

Public Document Pack

Lancashire Combined Fire Authority Audit Committee

**Monday, 8 July 2024 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 Lynsey Barr on telephone number Preston (01772) 866908 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 - 12)**
4. **Internal Audit Annual Report (Pages 13 - 28)**
5. **External Audit - Audit Plan (Pages 29 - 60)**
6. **Annual Governance Statement (Pages 61 - 102)**
7. **Accounting Estimates**

Report to follow.

8. **External Audit - Understanding how the Audit Committee Gains Assurance from Management (Pages 103 - 126)**
9. **Financial Statements Update**

Report to follow.

10. **Internal Audit Monitoring Report (Pages 127 - 132)**

11. **Date of Next Meeting**

The next scheduled meeting of the Committee has been agreed for 10:00 hours on **26 September 2024** in the Main Conference Room, Service Headquarters, Fulwood.

Further meetings are: scheduled for 28 November 2024
 proposed for 27 March 2025

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.

**Lancashire Combined Fire Authority
Audit Committee**

**Thursday, 28 March 2024, 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	
M Salter	
J Singleton	

Officers
S Brown, Director of Corporate Services (LFRS) L Barr, Member Services Officer (LFRS)
In attendance
G Jones, External Audit, Grant Thornton Y Li, External Audit, Grant Thornton L Rix, Internal Audit, Lancashire County Council E Harrison, Student K Wilkie, Fire Brigades Union

21/23	Apologies for Absence
	Apologies for absence were received from County Councillor Munsif Dad.
22/23	Disclosure of Pecuniary and Non-Pecuniary Interests
	None received.
23/23	Minutes of the Previous Meeting
	Resolved: - That the Minutes of the last meeting held on 28 November 2023 be confirmed as a correct record and signed by the Chairman.
24/23	Statement of Accounts 2022/23
	The Chair welcomed Ellie Harrison, a student, to the meeting who was present to

observe.

The Director of Corporate Services gave thanks to the External Auditors, Internal Auditors, and the Finance Team for all their work on the arduous process of the Statement of Accounts.

The Director of Corporate Services presented the report to the meeting. The report presented the Statement of Accounts for the financial year ended 31 March 2023 which included the Authority's 25% share of the North West Fire Control accounts. Its purpose was to give electors, local taxpayers, Fire Authority Member, employees, and other interested parties clear information about the Fire Authority's finances.

The Committee considered the Statement of Accounts as presented.

The aim was to provide information on:

- The cost of providing Fire Authority services in the financial year 2022/23.
- How these services were paid for.
- What assets the Fire Authority owned at the end of the financial year.
- What was owed, to and by, the Fire Authority at the end of the financial year.

The narrative report provided a guide to the most important matters which were included in the Statement of Accounts. The Statement of Accounts had been prepared in accordance with the Accounts and Audit Regulations 2015 as amended by the Accounts and Audit (Amendment) Regulations 2021 and the Code of Practice on Local Authority Accounting in the United Kingdom.

The Statement of Accounts contained: -

Statement on Annual Governance Arrangements – Set out the Authority's responsibilities regarding the system of internal control on corporate governance.

Independent Auditor's Report to Members of Lancashire Combined Fire Authority – The Auditor's report to the CFA on the accounts for 2022/23, which were set out in the agenda pack.

Statement of Responsibilities for the Statement of Accounts – Set out the responsibilities of the Authority and the Treasurer regarding the statement of accounts.

Comprehensive Income & Expenditure Statement – The Statement showed the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Fire Authority raised taxation to cover expenditure in accordance with regulations; this could be different from the accounting cost. The taxation position was shown in the Movement in Reserves Statement.

Movement in Reserves Statement – This statement showed the movement in year on the different reserves held by the Fire Authority analysed between usable and other reserves. The surplus or deficit on the Provision of Services line showed the true economic cost of providing the Fire Authority's services, more details of

which were shown in the Comprehensive Income and Expenditure Statement.

Balance Sheet – This showed information on the financial position of the Fire Authority as at the 31 March 2023, which included the level of balances and reserves at the Fire Authority's disposal, its long-term indebtedness and the value of the assets held by the Fire Authority.

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

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

The Director of Corporate Services drew the Members attention to Page 17 of the agenda pack for the review of the year which included that, the Service had invested in equipment in response to climate change and operational crews had begun to deliver Business Fire Safety Checks (BFSC).

In the 2022/23 Financial Overview on Page 18 of the agenda pack, it was noted by Members that a £5 increase in Council Tax had been agreed in line with the Council Tax referendum limit which allowed for an affordable, prudent, and sustainable budget that ensured that the Authority was able to deliver against its corporate priorities. The Director of Corporate Services highlighted that the 2022/23 firefighter pay award agreed for the proceeding and subsequent year of 7% and 5% respectively, had been more than anticipated and budgeted for which added to financial pressures. The Authority had a good level of general reserves, however consequently, it had resulted in an overspend of £1.7m.

The chart on page 19 of the agenda pack illustrated that employee costs accounted for approximately 70% of the budget funding and the majority of the income came from Council Tax.

It was stated on Page 20 of the agenda pack that the Authority's general fund balance at start of the year was £6.04m and the overspend of £1.67m from the Authority's expenditure had been transferred to the reserve which reduced the balance to £4.37m. The Authority also held an additional £9.3m of earmarked revenue reserves and £22m of capital reserves and receipts. The Capital reserves and receipts were fully utilised within the medium-term financial strategy which would reduce to zero in 2027. Over half of the earmarked reserves related to the Authority's two Private Finance Initiative (PFI) schemes, whereby monies were set aside in the early years of the scheme to meet future costs, thus easing the impact of inflationary pressures.

Page 21 of the agenda pack explained that the Authority's Total net liabilities had reduced from £753.7m to £502.5m which reflected the Authority's compliance with International Accounting Standards and in particular, the requirement to show the full pensions liability in the accounts. Whilst the liability on the Local Government Pension Scheme was partly funded, the Fire-fighters Pension Scheme was

unfunded, i.e. there were no assets from which future liabilities would be paid, and hence the Authority's overall Fire-fighters pension liability of (£651.5m) was extremely large. If this liability was excluded, the Authority's Total Net Assets would be £149.0m. There was a significant reduction in the Firefighter Pension Scheme liability of £224.4m; a reduction of over a quarter. The change was due to several changes in actuarial assumptions, the most significant impact was a higher discount rate which was used to calculate the present value of future pension liabilities. As the discount rate increased, the pension liability decreased. The pension liability included estimated costs in relation to the McCloud judgement.

In relation to a question from County Councillor Salter, the Director of Corporate Finance explained that the overspend on premises (as listed in the table of page 20 of the agenda pack), was due to inflationary pressures and the significant increase in the cost of utilities.

County Councillor Singleton queried the meaning of intangible assets as mentioned on page 36 of the agenda pack. Adam Latham, Financial Accountant advised that intangible assets were not physical assets but consisted of the utilisation of software. The Director of Corporate Services added that where the Service spent money on implementing IT systems, it could be capitalised and depreciated over the life of the software.

In response to a question from County Councillor Clarke in relation to the sizable loss of Pensions Reserve from the previous year on page 65 of the agenda pack, the Director of Corporate Services explained that the reserve related to the unfunded firefighter pension scheme which meant that there were no assets to match the liability of £600m. The liability was reviewed every year by an Actuary relating to factors such as life expectancy, salary changes, and economic considerations. Regarding the reduction in liability, a substantial change had been the discount rate (the rate used to value the current cost of future pension obligations), which had largely been affected by inflation. Georgia Jones, Key Audit Partner, informed that the pension reserve matched the pension liability and so had reduced accordingly. It was noted by Members that it was an unusable reserve.

County Councillor Singleton queried whether the investments the Service had, were credible (page 49 of the agenda pack). The Director of Corporate Services confirmed that the investments were secure, and the Treasury Management Strategy set permitted establishments for investment. Laura Rix, Senior Auditor, advised that the Treasury Management Audit would provide more assurance and it was confirmed that the Audit concurred with the Treasury Management Audit at Lancashire County Council.

In response to a question raised by County Councillor Singleton regarding council tax debt collection (page 51 of the agenda pack), and whether LFRS had any involvement of recovery of the debt, the Director of Corporate Services confirmed that recovery of the debt was the responsibility of district councils, and the Service had no involvement.

Resolved: - That the Committee approved the Statement of Accounts and authorised the Audit Committee Chair to sign them.

