that the Service is well equipped to respond to future challenges.
- Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) reported the outcome of their second full inspection in July 2022; the focus was on the service they provide to the public, and the way they use the resources available. The HMICFRS reported that the Service was performing exceptionally well and had been recognised as 'outstanding' for promoting values and culture. As well as being rated 'outstanding' for culture and values, the service was rated as 'good' in the other 10 categories and there were no areas that 'require improvement.' The results mirror those of the service's first full inspection in 2018, with the new report highlighting that the service had improved in almost all areas since then.
- A new Annual Service Plan had been published, providing clarity, both internally and externally, on our priorities set out in the CRMP and described what our ambitions were for each priority, as well as setting out the projects and actions that would be delivered, developed or reviewed during the coming year against each of our priorities. This was 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. The newly formed Organisational Assurance team under Planning, Performance and Assurance, would now have a broader reference than just a focus on operational assurance. The team had the responsibility for HMICFRS liaison, operational preparedness and would undertake internal audits/ assurance across the whole organisation based on trends, themes and emerging needs. The team would identify and share good practice as well as areas for improvement, items would be tracked through to completion. The Organisational Assurance team would work closely with the Operational Assurance team (under Training and Operational Review) who had the responsibility for operational learning and response. The Operational

Assurance team would continue to create the operational assurance performance summary which was published quarterly. A programme of preparedness visits would be managed by the Organisational Assurance team which had expanded on the operational audits undertaken previously.

- Performance appraisal incorporating values was undertaken throughout the Service.
- Internal Audit services were provided by Lancashire County Council, who complied with CIPFA’s Code of Internal Audit Practice. The Service was designed to give assurance that the Authority maintained adequate systems of internal control and to make recommendations on ways to enhance these, where felt necessary. The Assurance mapping exercise, with our Internal Auditors, had confirmed that a strong assurance framework was in place. As part of the 2022/23 internal audit plan the auditors undertook various reviews and gave the overall opinion that they could *“provide substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.”*
- The Authority’s external auditors were Grant Thornton, they were required to consider whether the service had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Their conclusions are set out below:
 - Financial Sustainability – “No significant weaknesses in arrangements identified but two improvement recommendations made”
 - Governance – “No significant weaknesses in arrangements identified”
 - Improving economy, efficiency and effectiveness - “No significant weaknesses in arrangements identified”
- On 30 November 2022 Grant Thornton gave an unqualified opinion on the Authority’s finance statements ended 31 March 2022.

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

| Area for Improvement | Action to date | Complete/ On-going | Owner |
|--|---|--------------------|-----------------------------|
| A project to replace the existing Performance Management System would commence | Two projects had been initiated which would replace our data warehouse and performance reporting dashboards. A new data warehouse had been built and the first three service level KPI’s had been delivered including a front end PowerBi | On-going | Head of Service Improvement |

| | | | |
|--|--|----------|-----------------|
| | reporting dashboard. A scoping exercise was underway to determine the requirements for the wider performance management dashboards with a focus on service delivery performance reporting initially. | | |
| An upgraded Finance system would be implemented in April 2022, as part of that we would review and implement improvements to the monthly budget monitoring process, making greater use of additional functionality provided. | The upgraded Finance System was implemented in 2022/23. Improvements to the monthly budget monitoring processes was taking place in 2023 and further development work to improve functionality was also taking place in 2023. | On-Going | Head of Finance |
| Embed the Core Code of Ethics into our corporate policy, and recruitment and promotion process | The ethical principles in the national Code of Ethics had been built into the Services corporate policies, human resources policies and job descriptions. Recruitment and promotion assessment of candidates incorporated the Services values and the Code of Ethics. | Complete | |

Significant governance issues

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

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

- Identify a mechanism to report to Members of the CFA our response to national recommendations made by the HMICFRS during the year.

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.

Approved:

| | | |
|--|---|---|
| <i>David O'Toole</i> | <i>Justin Johnston</i> | <i>Steven Brown</i> |
| County Councillor D O'Toole, Chairman, Lancashire Combined Fire Authority [DATE] | J Johnston, Chief Fire Officer, Lancashire Fire and Rescue Service [DATE] | S Brown, Treasurer, Lancashire Combined Fire Authority [DATE] |

Lancashire Combined Fire Authority Audit Committee

Meeting to be held on 25 July 2023

Accounting Estimates 2022/23

Contact for further information:

Steven Brown - Director of Corporate Services – Telephone Number 01772 826804

Executive Summary

The introduction of International Standard on Auditing (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 were 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 required 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, i.e., Audit Committee need to understand what significant estimates would be included within the Statement of Accounts. Significant estimates were 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 contained estimated figures that were based on assumptions about the future or that are otherwise uncertain. Estimates were made considering past and current trends and/or other relevant factors. However, because balances could not be determined with certainty, actual results could be materially different from the assumptions and estimates.

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

Significant underlying Assumption for 2022/23

The Statement of Accounts were prepared with the underlying significant assumption of Going Concern, which meant that the Authority considered its' financial position to be stable for the foreseeable future, as assessed at the most recent budget setting exercise finalised in February 2023.

Accounting standards required that management made an annual assessment of going concern, although the Code recognised that Local Authorities could not be created or dissolved without statutory prescription, the accounts must therefore be prepared on a Going Concern basis. Management had prepared the assessment in line with requirements.

Significant Accounting Estimates for 2022/23

| Nature of the estimate | Estimate value; degree of uncertainty; methodology |
|-------------------------------|--|
| Valuation of land & buildings | <p>2022/23 carrying value £126m (2021/22: £108.9m)</p> <p>The valuation method applied to LFRS assets is prescribed by the Code, these had not changed since the last financial year. Most of the Property assets were valued under Depreciated Replacement Cost (DRC) as specialised assets. DRC was used as a valuation method when there were no recent market transactions due to the specialised nature of the asset (i.e., a Fire Station) to base a valuation on. DRC calculated the cost (at today's prices) of building the asset as it was currently used, then reduced it by the valuer's assessment of the accumulated depreciation.</p> <p>Land and buildings were valued by a Royal Institute of Chartered Surveyors (RICS) qualified valuer (employed by Amcat Ltd) on a rolling 5-</p> |

| | |
|---|---|
| | <p>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, continued. Shortly after the global pandemic, the war in Ukraine and resultant energy crisis had impacted on materials cost coupled with the void in the market for tradesmen because of Brexit, which had led to slippages in most construction targets.</p> <p>Management reviewed the underlying assumptions prior to valuation, and reviewed 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 £22.3m (2021/22: £12.2m).</p> <p>It is estimated that a 1% increase in DRC values will increase asset values by £1.3m (2021/22: £0.9m).</p> <p>Property assets were 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 2022/23.</p> |
| <p>Depreciation of Property & Equipment</p> | <p>2022/23 carrying value £126m (2021/22: £108.9m)</p> <p>Assets were depreciated over the useful lives, dependent on assumptions about the level of repairs and maintenance that would be incurred in relation to individual assets.</p> <p>Useful lives were determined by the RICS valuer for Property assets, and by Fleet Services department for vehicles and equipment. Asset life changes were compared to the previous year by management to check for reasonableness. There had not been any significant changes in asset lives since last year. Property asset lives were assessed on physical inspection in 10-year bands up to a maximum of 50 years. Vehicle asset lives</p> |

| | |
|--|--|
| | <p>depended upon the vehicle type, usually between 4 and 15 years.</p> <p>Note - the useful life was used to account for the 'using up' of the asset, at point of asset disposal all our assets were still in saleable working order, for example a 12-year-old pumping appliance would reach £3k sale proceeds.</p> <p>If the useful life of assets was reduced, depreciation increased and the carrying value of the asset fell.</p> <p>The depreciation charge for 2022/23 was £5.6m (2021/22: £4.8m). The estimated annual depreciation charge for property would increase by £0.1m for every year that asset lives were reduced.</p> |
| <p>Valuation of both FF and LGPS pension liability</p> | <p>2022/23 net liability carrying value £619.6m (2021/22: £883.4m)</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 were 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 was estimated that, for both pension schemes combined, a 0.5% increase in the discount rate would decrease the liability by £47m (2021/22: £8m), a 1% increase in pay growth would increase the liability by £13m (2021/22: £34m). In addition, a 1-year increase in the assumed life</p> |

| | |
|--|--|
| | <p>expectancy would increase the liability by £17m (2021/22: £8.5m).</p> <p>The above rates were updated by the actuaries each year, which in turn affected the overall liability calculated.</p> |
| <p>Valuation of LGPS pension asset</p> | <p>2022/23 LGPS asset carrying value £75.1m (2021/22: £76.7m)</p> <p>The LGPS scheme assets attributable to the Authority were calculated by Mercers (with the Authority's 25% share in North West Fire Control calculated by Hymans Robertson LLP). The assets were valued using the value of assets as assessed at the last full valuation, taking account of any changes since then. The asset value was re-based at each full valuation.</p> <p>The Authority was 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 carried 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 considered this to have reduced since the last year end.</p> <p>The assumptions made, and the subsequent movement in the assets were reviewed by management to check for reasonableness, with any queries referred to the actuaries for resolution.</p> |
| <p>Fair value measurements – PFI schemes</p> | <p>2022/23 PFI liability carrying value £12.3m (2021/22: £12.8m); 2022/23 PFI liability fair value £13.5m (2021/22: £15.9m)</p> <p>The liability initial carrying value was calculated from the present value of the future payments due and grant received for the life of the PFI scheme. This carrying value was then updated each year to reflect any inflationary increases and any repayments made. The fair value was calculated using the forecast payments and grant income for</p> |

| | |
|--|---|
| | <p>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 was 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 could not be measured based on quoted prices in active markets, their fair value was calculated using the Discounted Cash Flow method, which used forecast future annual net cash flows to estimate the current value.</p> <p>In order to calculate the fair value, forecast bond yield rates were provided to us by LCC Treasury management section, who received them from their Treasury Management advisors, Arlingclose.</p> <p>The bond yield rate forecasts had increased since last year end, reflecting the increase in expected future Bank of England base rate forecasts. The reduction in the fair value of the liability, was a product of both the underlying reduction in the liability as a result of repayments made during the year, and the increase in the future interest rates.</p> |
| <p>Holiday pay expenditure accrual</p> | <p>2022/23 expenditure accrual £1m (2021/22: £0.8m)</p> <p>Each year end, the Authority was required to calculate the balance owed to employees in relation to untaken annual leave, time owing and flexitime.</p> <p>Various systems and records were 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 had the relevant payment rate applied to arrive at the accrual for the whole organisation.</p> <p>Note this balance was not expected to result in any cash payments to employees – it was 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 were asked to consider whether there were 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 had 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

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.

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

Local Government (Access to Information) Act 1985

List of background papers

N/a

This page is intentionally left blank

Lancashire Combined Fire Authority Audit Committee

Meeting to be held on 25 July 2023

Financial Statements Update (Appendix 1 refers)

Contact for further information:

Steven Brown - Director of Corporate Services – Telephone Number 01772 866804

Executive Summary

This report provides the Audit Committee with an update on preparation of the Authority's 2022/23 unaudited Financial Statements and includes the draft core financial statements for information; the Comprehensive Income and Expenditure Account, Movement in Reserves Statement and Balance Sheet.