25/23	<p>External Audit - Letter of Representation</p>
	<p>As part of the year-end process, the Authority was required to sign a letter of representation. This letter confirmed that the Authority had disclosed all relevant information in its accounts for the year in question and that all issues which should have been brought to the attention of the auditors had been.</p> <p>It was noted by Members that there had been additional representation included this year in relation to Reinforced Autoclaved Aerated Concrete (RAAC); that had been identified in one building which had been highlighted to the Auditor, and it was confirmed that the Service was not aware of any other property in the Authority's portfolio that was impacted by the issue.</p> <p>The Treasurer confirmed that he would sign the letter, as there were no issues which he felt required disclosure.</p> <p>Resolved: - That the Audit Committee authorised the signing of the letter by the Chair of the Committee.</p>
26/23	<p>External Audit - Audit Findings Report</p>
	<p>Georgia Jones, Key Audit Partner presented the Audit Findings report to the Committee.</p> <p>Under the Statutory Code of Audit Practice for Local Government bodies, the Authority's external auditors, Grant Thornton, were required to issue a report to those charged with governance that summarised the conclusions from their audit work.</p> <p>The audit was substantially complete, and the auditors expected to issue an unqualified audit opinion following the Audit Committee meeting subject to receipt of the management letter of representation and final quality procedures. The Value For Money (VFM) work had been completed.</p> <p>Since the last report to the Audit Committee, the following areas of work had been completed:-</p> <ul style="list-style-type: none"> • Verified the responses from the pension fund auditor to gain assurances on underpinning controls and supporting data for the pension fund net liability. • Checked the International Financial Reporting Interpretation Committee (IFRIC 14) assessment from the actuary on the amount pension fund asset (surplus) in the Local Government Pension Scheme (LGPS) and tested the amendments to the financial statements. • Tested the updated Government Actuary Department (GAD) report which reflected part year inflation for the valuation of the Firefighters pension fund and agreed the revised entries in the financial statements. • Completed testing on areas of land and buildings valuations, which included the examination of the assessment of the impact of reinforced autoclaved aerated concrete (RAAC). • Completed testing on the fair value of financial instruments. • Examined the Information Technology (IT) assessment on the data migration controls to the new Oracle Fusion system and completed additional work in that

	<p>area.</p> <ul style="list-style-type: none"> • Checked the final set of financial statements. <p>Georgia Jones highlighted that the Lancashire Pension Fund auditor had provided assurances on 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. The Authority obtained an IFRIC 14 assessment from its actuary which concluded the asset ceiling as £nil. The Authority had now updated the financial statements to reduce the Local Government pension fund net asset from £19.877m to £nil. Discussions were held with the Government Actuary's Department (GAD) on the level of inflationary increases within their assessment of the year end liability. GAD had not included part year inflation in their original calculations. As a result, the Authority received a revised assessment which increased the year end liability by £12,040k (from £639,496k to £651,536k). The Authority had updated the financial statements to reflect this.</p> <p>Regarding the issue of incomplete or inaccurate financial information being transferred to the new general ledger, Georgia Jones informed that, to gain assurance over the completeness and accuracy of the data migration from Oracle EBS to Oracle Fusion for the preparation of the 2022/23 financial statements, Grant Thornton carried out a full substantive test on the balance transfer. It was found that they had all been correctly entered in the new Oracle Fusion system. In addition, additional work had been completed to check user access controls as part of the work on journals and no issues had arisen.</p> <p>County Councillor Singleton queried whether the significant weakness identified on page 113 of the agenda pack would be classed as 'red' or 'high priority'. Georgia Jones explained that, as part of Value For Money work, a significant weakness had been identified and it would be classed as 'red' or 'high priority'. Further information was contained in the Auditors Annual Report 2022/23 in the agenda pack.</p> <p>Resolved: - That the Committee:-</p> <ul style="list-style-type: none"> i) Noted and endorsed the matters raised in the report; ii) Noted and endorsed the Action Plan set out in Appendix 1 within the Audit Findings Report.
27/23	<p>External Audit - Auditors Annual Report 2022/23</p>
	<p>Georgia Jones, Key Audit Partner, presented the report.</p> <p>Under the National Audit Office Code of Audit Practice, the external auditors were required to consider whether the Service had in place, proper arrangements to secure economy, efficiency, and effectiveness in its use of resources.</p> <p>As reported, the audit was substantially complete, and the auditors expected to issue an unqualified audit opinion following the Audit Committee meeting subject to receipt of the management letter of representation and final quality procedures.</p> <p>The auditors had made some improvement recommendations and had identified a</p>

significant weakness which had resulted in a key recommendation arising from their work on the Authority's value for money arrangements to secure economy, efficiency, and effectiveness in its use of resources. This key recommendation and management response was set out on Page 144 and 145 of the agenda pack as follows:

- Recommendation – The Authority needed to ensure it maintained a robust framework of financial governance to ensure risks to financial resilience and sustainability were adequately monitored and controlled. The Authority should: Develop a plan to address its general reserves position and its current use of reserves to balance its financial position. It needs to set out how its General Fund will be brought to a level that mitigates the risk to future financial sustainability; and Continue to take steps to contain expenditure and deliver sustainable savings.
- Management Comments – The Authority set its 2023/24 budget during a period of extreme financial uncertainty: at the time facing potential industrial action and an unsettled pay award dating back to the previous July. Having one of the highest levels of usable earmarked reserves and general reserves across all fire authorities, the Authority was in a strong financial position and the budget was set with the high expectation that the general reserve would be able to absorb the financial impact of the pay award, which it ultimately was able to. Other funding options were available such as reducing the capital programme commitments that would not have reduced reserves, but this strategy ensured there was no impact on services or the capital ambitions of the Authority. It was accepted that in setting the 2023/24 budget, a longer-term budget gap was forecast which would result in further reductions in the general reserve without additional funding or cost reductions. The Authority now had greater certainty on its capital programme costs and, at the time the report was written, expected the Authority to set its 2024/25 budget that planned to address the long-term general reserve forecast position.

Members noted that from the management comments that the external auditors were satisfied this key recommendation had been addressed in setting the budget for 2024/25. The Director of Corporate Services confirmed that the budget gap identified in the Medium Term Financial Strategy (MTFS) had been addressed as part of setting the 2024/25 and the general reserve remained at £1m above the minimum level of reserves for the five-year period of the MTFS.

Resolved: - That the Committee noted the management comments and endorsed the report.

28/23

Internal Audit Monitoring Report

The Internal Auditors produced a summary of progress against the annual plan for each Audit Committee meeting, setting out progress to date and any significant findings. The report for the period up to 01 March 2024 was presented by Laura Rix, Senior Auditor.

To date, 58.50 days had been spent this financial year on completion of the

	<p>2023/24 plan, equating to 73% of the total planned audit activity of 80 days. The table in the report showed the current status of all audit work.</p> <p>Since the last Committee meeting, three audits had been completed: Equality Impact Assessments; District Planning Activity; and Human Resources/Payroll. District Planning Activity had an assurance rating of 'Limited', however, agreed actions had begun and Internal Audit were satisfied that the actions would resolve the issues identified in the report. 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>Resolved: - That the Committee noted the report.</p>												
29/23	<p>Internal Audit Plan 2024/25</p>												
	<p>The Internal Auditors were required to produce an Annual Audit Plan, which set out areas they intended to review during the year. The plan amounted to a total resource of 70 audit days in 2024/25 which equated to an overall cost of £28,280 (the daily rate for auditors would be £380 and audit managers £450), which was consistent with previous years. The previous year had a total resource of 80 audit days due to additional work.</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 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 data-bbox="272 1624 1161 1883"> <tr> <td>Governance and business effectiveness</td> <td>3 days</td> </tr> <tr> <td>Service delivery and support</td> <td>30 days</td> </tr> <tr> <td>Business Processes</td> <td>24 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>11 days</td> </tr> <tr> <td>Total</td> <td>70 days</td> </tr> </table> <p>Resolved: - That the Audit Committee agreed the Internal Audit Plan for 2024/25.</p>	Governance and business effectiveness	3 days	Service delivery and support	30 days	Business Processes	24 days	Follow up audit activity	2 days	Other components of the audit plan	11 days	Total	70 days
Governance and business effectiveness	3 days												
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Follow up audit activity	2 days												
Other components of the audit plan	11 days												
Total	70 days												

30/23	Risk Management
	<p>The Director of Corporate Services presented the report to Members. Members were provided with a copy of the Corporate Risk Matrix as a supplement to the report.</p> <p>Improvements to Lancashire Fire and Rescue's (LFRS) organisational risk management were identified to bolster its robustness. A proposal was presented to the Corporate Programme Board (CPB) in August 2023 which outlined a new LFRS risk management policy and procedure aligned with ISO 31000:2018 standards. This introduced a tiered approach to organisational risk and enhanced monitoring and management, as well as the adoption of a new corporate risk register, in line with the National Fire Chiefs Council (NFCC) template. Upon adoption, effective risk management practices were now integrated into quarterly CPB meeting agendas, strategic oversight was provided, legislative compliance was ensured, resource allocation was optimised, and risk reporting to the Combined Fire Authority was facilitated.</p> <p>The Audit Committee was a cornerstone of the Authority's governance framework, tasked with providing independent assurance to governance stakeholders regarding the adequacy of LFRS's risk management framework, annual governance processes, and internal control environment. Its primary function included evaluating the effectiveness of the Authority's risk management arrangements. Accordingly, the report outlined recent enhancements to the LFRS risk management framework for consideration.</p> <p>The Civil Contingencies Act (CCA 2004) set out the legal framework for contingency arrangements to assess, plan and advise against LFRS organisational risks, be it departmental or corporate, however, there was no prescriptive way within the framework of doing that. Therefore, the Service had the freedom to manage risk using a method that ensured a clear governance structure that best met the needs of the business.</p> <p>This moral and statutory duty not only required LFRS to take all reasonable actions to safeguard its employees, assets, and the public, but also ensured that it was not financially or operationally disrupted. It could meet this duty by ensuring that risk management played an integral part in the governance of the Service at a strategic, tactical, and operational level.</p> <p>A comprehensive review of the corporate risk profile revealed adherence to fundamental aspects of risk management at LFRS. However, to ensure compliance with legislative requirements and bolster the robustness of the risk management framework, several proposed changes were identified. In parallel, the NFCC's Business Continuity group broadened its scope to include risk within its Terms of Reference (ToR) and developed a corporate risk register template to be used across the fire sector.</p> <p>A proposal was presented to the Corporate Programme Board in August 2023, which outlined a new risk management policy, procedure, and alignment of the LFRS Corporate Risk Register with the NFCC template. This policy and procedure</p>

aligned with ISO 31000:2018, which ensured an accurate description and appropriate monitoring and management of LFRS risks. Additionally, a tiered approach to risk was introduced, which allowed for escalation or de-escalation as needed.

Effective risk management practices aligned with ISO 31000:2018 yielded numerous benefits for LFRS that included proactive risk mitigation, enhanced decision-making, clear accountability, and improved financial control. By integrating risk management into quarterly CPB meetings as a standing agenda item, LFRS aimed to provide strategic oversight of the risk management process. Overall, these measures enabled LFRS to fulfil its legislative duties and optimise resource allocation while providing a structured mechanism for reporting on risk to the Audit Committee.