Decision Required

The Audit Committee is asked to:-

- note the update with progress in preparing the unaudited Financial Statements; and
- note the Authority's draft core financial statements that will form part of the 2022/23 unaudited Financial Statements.

Information

The Accounts and Audit (amendment) Regulations 2022 came into force on 22nd July 2022 and revised the statutory deadline for publishing the audited financial statements to 30 September for 2022/23 accounts and the subsequent 5 years. The deadline for the Authority to produce and publish draft accounts has reverted back to the 31st May for the 2022/23 accounts as per the Accounts and Audit Regulations 2015.

At the previous meeting the Committee was advised that due to changes in the finance team and delays implementing the new financial system the Authority was seeking to produce their draft set of financial statements for 2022/23 by the 31st July 2023. At the time of writing the Authority has produced a first draft of the financial statements and its quality assurance processes have now commenced.

There is no requirement to present the unaudited accounts to the Committee before the external audit process commences however, to ensure the Committee is kept up-to-date with the process towards completion of the audited accounts the draft core financial statements are included in Appendix 1. There is a requirement to obtain certification of the accounts by the Responsible Financial Officer (RFO); for the Authority this is the Director of Corporate Services – this will be completed by the end of July and the draft statements published on the Authority's website.

The Accounts and Audit (England) Regulations 2015 apply to the preparation, approval and audit of the Statements of Accounts and other financial statements. These regulations are based on International Financial Reporting Standards (IFRS) which attempt to standardise accounts in a consistent format across both the public and private sectors with the aim of achieving greater transparency. The table below summarises the adjustments required to the revenue outturn to reach the Total Comprehensive Income and Expenditure reported in the financial statements.

| | £'000 |
|---|------------------|
| Revenue Outturn Overspend | 1,633 |
| Remove Capital Contributions and transfers to / from reserves | (3,825) |
| Adjustments for Capital Purposes | 4,214 |
| Net change for Pensions Adjustments | 12,868 |
| Other Differences | 416 |
| Deficit on provision of services | 15,307 |
| (Surplus)/Deficit on revaluation of fixed assets | (21,735) |
| Actuarial (gains)/losses on pension fund assets | (276,694) |
| Total Comprehensive Income and Expenditure (Surplus) | (283,121) |

The draft Comprehensive Income and Expenditure Account, Movement in Reserves Statement and Balance Sheet are set out in Appendix 1. Subject to changes as part of the Quality Assurance Processes these will form part of the accounts for audit.

Financial Implications

As set out in the report.

Business Risk Implications

None

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

Local Government (Access to Information) Act 1985

List of background papers

N/a

Comprehensive Income & Expenditure Account

| | 2022/23 | | | 2021/22 | | |
|---|---------------------------|----------------------|-------------------------|---------------------------|----------------------|-------------------------|
| | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 |
| Continuing operations: | | | | | | |
| Service Delivery | 33,911 | (2,110) | 31,801 | 32,756 | (2,364) | 30,391 |
| Strategy and Planning | 12,389 | (847) | 11,542 | 11,912 | (984) | 10,928 |
| People and Development | 2,334 | 0 | 2,334 | 1,921 | (1) | 1,920 |
| Corporate Services | 6,285 | (65) | 6,220 | 4,802 | (149) | 4,653 |
| Fire-fighters Pensions | 1,140 | 0 | 1,140 | 1,259 | (19) | 1,240 |
| Overheads | 6,717 | (4,863) | 1,854 | 6,429 | (5,211) | 1,217 |
| Net Cost of Services | 62,777 | (7,885) | 54,892 | 59,078 | (8,729) | 50,349 |
| Gain on disposal of <u>non current</u> assets | | | (9) | | | (3) |
| Financing & investment income & expenditure | | | | | | |
| Interest payable and similar charges | | | 1,388 | | | 1,408 |
| Pensions interest cost and expected return on pensions assets | | | 23,246 | | | 17,648 |
| Interest receivable and similar Income | | | (837) | | | (206) |
| Taxation and non-specific grant income | | | | | | |
| Council tax | | | (34,968) | | | (33,160) |
| Revenue Support Grant | | | (9,642) | | | (8,570) |
| Non-domestic rates redistribution | | | (15,559) | | | (14,786) |
| Business rates S31 grant | | | (2,951) | | | (1,360) |
| Business rates S31 grant – additional reliefs | | | 0 | | | (1,101) |
| Local taxation Income Guarantees | | | 0 | | | (4) |
| Capital grant income | | | (253) | | | (253) |
| Deficit on the provision of services | | | <u>15,307</u> | | | <u>9,962</u> |
| Surplus on revaluation of non-current assets | | | (21,735) | | | (10,610) |
| Actuarial (gains)/losses on pensions assets and liabilities | | | (276,694) | | | (13,400) |
| Other comprehensive income & expenditure | | | <u>(298,429)</u> | | | <u>(24,009)</u> |
| Total Comprehensive Income and Expenditure | | | <u><u>(283,122)</u></u> | | | <u><u>(14,047)</u></u> |