A recent external audit, conducted by Grant Thornton, assessed the changes introduced to the LFRS organisational risk management framework and concluded that significant progress had been achieved. Since its establishment, the new Corporate Risk Register had undergone quarterly review and updates by all pertinent risk managers and owners.

In conclusion, recent enhancements to the LFRS risk management framework, aimed to ensure compliance with legislative requirements, bolster the robustness of risk management practices, and provide a structured mechanism for reporting to the Audit Committee, which further optimised resource allocation and strategic oversight.

Members noted that the top three risks identified in the risk register were:

- Loss of Funding (the Service had not received a long-term settlement over the last few years, however, the Service was working with the NFCC to lobby the government for a multiyear financial settlement that ensured financial sustainability);
- Cyber Security (actions were noted on page 233 of the agenda pack); and
- Retention and Recruitment of on-call Staff (actions were noted on page 239 of the agenda pack).

The Chair commented that the Service was transparent with information relating to any risks.

County Councillor Salter highlighted that on page 231 of the agenda pack, for the Risk of 'Inability to recruit or retain key staff', the current controls/mitigations were incorrect as they related to the risk of 'water' on page 233. The Director of Corporate Service confirmed that it would be amended.

In response to a question from County Councillor Singleton regarding the audit of Cyber Security, Laura Rix, Senior Auditor, explained that the Internal Auditors audited Resilience Contingences as it was administrative, however, once that was completed, it would then be decided whether external IT auditors would be required for the technical aspect of the audit.

In response to a question from County Councillor Hennessy in relation to the key recommendation of financial resilience and sustainability, the Director of Corporate

	<p>Services advised that it was covered and cross referenced in the risk register under 'Loss of Funding' which impacted on the Service's financial sustainability.</p> <p>Resolved: - That the Committee: -</p> <p>i) Approved the new risk management policy, procedure, and the associated organisational risk register layout;</p> <p>ii) Endorsed the up-to-date Corporate Risk Register and its content.</p>
31/23	Date of Next Meeting
	<p>The next meeting of the Committee would be held on 25 July 2024 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 2024 and agreed for 28 November 2024.</p>

M Nolan
Clerk to CFA

LFRS HQ
Fulwood

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Lancashire Combined Fire Authority Audit Committee

Meeting to be held on 8 July 2024

Internal Audit Annual Report 2023/24 (Appendix A 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 2023/24 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 A.

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

Legal 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

Appendix A: Annual report of the Head of Internal Audit for the year ended 31 March 2024

Lancashire Combined Fire Authority

Internal Audit Service

**Annual report of the Head of Internal Audit for the year
ended 31 March 2024**

1 Introduction

Purpose of this report

- 1.1 This report summarises the work that the Internal Audit Service undertook during 2023/24 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 2023/24 in relation to the 2023/24 audit plan, approved by the Audit Committee in March 2023.
- 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 2024

2 Overall opinion on governance, risk management and internal control

Overall opinion

- 2.1 Overall, I can provide substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control.
- 2.2 Systems and processes are generally working effectively and ensures staff are aware of correct processes. We have discussed the issues we raised during the year with senior managers and agreed action plans. The table in 3.1 details the audit assignments completed with the relevant assurance levels.
- 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 also provided by Grant Thornton as the Authority's external auditor. At the March 2024 Audit Committee Grant Thornton reported that the 2022/23 audit of the financial statements was substantially completed, and they expected to issue an unqualified opinion. They also confirmed 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 Inspectorate of Constabulary and Fire & Rescue Services inspection on the service's effectiveness, efficiency and how well it looks after its people has been delayed from 2024 until 2025.
- 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 and by KPMG for the Local Pension Partnership (Investments) Ltd (LPPI). Further assurance was also received from LPPI's Audit and Assurance Faculty (AAF) 01/20 Type II Service Auditor's Assurance Report. The Local Pensions Partnership (Administration) Ltd, (LPPA) Internal Audit Service has supported LPPA in its achievement of the AAF 01/20.

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 (80) have been used to deliver the internal audit plan. All 2023/24 work has been completed.
- 3.2 During the year, there have been no matters arising which have impacted on the independence of the Internal Audit service and there have been no inappropriate scope or resource limitations on internal audit work.

Audit review	Audit days			Status	Assurance Opinion
	Planned	Actual	Variation		
Governance and business effectiveness					
Overall governance, risk management and control arrangements	3	3	0	Completed	
Service delivery and support					
Equality impact assessments	10	10	0	Final	● Substantial January 2024
Management of change within LFRS	10	9	1	Final	● Substantial November 2023
District planning activity	10	13	-3	Final	● Limited January 2024
Business processes					
Accounts payable	9	8	1	Final	● Moderate April 2024
Accounts receivable	6	6	0	Final	● Substantial April 2024
General ledger	6	6	0	Final	● Substantial April 2024
HR/ Payroll	10	11	-1	Final	● Substantial December 2023
Treasury management	4	4	0	Final	● Substantial April 2024
Follow up audit activity					

Follow up activity	2	0	2	No actions to follow up	N/A
Other components of the audit plan					
Management activity	9	9	0	Completed	
National Fraud Initiative	1	1	0		
Total	80	80	0		

Follow up work

- 3.3 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. There has been no follow up work in 2023/24.

4 Extracts from Audit Reports

- 4.1 Extracts of assurance summaries are shown in Appendix 1 for the audits finalised since the March 2024 Audit Committee.

5 Fraud/special investigations

- 5.1 There have been no incidences of fraud or irregularity brought to our attention that are a result of a weakness in the control environment.

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 and the progress that has been made.

Category of data	Number of matches identified	Number of matches processed	Number of matches cleared	Number of matches investigating	Frauds Identified	Errors Identified	Value of savings identified
Pensions	25	20	19	5	0	1	£0
Payroll	24	22	22	2	0	0	£0
Creditors	213	109	109	0	0	0	£0
Totals	262	151	150	7	0	1	£0

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 2023/24 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.
- 7.3 A sample of comments received in response to the questionnaire is included below:

It is a pleasure to work with the Auditor during the audits. They were professional, helpful and easy to get along with. They explained everything very clearly and requests and considers any feedback from us in the scoping, the evidence gathering and final stages of the audit and seeks clarification where necessary.

Communication of needs and information prior to the audit is well defined. During the audit the Auditor communicated with the Payroll & HR Team Manager to ensure that all documentations and questions were answered in a timely manner.


Ongoing and periodic assessments

- 7.4 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.
- 7.5 The last external quality assessment was in February 2023 and the overall opinion was 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 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.

- 7.7 In addition, 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.
- 7.8 In 2024/25 the Internal Audit Service will be introducing an Audit Software Package; this will further help drive the quality and performance of the service forward.
- 7.9 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.

Accounts Payable

Overall assurance rating	Audit findings requiring action			
 Moderate	Extreme	High	Medium	Low
	0	0	3	0

Financial Regulations and relevant policies are in place and accessible for all staff to view, with the exception of the Contract Standing Order which has recently had a review, but not implemented, the remaining documents were last reviewed in 2018.


Whilst expenditure with suppliers is monitored by the Procurement Officer and overlooked by the Head of Service to ensure that tendering arrangements and contracts are in place for supplies or services exceeding the Contract Standing Order threshold, we did identify suppliers that did exceed the threshold and did not have a contract in place. We were informed that these were overlooked due to staffing changes and resources issues.

Due to the implementation of Oracle Fusion, there has been no system access checks, as LFRS were unable to obtain hierarchy reports and considered it was a little early to conduct the checks. Although, we can confirm that no one member of staff within LFRS can raise a requisition and convert the requisition into an order, we were unable to confirm that each purchase order or manual payment was approved in accordance with the limits set in Oracle, nor were we able to confirm the hierarchy process of approving requisitions, orders and invoices, as there are no reports available to confirm either of these.

We were unable to download an Accounts Payable Transaction report due to the migration to Oracle Fusion, therefore, after discussing this with the client and Audit Management we decided to use the General Ledger Transaction report for our testing. Additionally, we have done no exercise in relation to data validation; we used the report that was downloaded and assumed everything had migrated from Oracle R12 to Oracle Fusion as it should have, as there were no mechanism or processes in place to do a data validation. LFRS have not done a data validation also for the same reason.

The Lancashire Fire and Rescue Service (LFRS) no longer populate KPI's which included a duplicate payment check as they feel it does not add any value.

Accounts Receivables

Overall assurance rating	Audit findings requiring action			
 Substantial	Extreme	High	Medium	Low
	0	0	0	0


There are no findings to report that would have a significant impact on the achievement of service objectives, and a strong control environment continues to be maintained by the Finance Team in relation to the Accounts Receivables area of the KFS review.

A Debt Management Policy is in place and readily available to staff, and appropriate separation of duties is maintained between the invoice requester and the individual who raises the invoices, banks the cheques and any cancels any invoices.

All invoices raised were supported by an invoice request form correctly and accurately raised according to the request form, and any debts outside of the standard reminder period are being monitored and chased on a regular basis.

The access to the accounts receivable system is appropriately limited to the relevant staff, and an aged debt analysis report is produced monthly which shows all outstanding debt and the age of the debt.

General Ledger

Overall assurance rating	Audit findings requiring action			
 Substantial	Extreme	High	Medium	Low
	0	0	0	0

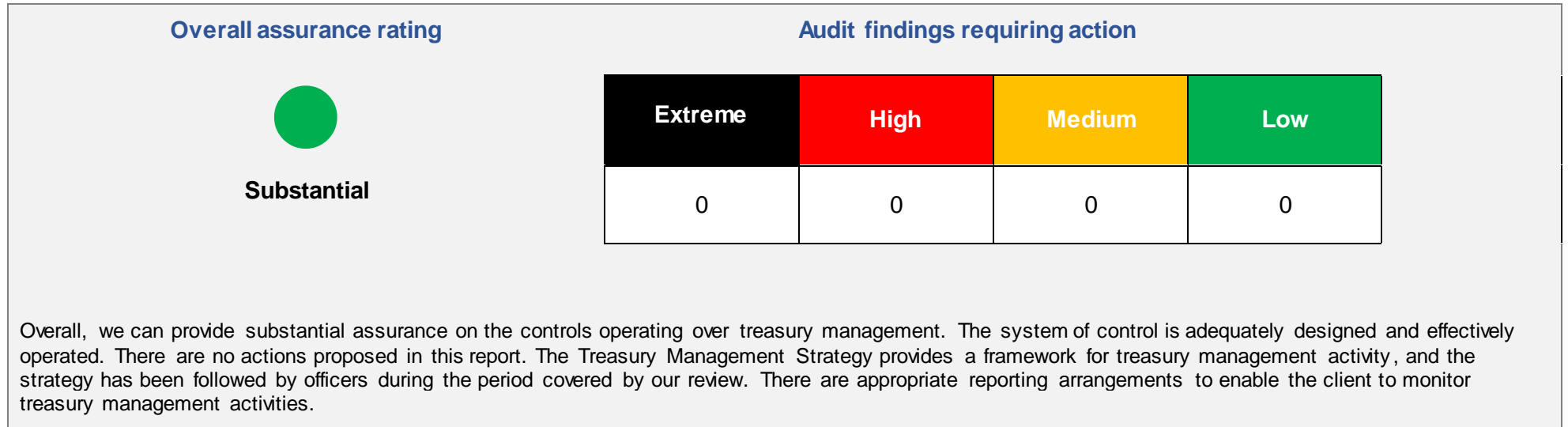
There is an SLA in place, which sets out the respective roles and responsibilities of LCC and LFRS. The SLA was signed by LCC (Director of Finance) on 12 March 2024 and signed by LFRS (Director of Corporate Services) on the 19 Jan 2024. Although the SLA should be signed before the commencement of the agreement, we have not raised this as an issue as LCC and LFRS have a long-standing established relationship and understanding. Additionally, there has not been issues or concerns in the past, and LFRS are confident that should there be any issues, they will be able to address them immediately.

We can confirm that all the staff who have GL responsibilities are current LFRS staff. Additionally, the virements and feeder files we sampled were all appropriate with the necessary approval documentations, and the control accounts reconciliations were up to date, and the error corrections had all been cleared.

We can confirm that the 2023/24 budget was approved by the Lancashire Combined Fire Authority Committee and budget monitoring takes place corporately and departmental wise.

A Financial Monitoring Report which sets out the current budget position is produced for the Executive Board and the Resources Committee. Additionally, a Quarterly Measuring Progress Performance Report is also populated for the Senior Management Team and the Performance Committee.

Treasury Management



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 2023/24.
- 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.*

Lancashire Combined Fire Authority Audit Committee

Meeting to be held on 8 July 2024

External Audit – Audit Plan 2023/24

(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 2023/24.

Decision Required

The Committee are asked to agree the external audit plan for 2023/24.

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 is £97,626.

Legal Implications

None

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

Appendix A: External Audit Plan

External audit plan

Year ending 31 March 2024

Lancashire Combined
Fire Authority
31
April 2024



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council 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

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Our recent value for money work has highlighted a growing 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 have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report [About time?](#) In March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Key matters - continued

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 in this Audit Plan will be discussed with the Director of Corporate Services.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers.
- 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 interpretations, to discuss issues with our experts and to facilitate 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 ongoing financial pressures. We are required to identify a significant risk with regard to 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

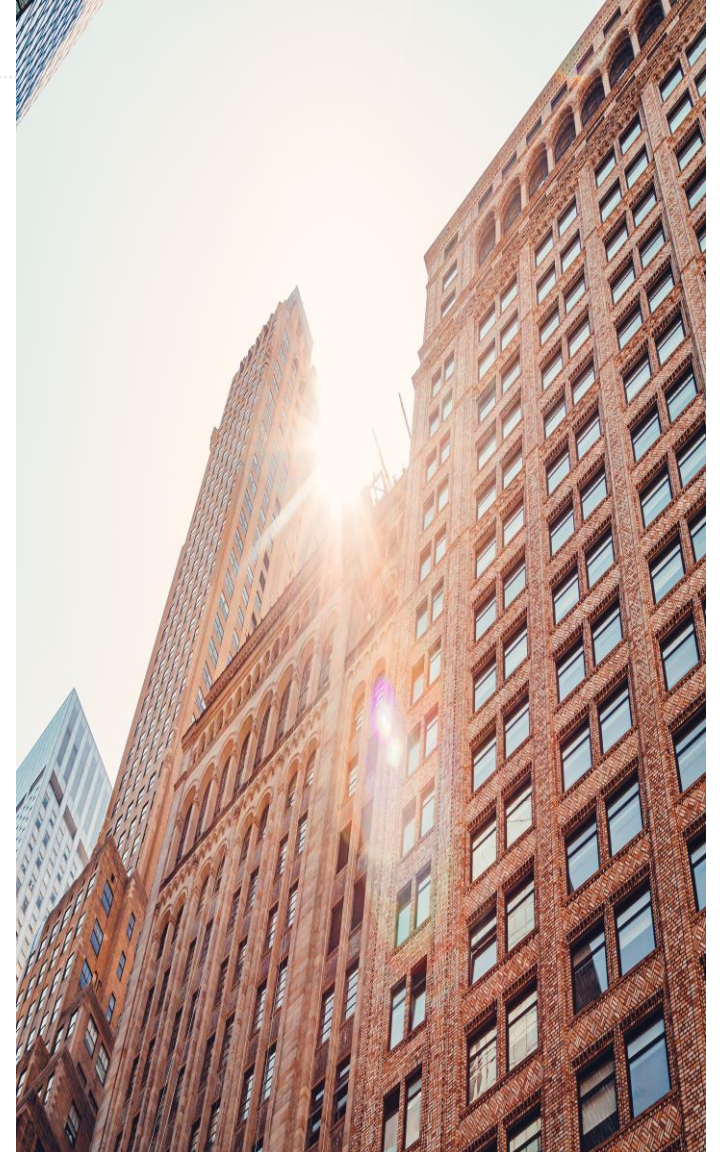
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment 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 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 of override of controls
- Valuation of Land and Buildings
- Valuation of the pension fund net liability/ surplus

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 £1,256k (2022/23 £1,182k) for the Authority, which equates to 2% of your prior year gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £62.8k (2022/23 £59.1k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risk of significant weakness:

- Financial sustainability

This is because we identified a significant weakness in this area in 2022-23 and will need to follow up the Authority's actions to ensure our recommendations have been addressed.

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Audit logistics

Our planning and interim visit will take place in March 2024 and our final visit will take place from July to September 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is a hybrid approach of on-site working alongside your officers and remote working.

Our proposed fee for the audit will be £92,606 (2022/23: £52,095) for the Authority, subject to the Authority delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

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
Improper revenue/ expenditure Recognition	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>Practice Note 10, issued by the FRC, states auditors should also consider that material misstatements may occur by the manipulation of expenditure recognition.</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. We will continue to review material revenue and expenditure transactions as part of our audit ensuring that it remains appropriate to rebut the presumed risk of revenue/ expenditure recognition for the Authority.</p>	<p>As we do not consider this to be a significant risk for the Authority, we will not be undertaking any specific work in this area other than our normal audit procedures.</p> <p>We will:</p> <ul style="list-style-type: none"> • review and test, on a sample basis, revenue and expenditure transactions, ensuring that it remains appropriate to rebut the presumed risk of revenue and expenditure recognition. • design and carry out appropriate audit procedures to ascertain the recognition of revenue and expenditure is in the correct accounting period using cut-off testing.

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‘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 - continued

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 controls, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Authority, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of land and buildings	<p>The Authority revalue 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 (£118.3m in 2022/23) represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally for land and buildings, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where annual valuations are not carried out.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's valuation of land and buildings are not materially misstated and evaluate the design of the associated controls • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year including investment properties, to see if they had been input correctly into the Authority's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the Pension Fund net liability/surplus	<p>The Authority's pension fund net liability/ surplus, which is reflected in its balance sheet as part of the Other long-term liability, represents a significant estimate in the financial statements.</p> <p>For the two pension schemes that the Authority participates in:</p> <ul style="list-style-type: none"> The Fire fighter pension fund is unfunded and has a net liability balance (£651.5m in 2022/23). The Local government pension scheme is funded and has a net asset balance (£19.9m in 2022/23, capped to £nil in financial statement after reflecting the impact of IFRIC14 – IAS 19: the limit on a defined benefit asset.) <p>The above balances are considered significant estimates due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified the valuation of the Authority's pension fund net liability/surplus 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/ surplus 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/ surplus; 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; review management's assessment of IFRIC14 and complete our own audit procedures; 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 financial statements, consider and decide upon any objections received in relation to the 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 2022/23 audit of the Authority's financial statements, which resulted in 7 recommendations being reported in our 2022/23 Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>Medium</p>	<p>Fixed asset register</p> <p>As part of our work testing the detail for individual assets held within the fixed asset register, we noted that 9 assets had negative net book values at 31 March 2023. This is due to excess depreciation charged against the cost or value. The total excess depreciation was £190k on assets with a gross value of £587k, resulting in additional depreciation charged against the assets.</p> <p>In addition, there are almost £6m assets in the FAR with nil NBV's which need reviewing to determine any residual useful economic lives (UEL's) and continuing usage.</p> <p>We recommended the Authority examine the fixed asset register to ensure excess depreciation is not charged against fully depreciated assets and correct this for future years. It should also examine those assets with nil NBV's to determine any residual UEL.</p>	<p>Management response</p> <p>The asset register is currently under review to address issues raised.</p> <p>Auditor comment</p> <p>To be followed up during the 2023/24 audit</p>
<p>Medium</p>	<p>Journal entry testing</p> <p>As part of our work testing the journals, we identified an issue with journals listing we obtained as it did not contain the complete information such as the preparer name and the name of person authorizing the journal.</p> <p>The system allows journals to be self-authorized and we found this did occur in some cases. This is a control risk, although not uncommon in smaller finance teams. The Authority does have an additional review process to compensate for this control issue.</p> <p>We recommended the Authority investigates whether the system can be updated to include details of preparer/authorizer.</p>	<p>Management response</p> <p>A new process has been in place for the whole of 2023/24 recording the journal preparer and approver. The approval of journals is required by accountants, or more senior members of the finance team, and this is required to be saved within the manual journal file. A journal register records the unique journal reference, accounting period, preparer and approver.</p> <p>Auditor comment</p> <p>To be followed up during the 2023/24 audit</p>