Movement in Reserves Statement

| £'000 | General fund | Earmarked reserves | Total General Fund Balance | Capital funding reserve | Capital grant unapplied reserve | Capital receipts reserve | Total usable reserves | Unusable reserves | Total Authority reserves |
|--|-----------------|--------------------|----------------------------|-------------------------|---------------------------------|--------------------------|-----------------------|-------------------|--------------------------|
| Balance at 31 March 2023 carried forwards | 6,537 | 9,742 | 16,278 | 17,672 | 40 | 1,683 | 35,673 | (789,359) | (753,686) |
| Movement in reserves during 2022/23 | | | | | | | | | |
| Surplus/(Deficit) on provision of services | (15,307) | | (15,307) | | | | (15,307) | - | (15,307) |
| Other comprehensive income and expenditure | | | - | | | | - | 298,429 | 298,429 |
| Total comprehensive income and expenditure | (15,307) | - | (15,307) | - | - | - | (15,307) | 298,429 | 283,122 |
| Adjustments between accounting basis and funding basis under regulations | | | | | | | | | |
| Charges for depreciation and impairment of non-current assets | 5,859 | | 5,859 | | | | 5,859 | (5,859) | - |
| Amortisation of intangible assets | 94 | | 94 | | | | 94 | (94) | - |
| Disposal of assets | (9) | | (9) | | | 9 | - | - | - |
| Capital grants unapplied | 42 | | 42 | | (42) | | - | - | - |
| Provision for the repayment of debt | (487) | | (487) | | | | (487) | 487 | - |
| Capital expenditure charged against General Fund Balance | (4,300) | | (4,300) | | | | (4,300) | 4,300 | - |
| Amount by which the Code and the statutory pension costs differ | 12,879 | | 12,879 | | | | 12,879 | (12,879) | - |
| Amount by which the Code and the statutory collection fund income differ | (983) | | (983) | | | | (983) | 983 | - |
| | 13,095 | - | 13,095 | - | (42) | 9 | 13,062 | (13,062) | - |
| Net increase/decrease before transfers to earmarked reserves | (2,212) | - | (2,212) | - | (42) | 9 | (2,245) | 285,367 | 283,122 |
| Transfers (to)/from earmarked reserves | 484 | (484) | - | | | | - | - | - |
| Transfers (to)/from capital funding reserve | | | - | 2,671 | | | 2,671 | (2,671) | - |
| Transfers (to)/from accumulated absences adjustment account | 118 | | 118 | | | | 118 | (118) | - |
| Adjustments to NWFC 21/22 balances following audit | | | | | 29 | | 29 | | |
| Net tfr (to)/from earmarked reserves | 601 | (484) | 118 | 2,671 | 29 | - | 2,818 | (2,789) | - |
| Increase/(Decrease) in the year | (1,610) | (484) | (2,094) | 2,671 | (13) | 9 | 573 | 282,577 | 283,122 |
| Balance at 31 March 2023 carried forwards | 4,927 | 9,258 | 14,185 | 20,344 | 27 | 1,692 | 36,246 | (506,782) | (470,564) |

Balance Sheet

| | <u>At 31 March</u> 2023 £000 | <u>At 31 March</u> 2022 £000 |
|---|------------------------------------|------------------------------------|
| Long Term Assets | | |
| Property, Plant & Equipment | 125,717 | 108,637 |
| Intangible Assets | 906 | 523 |
| Long-Term Investments | - | 5,000 |
| | <u>131,622</u> | <u>114,160</u> |
| Current Assets | | |
| Inventories | 310 | 257 |
| Short Term Investments | 15,000 | 10,000 |
| Short Term Debtors | 16,671 | 12,888 |
| Cash & Cash Equivalents | 16,317 | 17,896 |
| | <u>43,298</u> | <u>41,041</u> |
| Current Liabilities | | |
| Other <u>Short Term</u> Liabilities | (553) | (492) |
| Short Term Creditors | (10,166) | (9,296) |
| | <u>(10,719)</u> | <u>(9,788)</u> |
| Long Term Liabilities | | |
| Provisions | (1,200) | (1,447) |
| Long Term Borrowing | (2,000) | (2,000) |
| Other <u>Long Term</u> Liabilities | (631,537) | (895,652) |
| | <u>(634,737)</u> | <u>(899,099)</u> |
| Net Liabilities | <u>(470,536)</u> | <u>(753,686)</u> |
| Revenue Reserves | (14,184) | (16,278) |
| Capital Funding Reserve | (20,344) | (17,672) |
| Capital Grants Unapplied Account | (27) | (40) |
| Usable Capital Receipts Reserve | (1,692) | (1,683) |
| Usable Reserves: | <u>(36,246)</u> | <u>(35,673)</u> |
| Revaluation Reserve | (75,306) | (56,221) |
| Capital Adjustment Account | (38,281) | (39,469) |
| Pension Reserve | 619,619 | 883,434 |
| Collection Fund Adjustment Account | (207) | 776 |
| Accumulated Absences Adjustment Account | 957 | 839 |
| Unusable Reserves: | <u>506,782</u> | <u>789,359</u> |
| Total Reserves | <u>470,536</u> | <u>753,686</u> |

This page is intentionally left blank

Lancashire Combined Fire Authority Audit Committee

Meeting to be held on 25 July 2023

External Audit – Understanding How the Audit Committee Gains Assurance from Management (Appendices 1 and 2 refer)

Contact for further information:

Steven Brown - Director of Corporate Services – Telephone Number 01772 826804

Executive Summary

In order to comply with International Auditing Standards, the External Auditors, Grant Thornton, need to establish an understanding of the management processes in place to prevent and detect fraud and to ensure compliance with laws and regulations. They are also required to make inquiries of both management and those charged with governance as to their knowledge of any actual, suspected or alleged fraud.