Progress against prior year audit recommendations - continued

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Medium	<p>Depreciation on assets brought into use</p> <p>The Authority do not charge depreciation on assets in the year of acquisition and when brought into use as required by the CiPFA Code ref 4.1.2.44. Depreciation is charged from the following financial year.</p> <p>The impact of this for the 2022-23 financial statements would be a maximum £46k on the assumption assets were bought into use on receipt, which the Authority states is unlikely.</p> <p>Although there is no significant impact on the 2022-23 financial statements in not charging depreciation on assets when first brought into use this is not in line with the CiPFA Code we recommend the Authority examine this policy for future years.</p> <p>It should ensure the economic benefit from newly acquired assets, particularly those with a significant value, are charged appropriately in the financial statements to reflect the period of use.</p>	<p>Management response</p> <p>Consideration will be addressed with the audit committee.</p> <p>Auditor comment</p> <p>To be followed up during the 2023/24 audit</p>
Medium	<p>Business users with inappropriate administrative access to Oracle EBS and Oracle Fusion</p> <p>This deficiency has the potential to impact the audit approach due to the pervasive nature of the deficiency. There is a risk that erroneous postings have been made due to the privileges held.</p> <p>We recommend the Authority looks into whether the system can be updated for the user accesses to both the systems.</p>	<p>Management response</p> <p>Work is ongoing with LCC for robust control of access.</p> <p>Auditor comment</p> <p>To be followed up during the 2023/24 audit</p>

Progress against prior year audit recommendations - continued

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Medium	<p>Lack of proper documentation retention of the IT project activities</p> <p>This deficiency has the potential to impact the audit approach due to the pervasive nature of the deficiency. There is a risk that</p> <ul style="list-style-type: none"> - non-standard reports have not been sufficiently tested as part of the project activities - system configurations have not been sufficiently tested - the opening balances may not be complete and accurate, or there could be presentational differences from the change to the chart of accounts. <p>We recommend the Authority ensures to retain proper documentation of the IT project activities and consider the potential impacts we have mentioned relating to the deficiency.</p>	<p>Management response</p> <p>Regular meetings are held with LCC on progress of remaining non-standard reports still in development.</p> <p>Auditor comment</p> <p>To be followed up during the 2023/24 audit</p>
Medium	<p>Insufficient retention of documents related to Oracle Fusion system changes and access provisioning</p> <p>User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data.</p> <p>We recommend the Authority ensures proper documents related to Oracle Fusion system changes and access provisioning.</p>	<p>Management response</p> <p>LFRS have an ongoing open request with LCC for user access reporting to manage and control accesses.</p> <p>Auditor comment</p> <p>To be followed up during the 2023/24 audit</p>
Medium	<p>Lack of formal process in managing Oracle Fusion self-assigned roles</p> <p>User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data.</p> <p>We recommend the Authority ensures appropriate alignment to job role requirements which may not lead to inappropriate access within the application or underlying data.</p>	<p>Management response</p> <p>There are robust inhouse controls to manage the LFRS approval hierarchy, including regular review by the Financial Accountant.</p> <p>Auditor comment</p> <p>To be followed up during the 2023/24 audit</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 financial year. Materiality at the planning stage of our audit is £1,256k (2022/23 £1,182k) which equates to 2% of your prior year gross expenditure for the year.</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"> – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £10k.

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	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</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>
4	<p>Other communications relating to materiality we will report to the Audit Committee</p> <p>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.</p>	<p>We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £62.8k (2022/23 £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.</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.

	Amount (£)	Qualitative factors considered
Materiality for the Authority financial statements	1,256,340	This equates to 2% of your gross operating expenditure for the 2022/23 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	879,438	The performance materiality has been set at 70% of financial statement materiality. This reflects a standard benchmark based on risk assessed knowledge of potential for errors arising.
Trivial matters	62,800	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.



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.

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:

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IT system	Audit area	Planned level IT audit assessment
Oracle Fusion: 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 2024

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:

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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.



Risks of significant VFM weaknesses

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

Potential types of recommendations

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

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Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

Risks of significant VFM weaknesses – continued

The Audit Code sets out that the auditor’s work is likely to fall into three broad areas:

- planning;
- additional risk-based procedures and evaluation; and
- reporting.

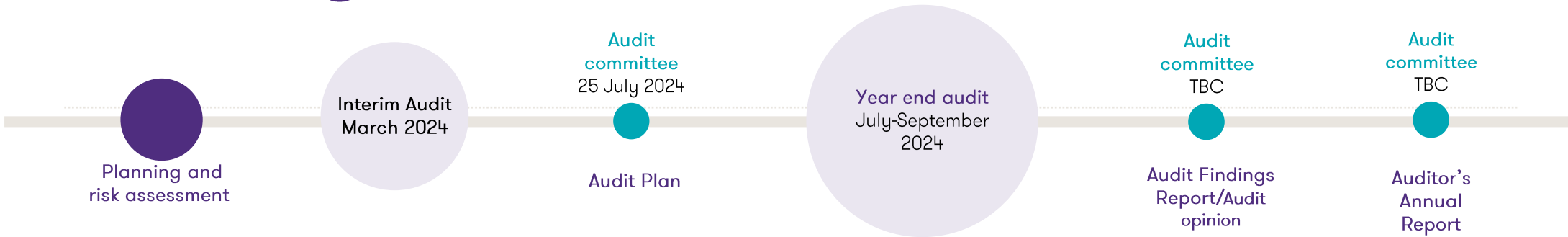
We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. A key part of this is the consideration of prior year significant weaknesses and known areas of risk which is a key part of the risk assessment for 2023/24. Since we reported on 2022/23, we have not identified any additional risks of significant weakness in relation to your 2023/24 arrangements. We set out our reported assessment below:

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Criteria	2022/23 Auditor judgement on arrangements informing our initial risk assessment	Additional risk-based procedures planned
Financial sustainability	Red Significant weakness in arrangements identified in relation to the Authority’s level and use of reserves to manage its financial position. One key and one improvement recommendation has been made.	We will follow up progress against the key and improvement recommendations made and ensure that our work assesses the current arrangements in place.
Governance	Amber No significant weakness in in arrangements identified but five improvement recommendations made.	We will follow up progress against the improvement recommendations made and ensure that our work assesses the current arrangements in place.
Improving economy, efficiency and effectiveness	Amber No significant weakness in in arrangements identified but two improvement recommendations made	We will follow up progress against the improvement recommendations made and ensure that our work assesses the current arrangements in place.

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

Audit logistics and team



Georgia Jones, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers

Ying Li, Audit Manager

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and 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, 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 set out on our Inflow system
- ensure that the agreed data reports are cleansed, are made 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

Audit fees are set by PSAA as part of their national procurement exercise. In 2017 PSAA awarded a contract of audit for Lancashire Combined Fire Authority to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £92,606.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor’s annual report for the previous Audit Year
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here <https://www.psa.co.uk/appointing-auditors-and-fees/fee-variations-overview/>

Assumptions

In setting these 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
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24
Lancashire Combined Fire Authority Audit	£92,606
ISA 315	£5,020
Total audit fees (excluding VAT)	£97,626

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Previous year

In 2022/23 the scale fee set by PSAA was £29,295. The actual fee charged for the audit was £52,095. The 22/23 Audit Findings Report set out the breakdown of additional fees.

Relevant professional standards

In preparing our fees, 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.

IFRS 16 'Leases' and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Authority to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

“a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Authority's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures we send planning enquiries letters, i.e., Informing the audit risk assessment and Accounting estimate management summary, which consist of a series of questions about obtaining an understanding of management processes and those charge with governance's oversight of the following areas: general enquiries of management, fraud, laws and regulations, related parties, and accounting estimates. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

[IFRS 16 Application Guidance December 2020.docx \[publishing.service.gov.uk\]](#)

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	•	
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	•	•

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.

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.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
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		•

Respective responsibilities

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.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Finance Director(s) to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Audit Committee (at next available Audit Committee meeting or in writing to Audit Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the audit committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

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Lancashire Combined Fire Authority Audit Committee

Meeting to be held on 8 July 2024

Annual Governance Statement 2023/24 (Appendices A, B and C refer)

Contact for further information: Steven Brown - Director of Corporate Services
Tel: 01772 866804

Executive Summary

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

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

The annual review of the Local Code of Governance has also been undertaken and is included for approval.

Recommendation

The Committee is asked to:

- Note and endorse the self-assessment (Appendix A) and the Annual Governance Statement (Appendix B) based on this and recommend that the Chairman of the Authority signs the Statement.
- Note and endorse the updated Local Code of Governance (Appendix C).