International Auditing Standards also place certain obligations on auditors to document Management's view on some key areas affecting the financial statements. In addition to the request to management, they also will need to gain an understanding of how those charged with governance maintain oversight of the above processes

As such the auditors have written to both management (the Executive Board) and the Chair of the Audit Committee requesting the relevant information.

A response has been prepared by the Executive Board, attached as appendix 1, and by the Chair of the Audit Committee, attached as appendix 2.

Decision Required

The Committee is asked to:-

- note and endorse the response submitted by the Executive Board
- approve the response for submission by the Chair of the Audit Committee.

Information

As stated in the Executive Summary

Financial Implications

None

Business Risk Implications

None

Environmental Impact

None

Equality and Diversity Implications

None

Human Resource Implications

None

Local Government (Access to Information) Act 1985

List of background papers

N/a

Responses from Management

| General Enquiries of Management | |
|--|---|
| Auditor question | Response |
| 1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23? | <p>McCloud remedy assumptions included in the International Accounting Standard 19 (IAS19) valuations.</p> <p>Local Government Pension Scheme IAS19 asset valuations – continued market uncertainty.</p> <p>Property, Plant and Equipment valuations - continued market uncertainty.</p> <p>Updated position on pensionability of allowances as still not fully resolved.</p> <p>Unspent S31 grants (protection funding/Grenfell infrastructure/protection accreditation) carried forward via earmarked reserves.</p> <p>Inflation rates impacting future Private Finance Initiative charges.</p> <p>Year-end debtor/reserve in respect of Business Rate reliefs.</p> |
| 2. Have you considered the appropriateness of the accounting policies adopted by Lancashire Combined Fire authority? | Yes, accounting policy review carried out in April 2023 – but no policy changes required. |
| Have there been any events or transactions that may cause you to change or adopt new accounting policies? | No |
| 3. Is there any use of financial instruments, including derivatives? | No |
| 4. Are you aware of any significant transaction outside the normal course of business? | No |
| 5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? | No – an impairment review is being carried out as part of the annual valuation exercise. |
| 6. Are you aware of any guarantee contracts? | No |

| | |
|---|---|
| 7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? | No – we expect to have an accrual relating to the backdating of pensionable allowances again – this has not yet been resolved but will be discussed further as part of year end audit. |
| 8. Other than in house solicitors, can you provide details of those solicitors utilised by Lancashire Combined Fire Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years? | <p>Analysis of legal fees paid during 2023 available at interim.</p> <p>We are involved in national issues such as the transitional pensions arrangement case, but these are all done on a national basis with LFRS picking up a share of legal/advisor costs.</p> <p>Other than that, solicitors are used to deal with Property matters, Insurance matters and Prosecutions.</p> <p>Details of contingent liabilities disclosed by directors and the in-house solicitor will be available at year end audit – but nothing material exists at the present time.</p> |
| 9. Have any of Lancashire Combined Fire Authority’s service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? | No |
| 10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted? | We have not used advisors to deal with any legal issues. Advisors are typically used to support Property issues (QS/architects/BREEAM etc). |
| 11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details. | No |
| Fraud Risk Assessment | |
| Auditor question | Response |
| 1. Have Lancashire Combined Fire Authority assessed the risk of material misstatement in the financial statements due to fraud? | Due to the budget monitoring measures in place, and the reconciliation between DFM and the accounts, we assess ourselves to be at extremely low risk of the financial statements being materially misstated. Budgets are reviewed in detail at least quarterly with Finance/Dept Head/Director. Bi-annual departmental fraud risk |

| | |
|--|--|
| <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p> | <p>assessments submitted to Director of Corporate Services.</p> <p>During the year, quarterly check for duplicated Accounts Payable transactions. Participation in the National Fraud Initiative, whistle blowing and anti-fraud policies. NFI checks ongoing, but nothing reportable as part of the audit yet.</p> <p>Financial risk is assessed as part of budget setting process, and incorporated into Reserves and Balances Policy.</p> <p>Reduction in funding is one of the key risks on the corporate risk register.</p> |
| <p>2. What have you determined to be the classes of accounts, transactions, and disclosures most at risk to fraud?</p> | <p>Potential areas of risk identified (same as previous year):</p> <ul style="list-style-type: none"> • Duplicated payments • Bank mandate fraud • Payroll • Pensions <p>On that basis the Net Cost of Services (NCoS) and segmental reporting notes are most at risk of fraud.</p> |
| <p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Lancashire Combined Authority as a whole or within specific departments since 1 April 2021?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p> | <p>Yes, an instance of a bank mandate fraud was identified whereby the fraudster managed to change the bank account details of an existing employee by obtaining a new starter form. LFRS processes were not followed, and the department concerned has been contacted and reminded of the correct processes. One payment was made totalling £1,465.45.</p> <p>Via Audit Committee, i.e., Risk Management reported at each Audit Committee, outcomes of NFI considered by Audit Committee.</p> |
| <p>4. Have you identified any specific fraud risks?</p> | <p>Potential areas of risk identified (same as previous year):</p> <ul style="list-style-type: none"> • Duplicated payments |