Background

1. The Authority is required to produce an Annual Governance Statement as part of the year end process for 2023/24.
2. The Audit Committee has previously approved a Local 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 annual review has been completed and this is included as Appendix C with the changes annotated in the Code.
3. 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.
4. Included within the Code are the following core principles:-

- a. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
 - b. Ensuring openness and comprehensive stakeholder engagement
 - c. Defining outcomes in terms of sustainable economic, social, and environmental benefits
 - d. Determining the interventions necessary to optimise the achievement of the intended outcomes
 - e. Developing the entity's capacity, including the capability of its leadership and the individuals within it
 - f. Managing risks and performance through robust internal control and strong public financial management
 - g. Implementing good practices in transparency, reporting, and audit to deliver effective accountability
5. In order to assess the effectiveness of the Authority's current arrangements a self-assessment has been undertaken by the Executive Board, considering the various sources of assurance which support the core principles outlined above, and the outcome of this is attached as appendix A. One of the key elements of this is external assurance on our systems, and this is provided by our auditors, both of whom provide positive reports, and by the HMICFRS Inspection which rated the Service as Good.
6. The Annual Governance Statement is attached as appendix B for the Committee to consider and endorse.

Financial Implications

7. As outlined in the report

Legal Implications

8. None

Business Risk Implications

9. None

Environmental Impact

10. None

Equality and Diversity Implications

11. None

Human Resource Implications

12. None

Local Government (Access to Information) Act 1985

List of background papers NA

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

Appendix A: Self-Assessment

Appendix B: Annual Governance Statement

Appendix C: Local Code of Governance

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Appendix A

Self Assessment

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

Appendix A

Key Elements Of Governance	Assess- Ment	Comments
		The Monitoring Officer and Treasurer/Director of Corporate Services attend Authority/Committee to provide advice as required.
Documenting a commitment to openness and acting in the public interest, and compliance with the principles of Data Transparency.	Good	<p>Compliance with Transparency code</p> <p>Publication scheme on the website</p> <p>Compliance with FOI requirements</p> <p>Pay Policy Statement approved by the full Authority and published on the service website</p> <p>Annual Report</p> <p>Annual Assurance Statement</p> <p>Public meetings</p> <p>Publication of information on website, including Committee agenda and minutes</p> <p>Information Management Strategy updated</p>
Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.	Good	<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>

Appendix A

Key Elements Of Governance	Assess- Ment	Comments
		<p>Key documents published on internet</p> <p>Constructive dialogue with representative bodies</p> <p>Register of complaints and compliments, no substantiated complaints against the service</p> <p>Annual Assurance Statement available on the website</p> <p>The External Auditors Annual Audit Letter did not identify any issues</p> <p>Internal Audit provided substantial assurance regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control</p> <p>Recommendations from audit reviews implemented</p> <p>HMICFRS Inspection rated the Service as Good in all categories, other than Outstanding in Culture. No major areas for improvement identified</p> <p>HMICFRS undertook a C-19 Thematic inspection which concluded that “the service adapted and responded to the pandemic effectively”</p>
<p>Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.</p> <p>Translating the vision into objectives</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>

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Key Elements Of Governance	Assess- Ment	Comments
for the authority and its partnerships.		<p>Consultation and Communication Strategy setting out how we will consult with public and service users</p> <p>Assessment of compliance with National Framework</p> <p>Effective Corporate Programme Board arrangements, split into 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> <p>Terms of reference for all Programme Board items agreed at outset and delivery against these monitored on a quarterly basis</p>
Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision making in partnerships, information provided to decision makers and robustness of data quality.	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>

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Key Elements Of Governance	Assess- Ment	Comments
		ICT Disaster Recovery Plan in place
<p>Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.</p>	<p>Good</p>	<p>Comprehensive performance management information presented to SMT/Performance Committee on a regular basis. A replacement Performance Management System is required</p> <p>KPIs agreed with monitoring arrangements in place</p> <p>Annual Report</p> <p>HMICFRS Inspection regime</p> <p>Operational Assurance Audit Team to review:-</p> <ul style="list-style-type: none"> • operational preparedness • operational response • operational learning <p>The quarterly publication - Safety Health and Environment and Operational Assurance Performance Summary identifies learning from incidents etc.</p> <p>External Audit review</p> <p>Comprehensive financial information reporting framework. An upgraded Finance System was implemented, this will further improve governance arrangements.</p> <p>Medium Term Financial Plan and balanced budget in place</p> <p>Service reviews identified to deliver savings</p>

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Key Elements Of Governance	Assess- Ment	Comments
		<p>Resources redirected into priority areas</p> <p>Consistently exceeded efficiency targets</p>
<p>Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements.</p>	<p>Good</p>	<p>Committee terms of reference agreed, supported by Standing Orders, and Scheme of Delegation and Financial Regulations</p> <p>Strategy Group meetings inform members of developments in a less formal manner</p> <p>Member/Officer protocol in place setting out respective roles and relationships etc.</p> <p>Member champions covering:-</p> <ul style="list-style-type: none"> • Equality, Diversity and Inclusion • Community Safety • Road Safety • Health and Wellbeing <p>Job descriptions for all staff</p> <p>Regular briefing sessions before Committees and as and when required</p> <p>Induction/training provided to all members</p>
<p>Ensuring the authority's financial management arrangements conform with the governance requirements of CIPFAs FM Code and the CIPFA Statement on the Role of the Chief</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</p>

Appendix A

Key Elements Of Governance	Assess- Ment	Comments
financial Officer in Local Government and, where they do not, explain why and how they deliver the same impact.		<p>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>
Ensuring effective arrangements are in place for the discharge of the monitoring officer function.	Good	<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>
Ensuring effective arrangements are in place for the discharge of the head of paid service function.	Good	<p>CFO is the head of paid service</p> <p>Regular appraisal with Chairman</p>
Providing induction and identifying the development needs of members and senior officers in relation to their	Good	<p>Member Training and Development Committee</p> <p>All Members subject to a one to one to identify training and development</p>

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Key Elements Of Governance	Assess- Ment	Comments
strategic roles, supported by appropriate training.		needs. Specific Member training budget to address outcomes of this Senior Officers subject to appraisal system, including identification of training and development needs
Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability.	Good	Comprehensive Risk Mgt Strategy Corporate Risk Register Corporate Programme Board items include an assessment of risk Strategic Business Continuity Plan (BCP) in place and tested on a regular basis. Departmental Business Impact Assessments and Recovery Plans in place. Specific BCP training provided to Heads of Dept HMICFRS undertook a C-19 Thematic inspection which concluded that “the service adapted and responded to the pandemic effectively” Additional resilience built into ICT network Appropriate insurance arrangements
Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained.	Good	Anti-fraud policy Upto date Fraud risk assessment in place Full compliance with National Fraud Initiative
Ensuring the assurance arrangements conform with the governance requirements of the CIPFA Statement	Good	Internal Audit is outsourced to Lancashire County Council

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Key Elements Of Governance	Assess- Ment	Comments
<p>on the Role of the Head of Internal Audit and, where they do not, explain why and how they deliver the same impact.</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>
<p>Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities.</p>	<p>Good</p>	<p>Audit Committee established and terms of reference agreed, covering core functions of an Audit Committee</p> <p>Audit Committee have access to both Internal and external auditors, and are provided with an opportunity to discuss issues without Officers being present</p>
<p>Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations</p>	<p>Good</p>	<p>Audit Committee established</p> <p>All core functions of an Audit Committee are covered by the existing terms of reference</p> <p>Head of Internal Audit has direct access to Audit Committee, Treasurer, Clerk and Chief Fire Officer as well as Members of the Authority</p> <p>Audit Committee have access to both Internal and external auditors, and are provided with an opportunity to discuss issues without Officers being present</p> <p>One significant issue identified by External Auditor and subsequently address in setting the Budget and Medium Term Financial Strategy for 2024/25, see</p>

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Key Elements Of Governance	Assess- Ment	Comments
		Auditor's Annual Report including management comments: Auditors Annual Report template - Fire and rescue - 21-22 (lancsfireandrescue.org.uk) .
Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance structures.	Good	Statement of Intent signed with Lancashire Constabulary and NWAS Collaboration Group established, with regular reports to members
Staff resources are adequate in numbers and skills to deliver the service objectives. The roles and responsibilities of staff and members have been clearly defined and are understood, and appropriate guidance and training are in place	Good	<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

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Key Elements Of Governance	Assess- Ment	Comments
		<ul style="list-style-type: none"> • 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> <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>

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Key Elements Of Governance	Assess- Ment	Comments
<p>There are adequate contingency procedures to ensure that services can be resumed in case of emergency.</p> <p>Contingency procedures are well communicated.</p>	<p>Good</p>	<p>Strategic BCP in place and tested on a regular basis. Departmental Business Impact Assessments and Recovery Plans in place. Specific BCP training provided to Heads of Dept.</p> <p>BCP is considered as a standing item on SMT</p> <p>BCP plan tested on a regular basis, and amended as required</p> <p>Active member of Lancashire Resilience Forum</p> <p>Appropriate BCP arrangements in place in respect of systems and information,</p> <p>HMICFRS undertook a C-19 Thematic inspection which concluded that <i>“the service adapted and responded to the pandemic effectively..... In line with good governance, the service had business continuity plans in place. The service relied on the county LRF pandemic flu plan as it didn’t have its own. These plans were activated.”</i></p>
<p>Processes have been established to ensure that corporate and local service policies and procedures are implemented effectively and are periodically reviewed.</p>	<p>Good</p>	<p>System of internal control established</p> <p>Policies and service orders are regularly reviewed, in line with an agreed timetable</p> <p>Internal audits over the year gave a Limited Assurance opinion on one audit, District Planning, and identified two high priority recommendations as part of this audit</p> <p>External audit reviews have identified one significant weaknesses, see previous comments regarding audit findings</p>

Statement On Annual Governance Arrangements by The Chairman of The Combined Fire Authority, The Treasurer To The Combined Fire Authority And The Chief Fire Officer

Scope of Responsibility

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

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

The Authority approved and adopted an updated Local Code of Corporate Governance in 2018 and this was reviewed by the Audit Committee in July 2024. It aligns with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government Framework 2016*. Included within the Code are the following core principles:-

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

(A copy of the code, setting out the core and supporting principles, what the Authority commits itself to do and how it will do this can be found on our website at **[To be added]**).