| | |
|---|--|
| <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Lancashire Combined Fire Authority where fraud is more likely to occur?</p> | <ul style="list-style-type: none"> • Bank mandate fraud • Payroll • Pensions <p>No</p> <p>For the above risk areas – Headquarters departments (Finance, Procurement, HR/payroll), Local Pension Partnership (pensions provider), Greater Manchester Combined Authority (payroll provider).</p> |
| <p>5. What processes do Lancashire Combined Fire Authority have in place to identify and respond to risks of fraud?</p> | <p>Quarterly check for duplicate Accounts Payable transactions, participation in NFI, whistle blowing and anti-fraud policies, induction process, employee code of conduct, agreed set of organisational values – STRIVE. Internal audit checks.</p> |
| <p>6. How do you assess the overall control environment for Lancashire Combined Fire Authority including:</p> <ul style="list-style-type: none"> • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> | <p>We use internal audit annual reviews, in particular for our key financial systems. These reviews give substantial assurance.</p> <p>Quarterly check for duplicate Accounts Payable transactions, participation in the National Fraud Initiative, whistle blowing and anti-fraud policies, induction process, employee code of conduct, agreed set of organisational values – STRIVE.</p> <p>Quarterly budget monitoring review carried out with budget holder, director and head of finance. Overall financial position reported to Exec Board and Resources Committee roughly quarterly – differences between previous reports are reviewed and explained.</p> <p>No</p> |

| | |
|--|--|
| <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p> | |
| <p>7. Are there any areas where there is potential for misreporting?</p> | <p>No, not for material items – the size of the budget and the granular level of reporting make misreporting unlikely.</p> |
| <p>8. How do Lancashire Combined Fire Authority communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p> | <p>Induction process, employee code of conduct, agreed set of organisational values – STRIVE. Contractor terms and conditions.</p> <p>Whistle blowing & anti-fraud policies are on the intranet. They can also discuss with their manager or the Finance department.</p> <p>They are expected to report anything that does not 'feel right', so it can be investigated.</p> <p>No</p> |
| <p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p> | <p>LFRS do not have access to perform bank transactions (i.e., payments), other than an impress account with circa £40k balance, a prepaid debit card account with circa £10k balance. All other transactions must be actioned by Lancashire County Council.</p> <p>Due to this, we do not consider that we have any high-risk posts.</p> |
| <p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>The former Treasurer to the CFA is married to the Treasurer at Chorley & South Ribble Councils (note until the end of April 21 she was the Treasurer at Blackburn with Darwen Council), however transactions between LFRS and each council relate to Precepts, business rates income and property rates payments.</p> <p>All of this will be noted and evidenced in our Related Party Transactions note and working papers.</p> |
| <p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for</p> | <p>In the event of a fraud, contact would be made with the Chair and vice-chair of audit committee. Updates would be reported at the next available meeting.</p> |

| | |
|--|--|
| identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year? | Internal audit review reports are presented to Audit Committee at each meeting. One fraud or breaches of internal control in 22/23. |
| 12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response? | No |
| 13. Have any reports been made under the Bribery Act? | No |
| 14. Have any reports been made under the Bribery Act? If so, please provide details | No |
| Laws and Regulations | |
| Auditor question | Response |
| 1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Lancashire Combined Fire Authority have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements? | Existence of the in-house solicitor and governance role of the Clerk to the CFA to provide guidance & advice. Prevention - Data protection policies and procedures; Environmental & H&S policies; HR policies. Detection - Whistle blowing/anti-fraud policies; No |
| 2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with? | Internal audit reviews and the annual governance report. Existence of the in-house solicitor and governance role of the Clerk to the CFA. |
| 3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2022/23 financial statements? | No |
| 4. Is there any actual or potential litigation or claims that would affect the financial statements? | Will be reviewing contingent liability position (& note) for all previously reported items. We request details of known items from Directors and the solicitor at the end of March. We review all Employee Liability and Public Liability insurance outstanding claims. The backdating of pensionable allowances may be subject to legal challenge citing |

| | |
|---|---|
| | Norman v Cheshire Fire and there may be a legal challenge relating to payments made to individuals when on annual leave citing the Bear v Fulton legal decision as the basis of their challenge. |
| 5. What arrangements Lancashire Combined Fire Authority have in place to identify, evaluate and account for litigation or claims? | We request details of known items from Directors and the solicitor at the end of March. We review all EL/PL insurance outstanding claims. We also review the legal fees spend to identify any ongoing cases. |
| 6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance? | No |
| Related Parties | |
| Auditor question | Response |
| 1. Have there been any changes in the related parties including those disclosed in Lancashire Combined Fire Authority's 2021/22 financial statements? If so, please summarise: <ul style="list-style-type: none"> the nature of the relationship between these related parties and Lancashire Combined Fire Authority whether Lancashire Combined Fire Authority has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions | No – we will issue the Related Party Transactions disclosure form to all current CFA members this year. We gather evidence for any organisations disclosed. Not expected to be different to last year. CFA members constituent councils have business rates transactions, precepts etc, these will be gathered together for evidence as part of the year end Working Papers. |
| 2. What controls does Lancashire Combined Fire Authority have in place to identify, account for and disclose related party transactions and relationships? | We issue a questionnaire to all directors and CFA members at the end of March each year and analyse the disclosed organisations against Accounts Payable / Accounts Receivable transactions. |
| 3. What controls are in place to authorise and approve significant transactions and arrangements with related parties? | Significant transactions would largely be the precepts (Council Tax and Business Rates) income coming into LFRS – this is subject to the budget setting process and administered by LCC. |
| 4. What controls are in place to authorise and approve significant transactions outside of the normal course of business? | We do not have access to bank transactions outside of normal office hours, |