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

The Purpose of the Governance Framework

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

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

The governance framework has been in place at the Authority for the year ended 31 March 2024 and up to the date of approval of the 2023/24 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 is 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).
- Lancashire Fire and Rescue Service has six core strategies: our People, Prevention, Protection, Response, Financial and Digital Strategies. Our prevention, protection and response activities address the fire and rescue related risks that are identified in those strategies and outline the measures in place and actions we take to make Lancashire safer. Each strategy is periodically reviewed and evaluated to ensure we are delivering against our outlined objectives and are doing so in the most efficient and effective way. Wherever necessary, changes will be made within each strategy to ensure we operate in line with our aim, priorities and values.
- 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 2023-2024 | Lancashire Fire and Rescue Service \(lancsfireandrescue.org.uk\)](#);

- 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 2024-2025 | Lancashire Fire and Rescue Service \(lancsfireandrescue.org.uk\)](#);
- 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 follow similar format and report to the Corporate Programme Board;

- The Authority operates a Committee Structure aligned to strategic objectives, within agreed Terms of Reference, as follows:-
 - The Audit Committee - To advise on the adequacy and effectiveness of the Authority's Internal and External Audit Service and risk management arrangements, which operates in line with the core functions identified in CIPFAs Audit Committees – Practical Guidance for Local Authorities.
 - The Resources Committee - To consider reports and make decisions relating to financial, human resources and property related issues.
 - The Planning Committee - To consider reports and make decisions relating to all aspect of planning arrangements, including consultation and communication arrangements.
 - The Performance Committee - To consider reports and make recommendations on all aspects of performance management.
 - The Appeals Committee -To hear relevant appeals, grievances and complaints.
- Clear management structure within the Service. The Executive Board, comprising the Chief Fire Officer (head of paid service), and 4 Executive Directors, is responsible for determining policy, monitoring performance and developing

service plans in line with the Authority's overall strategic objectives and is assisted in this process by the Service Management Team;

- The Combination Scheme Order, Standing Orders, Terms of Reference of individual Committees, Scheme of Delegation and Financial Regulations establish overall arrangements for policy setting and decision making and the delegation of powers to members and officers;
- Comprehensive suite of strategies and policies in place and regularly reviewed;
- Codes of Conduct for members and officers, and member/officer protocol, which set out clear expectations for standards of behaviour;
- Both the Monitoring Officer and Treasurer are involved in the Authority's decision-making process, and ensure compliance with established policies, procedures, laws and regulations; All Authority reports are considered for human resource, financial, business risk, environmental and equality and diversity implications in order to identify key issues;
- The Treasurer's role and financial management arrangements align with requirements set out in CIPFAs Statement on the Role of the Chief Financial Officer in Local Government and CIPFAs Financial Management Code;
- Well publicised arrangements for dealing with complaints and whistleblowing, and for combating fraud and corruption;
- A Risk Management Strategy and framework which ensures that risks to the Service's objectives are identified and appropriately managed;
- Comprehensive Business Continuity arrangements in place, and tested on a regular basis;
- A framework to review potential partnership arrangements utilising set criteria prior to entering into such arrangements;
- Compliance with data transparency requirements, including publication of all key documents, committee agenda and minutes, pay policy and publication scheme on the internet;
- Regular assessment of training & development needs of both members and officers, including appropriate appraisal system. Sufficient budget to meet relevant training requirements; 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 April 2024, it sets out the effectiveness of the governance arrangements for which it is responsible, including the system of internal control. The statement of assurance covers all the principles set out in the Authority's Code of Corporate Governance. The statement of assurance reveals no areas of weakness in the Authority's corporate governance arrangements; the arrangements are in all cases at least adequate and in the majority of areas good.

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

- A review of minutes of the Executive Board, Audit Committee and Authority to ensure that periodic monitoring and reviews are being reported appropriately and governance issues are 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) in 2022 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 is performing exceptionally well and has 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 has improved in almost all areas since then. The next inspection is due in 2025.
- A new Annual Service Plan has been published, providing clarity, both internally and externally, on our priorities set out in the CRMP and describes what our ambitions are for each priority, as well as setting out the projects and actions that will be delivered, developed or reviewed during the coming year against each of our priorities. This is supported by Local Delivery Plans.
- Statement of Intent: Enhanced Collaboration agreed between LFRS, Lancashire Constabulary and Northwest Ambulance Services. Collaboration group established with regular reports to Members.

- An Organisational Assurance Team. The newly formed Organisational Assurance team under Planning, Performance and Assurance, will now have a broader reference than just a focus on operational assurance. The team has the responsibility for HMICFRS liaison, operational preparedness and will undertake internal audits/ assurance across the whole organisation based on trends, themes and emerging needs. The team will identify and share good practice as well as areas for improvement, items will be tracked through to completion. The Organisational Assurance team will work closely with the Operational Assurance team (under Training and Operational Review) who have the responsibility for operational learning and response. The Operational Assurance team will continue to create the operational assurance performance summary which is published quarterly. A programme of preparedness visits will be managed by the Organisational Assurance team which has expanded on the operational audits undertaken previously.
- Performance appraisal incorporating values is undertaken throughout the Service.
- Internal Audit services were provided by Lancashire County Council, who comply with CIPFA's Code of Internal Audit Practice. The Head of Internal Audit is required by professional standards to provide an opinion addressing governance, risk management and control and thereby to provide assurance that the risks to the objectives of Lancashire Combined Fire Authority are being adequately and effectively controlled. As part of the 2023/24 internal audit plan the auditors undertook various reviews and gave the overall opinion that they can "**provide substantial assurance** regarding the adequacy of design and effectiveness in operation of the organisation's frameworks of governance, risk management and control."
- The Authority's external auditors are Grant Thornton, they are required to consider whether the service has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Their conclusions are set out below:
 - Financial Sustainability – "Significant weakness in arrangements identified in relation to the Authority's level and use of reserves to manage its financial position". Note that this has now been addressed as part of setting the 2024/25 MTFS; the general reserve remains at c£1m above the minimum level of reserves for the duration of the five-year period of the MTFS.
 - Governance – "No significant weaknesses in arrangements identified".
 - Improving economy, efficiency and effectiveness - "No significant weaknesses in arrangements identified".
- On 3 April 2024 Grant Thornton gave an unqualified opinion on the Authority's finance statements ended 31 March 2023.

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 will commence.	Work has progressed on developing the KPI suite for Service level performance reporting and user acceptance testing is well underway. Two service level KPIs remain in development, and relevant communications and training delivery plans are being drafted ahead of rollout. Regarding the development of internal (front-end) PowerBi dashboards, the first dashboard for Finance Dept. is due to be released by the end of quarter one. Two further dashboards, one for service delivery and one for on call performance, are also in development.	Ongoing	Head of Service Improvement
An upgraded Finance system will be implemented in April 2022, as part of that we will review and implement improvements to the monthly budget monitoring process, making greater use of additional functionality provided.	Improvements to the monthly budget monitoring process have been developed and tested and are being rolled out over the summer of 2024.	Ongoing	Head of Finance
Identify a mechanism to report to Members of the CFA our response to national recommendations made by the HMICFRS during the year.	Regular HMICFRS updates are provided to CFA members via a specific HMICFRS update paper to every planning committee. Members are also provided with a HMICFRS update on Strategy day via a presentation, this includes an overview of the annual 'State of fire' report and any recommendations.	Completed	Head of Service Improvement

	Regarding the HMICFRS values and culture recommendations, progress is reported alongside LFRS equality action plan which is provided to CFA members.		
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Significant governance issues

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

A number of improvement recommendations and one significant governance issue was identified as part of the external audit. The significant government issue relating to the Authority's level and use of reserves to manage its financial position was addressed in February 2024 as part of setting the Budget and Medium Term Financial Strategy for 2024/25; the general reserve remains at c£1m above the minimum level of reserves for the duration of the five-year period of the MTFs. The detail of this issue, improvement recommendations and management comments are included in the '[Auditors Annual Report template - Fire and rescue - 21-22 \(lancsfireandrescue.org.uk\)](https://www.lancsfireandrescue.org.uk)'. We are satisfied that the steps set out in the management comments will address the improvements identified in our governance arrangements.

Approved:

David O'Toole

Justin Johnston

Steven Brown

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]

Appendix C

Code of Corporate Governance

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law		
Behaving with integrity	Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation.	Code of Ethics Codes of conduct Induction for new members and staff on standard of behaviour expected Financial Regulations, Procedures and Standing Orders Performance appraisals Protocol on Member/Officer relations HR policies and procedures Established governance through the EDIC Board
	Ensuring members take the lead in establishing specific standard values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles).	Authority STRIVE values underpinned by Leadership Framework CRMP Annual Service Plan
	Leading by example and using these values as a framework for decision making and other actions.	Declarations of interests Protocol on Member/Officer relations

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
		Procedural Standing Orders Committee terms of reference Member complaints Annual Governance Statement Annual Assurance Statement
	Demonstrating, communicating and embedding the values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively.	Whistleblowing policy Complaints policy Disciplinary Procedure Bullying and Harassment Policy Members and officers code of conduct refers to a requirement to declare interests Minutes show declarations of interest were sought and appropriate declarations made Register of interests (members and staff) Register of gifts and hospitality Annual Governance Statement Annual Assurance Statement
Demonstrating strong commitment to ethical values	Seeking to establish, monitor and maintain the organisation's ethical standards and performance.	Code of Ethics Bullying and Harassment Policy Codes of conduct Authority STRIVE values Annual appraisals
	Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation.	Codes of conduct Authority STRIVE values Annual appraisal