| | |
|--|---|
| | as LCC carry out these tasks on LFRS' behalf. There is no out of hours service. |
| Going Concern | |
| Auditor question | Response |
| 1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Lancashire Combined Fire Authority will no longer continue? | <p>The annual budget setting process will identify whether we are able to continue to operate in the longer term, this includes our ability to set a balanced short- and medium-term budget, our assessment of the adequacy of reserves to meet short- and medium-term commitments, and the assessment of the robustness of our budget assumptions.</p> <p>The s151 officer has been able to set a balanced budget for 2023/24, negating the need for an unbalanced budget report to members in line with Section 114 of the Local Government Finance Act 1988 (England and Wales).</p> <p>The authority's forward financial planning arrangements indicate that the authority will be able to meet its obligations in the foreseeable future.</p> <p>There are no significant doubts about the forward financial planning arrangements of the authority, leading to uncertainty as to the projected financial position for the foreseeable future, as indicated by the budget monitoring reports to the Resources Committee.</p> <p>In addition, we produce an Annual Assurance Statement looking at operational, financial and governance issues which is reported to the Home Office, and this did not identify any significant gaps.</p> <p>His Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) in July 2022 graded the service:</p> <p>'good' at effectively keeping people safe and secure from fire and other risks;</p> <p>'good' at efficiently keeping people safe and secure from fire and other risks; and</p> <p>'good' at looking after its people.</p> |

| | |
|--|---|
| | Specifically, the Inspectorate commented that 'The service shows sound financial management' and 'The service is outstanding at promoting the right culture and values and has developed a talent management process. It has a good understanding of its future financial challenges and has identified savings and investment opportunities. |
| 2. Are management aware of any factors which may mean for Lancashire Combined Fire Authority that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they? | No, we are not aware of any such factors. |
| 3. With regard to the statutory services currently provided by Lancashire Combined Fire Authority, does Lancashire Combined Fire Authority expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Lancashire Combined Fire Authority to cease to exist? | We expect to continue to deliver services for the foreseeable future. |
| 4. Are management satisfied that the financial reporting framework permits Lancashire Combined Fire Authority to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements? | Yes, we believe the statements should be prepared on a going concern basis and that doing so provides a faithful representation of the items in the financial statements. |
| Accounting Estimates - General Enquiries of Management | |
| Auditor question | Response |
| 1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures? | PP&E – valuation, impairment & depreciation. Pensions – valuation of liability & underlying assets. Expenditure accruals relating to backdated pensionability. |

| | |
|---|---|
| 2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates? | Internal review of estimates and comparison to previous year position done by Head of Finance and DoCS. This will be reporting to Audit Committee. |
| 3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates? | Use of the CIPFA code of practice for local govt accounts. Review of source data provided to external experts (PP&E, pensions) and comparison of assumptions and results between financial years. |
| 4. How do management review the outcomes of previous accounting estimates? | Comparison of estimates to eventual actual transactions, use this to form future judgements. Use these to review and challenge current outcomes of estimates. |
| 5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these? | No changes made to the processes, however underlying assumptions are reviewed and potentially changed. |
| 6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates? | Review of skills held internally, and outsource identified gaps, using knowledge of reputable and appropriate experts. |
| 7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts? | Review the underlying assumptions, and where there is material change, analyse to understand it and/or challenge the results. |
| 8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts? | As per Q4 & Q7 |
| <p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> • Management's process for making significant accounting estimates • The methods and models used • The resultant accounting estimates included in the financial statements | Audit committee will have the estimates and bases of calculation reported to them for approval before the final accounts are produced. |
| 10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in the specific questions below)? | Will issue question to directors, at the same time as requesting Related Party Transactions and Contingent Liability information at the end of March. Responses required before end of April. |

| | |
|---|---|
| 11. Are the management arrangements for the accounting estimates, as detailed in the specific questions below reasonable? | Yes. |
| 12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate? | From the new report they will receive, plus confidence from previous years' clean audit opinions. |

Accounting Estimates

| Estimate | Method / model used to make the estimate | Controls used to identify estimates | Whether management have used an expert | Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates | Has there been a change in accounting method in year? |
|-------------------------------|---|---|--|---|---|
| Land and buildings valuations | Land and buildings are revalued on a rolling five-year basis by a suitably qualified surveyor. As at 31 March 2023, Amcat Limited, an external organisation, using surveyors qualified by the Royal Institution of Chartered Surveyors, carried out revaluations on the identified properties. All valuations are on the basis of depreciated replacement cost, with the exception of one property used as offices, valued at Existing Use Value. | Valuations are carried out in accordance with RICS guidance and the Code of Practice on Local Authority Accounting. | Yes, suitably qualified surveyor | Management consider the estimation uncertainty based on advice and discussions with independent valuation experts. Consistency and sensitivity are also assessed. | No |

| | | | | | |
|--------------|--|--|---|---|----|
| Depreciation | <p>Depreciation is charged on those assets which have a finite useful life, in the year after acquisition:</p> <ul style="list-style-type: none"> • Intangible assets are assessed over their estimated useful life, 5 years. • Land is assessed as having an infinite life, and therefore is not depreciated. • Building assets are assessed for an appropriate property life by property professionals, in 10-year bands up to a maximum of 50 years. • Equipment is depreciated over their estimated useful life, ranging from 5 to 20 years. • Vehicles are depreciated over their estimated useful life, | <p>The annual depreciation charge is compared to previous years, there is consideration of the age of assets in the asset category to assess if the useful life estimation is still appropriate and review of other similar organisations for comparability.</p> | <p>Independent external valuation experts are used.</p> | <p>The estimation uncertainty is considered through the regular re-assessment of an asset's useful life as part of the valuation programme. Based on advice and discussions with external independent valuation experts and professional best practice.</p> | No |
|--------------|--|--|---|---|----|

| | | | | | |
|--------------------------------|---|---|---|--|----|
| | <p>ranging from 5 to 15 years.</p> <p>The charges are based on the opening net book value of assets at the start of the financial year and the estimated useful life of the asset, and are calculated in such a way as to give an equal charge to the revenue account in each of the years the asset is used.</p> | | | | |
| Investment property valuations | N/A | | | | |
| Fair Value Estimates | <p>Financial liabilities are initially measured at fair value and carried at their amortised cost. For all of the borrowings the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principle</p> | <p>In accordance with IFRS 9, financial liabilities, financial assets represented by investments and long-term creditors, are carried in the Balance Sheet at amortised cost.</p> | <p>Yes, the Authority uses Treasury Management services from Lancashire County Council.</p> | <p>Management consider the estimation uncertainty based on advice and discussions with external experts and review of similar organisations.</p> | No |

| | | | | | |
|--|--|--|--|--|--|
| | <p>repayable plus accrued interest and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.</p> <p>The Authority holds only one type of financial asset, loans and receivables. These are its cash investments and debtors - assets that have fixed or determinable payments but are not quoted in an active market.</p> <p>Investments are initially measured at fair value and carried at their amortised cost. For all of the investments that the Authority has made, this means that the amount presented in the Balance Sheet is</p> | <p>Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:</p> <ul style="list-style-type: none"> • Estimated ranges of interest rates at 31 March 2021 of 4.48% to 4.49% for loans from the Public Works Loan Board • This valuation takes into account the penalties that would be payable or discounts receivable on early repayment of loans to the Public Works Loan Board. These penalties | | | |
|--|--|--|--|--|--|

| | | | | | |
|--|--|--|--|--|--|
| | <p>the outstanding principal receivable. The interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year under the terms of the deposit agreement.</p> | <p>and discounts depend on the rate and period of each individual loan and on the rates for loans with similar periods to maturity prevailing at the balance sheet date.</p> <ul style="list-style-type: none"> • Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value • The fair value of trade and other receivables is taken to be the invoiced amount. • The fair value of the PFI liabilities has been calculated by discounting the contractual cash flows (excluding | | | |
|--|--|--|--|--|--|

| | | | | | |
|------------|--|--|--|--|----|
| | | service charge elements) at the appropriate AA-rated bond yield rates. | | | |
| Provisions | <p>There are two provisions; insurance liabilities and Business Rates Appeals.</p> <p>Business Rates Appeals: Rely on information provided by billing authorities.</p> <p>Insurance provisions use historical data and known claims.</p> | <p>Business rates: reliance on experts.</p> <p>Insurance: Comparisons with previous years and management review.</p> | <p>Insurance: None although information is provided from the insurance service provider at the County Council.</p> <p>Business Rates Appeals: No, reliance on information provided by billing authorities.</p> | <p>Insurance: comparison with previous year.</p> <p>Business Rates Appeals: comparison with previous year and other billing authorities.</p> | No |
| Accruals | <p>There are a range of methods used across the Finance team. All methods and models will be reviewed are part of closedown to ensure they remain sound and are a</p> | <p>The finance team ensure that the design, methods and models used in assessing accounting estimates of accruals are sound.</p> | No | <p>Assumptions are selected in a range of ways across Finance and are selected and/or reviewed by appropriately qualified and experienced finance staff.</p> <p>Any changes to the assumptions and the effect of</p> | No |

| | | | | | |
|---------------------------------------|--|---|---------------------------------------|--|----|
| | suitable basis for the accounts. | Material accruals will be reviewed by the finance team and management will ensure these processes have taken place. | | these will be assessed as part of the closedown process. | |
| Credit Loss and Impairment Allowances | NA | | | | |
| Finance Lease Liabilities | Liabilities relate to photocopiers. The method used is based on information derived from the contracts using the methodology set out in IFRS16. | Review of calculations by management. | No | Based on details of the contractual arrangements. | No |
| PFI Liabilities | The accounting entries are derived from the PFI accounting models which were prepared, based on the operator's financial model, at the commencement of the three PFI schemes. The fair values of the liabilities are calculated | Comparison with previous years and management review of reasonableness. | Yes to develop the accounting models. | Assumptions were selected by the external consultant when the PFI models were set up on the commencement of the schemes. | No |

| | | | | | |
|--|---|--|--|--|--|
| | informed by the Treasury management advisors. | | | | |
|--|---|--|--|--|--|

This page is intentionally left blank

Inquires of Those Charged with Governance

This work program is used to document the results of certain inquiries of Those Charged with Governance (TCWG).

| | |
|---|----------------|
| Who at the audited entity the inquiries were directed to: | John Shedwick |
| Who in the audit team performed the inquiries: | Muhammad Afzal |
| Date of the inquiries: | 27/03/2023 |

| Inquiry | TCWG response |
|--|---|
| Fraud | |
| Their knowledge of any actual, suspected, or alleged fraud affecting the entity. | Yes, an instance of a bank mandate fraud was identified whereby the fraudster managed to change the bank account details of an existing employee by obtaining a new starter form. LFRS processes were not followed and the department concerned has been contacted and reminded of the correct processes. One payment was made totalling £1,465.45. |
| The risks of fraud in the entity, including those that are specific to the entity's business sector. | No material risk identified as there is a reconciliation between the management accounts reported to Resources Committee and the financial accounts presented to Audit Committee. |
| | |
| Litigation and Claims | |
| Whether they have any knowledge of potential litigation or claims affecting the entity | The backdating of pensionable allowances maybe subject to legal challenge citing Norman vCheshire Fire and there may be a legal challenge relating to payments made to individuals when on annual leave citing the Bear v Fulton legal decision as the basis of their challenge . |

This page is intentionally left blank