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
	Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values.	Annual appraisal Procurement strategy
	Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation.	Partnership framework Procurement strategy
Respecting the rule of law	Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations.	Standing orders Financial regulations Statutory officers
	Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements.	Job description/specifications Compliance with CIPFA's <i>Statement on the Role of the Chief Financial Officer in Local Government</i> (CIPFA, 2015) Scheme of delegation
	Dealing with breaches of legal and regulatory provisions effectively.	Clerk to the Authority Contract standing orders
	Ensuring corruption and misuse of power are dealt with effectively.	Financial regulations Contract standing orders Anti-fraud policies and procedures

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
Principle B: Ensuring openness and comprehensive stakeholder engagement		
Openness	Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness.	Annual Service Report Freedom of Information Act publication scheme Annual Governance Statement Annual Assurance Statement Compliance with Transparency code Authority website
	Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided.	Publication of Committee agendas and minutes Public meetings
	Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear.	Authority/Committee timetable Authority Agenda and Minutes
	Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action.	Consultation strategy
Engaging comprehensively with	Effectively engaging with stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that	Consultation strategy

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
institutional stakeholders	outcomes are achieved successfully and sustainably.	
	Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively.	Partnership framework Blue Light Collaboration Board
	Ensuring that partnerships are based on: <ul style="list-style-type: none"> • trust • a shared commitment to change • a culture that promotes and accepts challenge among partners • and that the added value of partnership working is explicit 	Partnership framework
Engaging stakeholders effectively, including individual citizens and service users	Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes.	Consultation strategy
	Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement.	Consultation strategy
	Encouraging, collecting and evaluating the views and experiences of communities, citizens, service	Consultation strategy

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
	users and organisations of different backgrounds including reference to future needs.	
	Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account.	Consultation strategy
Principle C: Defining outcomes in terms of sustainable economic, social, and environmental benefits		
	Having a clear vision which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation's overall strategy, planning and other decisions.	CRMP Annual Service plan
	Specifying the intended impact on, or changes for, stakeholders including citizens and service users.	CRMP Annual Service plan ECR
	Delivering defined outcomes on a sustainable basis within the resources that will be available.	'Measuring Progress' Performance reports
	Identifying and managing risks to the achievement of outcomes.	Risk management policy Corporate Risk Register
Sustainable economic, social and environmental benefits	Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision.	Medium term Financial Strategy Capital Programme

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
	Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints.	CRMP Medium Term Financial Strategy Corporate Risk register Member briefings
	Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs.	Consultation strategy
	Ensuring fair access to services.	Equality Impact Assessments
Determining the interventions necessary to optimise the achievement of the intended outcomes		
Determining interventions	Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore, ensuring best value is achieved however services are provided.	Committee report template Member briefings
	Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands	Consultation strategy CRMP

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
	within limited resources available including people, skills, land and assets and bearing in mind future impacts.	Annual Service Plan Budget/Financial strategy
Planning interventions	Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets.	Authority/Committee timetable Calendar of dates for developing and submitting plans and reports that are adhered to
	Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered.	Consultation strategy Rep body consultation
	Considering and monitoring risks facing each partner when working collaboratively including shared risks.	Partnership framework Blue Light Collaboration Board
	Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to	Performance reporting Planning Committee submissions

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
	identify how the performance of services and projects is to be measured.	Corporate programme Board
	Ensuring capacity exists to generate the information required to review service quality regularly.	Performance reporting Corporate Programme Board projects
	Preparing budgets in accordance with organisational objectives, strategies and the medium term financial plan.	Budget/Medium Term Financial plan Productivity & Efficiency Plan
	Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy.	Budget/Medium term financial plan Productivity & Efficiency Plan
Optimising achievement of intended outcomes	Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints.	CRMP Annual Service Plan Budget/Financial strategy

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
	Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term.	Budget/Medium term financial plan Productivity & Efficiency Plan
	Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage.	Budget/Medium term financial plan Productivity & Efficiency Plan
	Ensuring the achievement of 'social value' through service planning and commissioning. The Public Services (Social Value) Act 2012 states that this is "the additional benefit to the community...over and above the direct purchasing of goods, services and outcomes".	Procurement Strategy

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
Principle E: Developing the entity's capacity, including the capability of its leadership and the individuals within it		
Developing the entity's capacity	Reviewing operations, performance use of assets on a regular basis to ensure their continuing effectiveness.	Performance reports
	Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently.	Service reviews
	Recognising the benefits of partnerships and collaborative working where added value can be achieved.	Partnership framework
	Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources.	People Strategy Organisational Development plan
Developing the capability of the entity's leadership and other individuals	Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained.	Job descriptions Member/officer protocol Member briefings
	Publishing a statement that specifies the types of decisions that are delegated and those reserved for	Scheme of delegation Standing orders Financial regulations

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
	the collective decision making of the governing body.	Terms of reference
	Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority.	Scheme of delegation Standing orders Financial regulations Terms of reference
	<p>Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:</p> <ul style="list-style-type: none"> • ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged. • ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis. • ensuring personal, organisational and system-wide development through shared learning, 	<p>Strategy Group Member Training and Development Working Group Organisational Development Plan Induction programme Appraisals Personal development plans Recruitment & Selection Procedures</p>

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
	including lessons learnt from governance weaknesses both internal and external.	
	Ensuring that there are structures in place to encourage public participation.	Consultation strategy
	Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections.	Member Training and Development Working Group Organisational Development Plan Induction programme Appraisals Personal development plans
	Holding staff to account through regular performance reviews which take account of training or development needs.	Member Training and Development Working Group Organisational Development Plan Induction programme Appraisals Personal development plans Debrief process Quarterly performance reviews across SD
	Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing.	OHU Fitness advisor MIND blue light programme Optimum employee support programme Employee Assistance Programme
Principle F: Managing risks and performance through robust internal control and strong public financial management		
Managing risk	Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making.	Risk management policy Corporate risk register

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
	Implementing robust and integrated risk management arrangements and ensuring that they are working effectively.	Risk management policy Corporate Risk Register
	Ensuring that responsibilities for managing individual risks are clearly allocated.	Risk management policy Corporate Risk Register
Managing performance	Monitoring service delivery effectively including planning, specification, execution and independent post implementation review.	Performance Reporting Corporate Programme Board
	Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook.	Committee timetable Committee report template Member briefings
	Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making.	Terms of reference Training for members
	Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement.	Committee timetable Committee report template Member briefings Performance Reporting Corporate Programme Board
Robust internal control	Aligning the risk management strategy and policies on internal control with achieving the objectives.	Risk management strategy Internal Audit plan External Audit Plan Audit reports

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
	Evaluating and monitoring the authority's risk management and internal control on a regular basis.	Risk management policy Annual Governance Statement Annual Assurance Statement
	Ensuring effective counter fraud and anti-corruption arrangements are in place.	Anti-fraud policy NFI
	Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor.	Annual governance statement Annual Assurance Statement Internal audit Audit Committee
	Ensuring an audit committee or equivalent group or function which is independent of the executive and accountable to the governing body: provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment and that its recommendations are listened to and acted upon.	Audit committee Terms of reference Training
Managing data	Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data.	Designated data protection officer Data protection policies and procedures
	Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies.	Data sharing agreements Data sharing register

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
	Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring.	Data validation procedures
Strong public financial management	Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance.	Budget/Medium term financial plan Productivity & Efficiency Plan Financial Management Code
	Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls.	Budget monitoring reports
Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability		
Implementing good practice in transparency	Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate. Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand.	Annual report Compliance with Data Transparency requirements Pay Policy Accessibility Service Order
Implementing good practices in reporting	Reporting at least annually on performance, value for money and the stewardship of its resources.	Annual report Annual financial statements Annual Governance Statement Annual Assurance Statement

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
	Ensuring members and senior management own the results.	Appropriate approvals by officers and members
	Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement).	Annual governance statement Annual Assurance Statement
	Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate.	Annual governance statement Annual Assurance Statement
	Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations.	Annual report Budget/Medium term financial plan Productivity & Efficiency Plan
Assurance and effective accountability	Ensuring that recommendations for corrective action made by external audit are acted upon Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon.	Annual Audit Report Annual Internal Audit report Compliance with CIPFA's Statement on the Role of the Head of Internal Audit (2010) Compliance with Public Sector Internal Audit Standards

Supporting Principles	To meet the requirement of this principle the Authority will	This will be evidenced by
	Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations.	Peer challenge review Organisational Assurance Team HMICFRS NFCC Fire Standards Board Ofsted
	Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement.	Annual Governance statement Annual Assurance Statement
	Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met.	Partnership framework

Lancashire Combined Fire Authority Audit Committee

Meeting to be held on 8 July 2024

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 are 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

Legal 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

Appendix 1: Enquiries of Management

Appendix 2: Responses from Chair of the Audit Committee

Enquiries of Management

Auditor question	Response
General Questions	
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?	International Accounting Standard 19 (IAS19) valuations. Local Government Pension Scheme IAS19 asset valuations. Property, Plant and Equipment valuations.
2. Have you considered the appropriateness of the accounting policies adopted by Lancashire Combined Fire authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes, accounting policy review carried out in April 2024 – but no policy changes required. 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
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?	Analysis of legal fees paid during 2024 available at interim. Solicitors are used to deal with Property matters, Insurance matters and Prosecutions. 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.
9. Have any of Lancashire Combined Fire Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected	No

Auditor question	Response
misstatements which would affect the financial statements?	
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
<p>1. Have Lancashire Combined Fire Authority assessed the risk of material misstatement in the financial statements due to fraud?</p> <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>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 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>
2. What have you determined to be the classes of accounts, transactions, and disclosures most at risk to fraud?	<p>Potential areas of risk identified (same as previous year):</p> <ul style="list-style-type: none"> • Duplicated payments • Bank mandate fraud

Auditor question	Response
	<ul style="list-style-type: none"> • Payroll • Pensions <p>On that basis the Net Cost of Services 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>None</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>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>	<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>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 	<p>Strong control environment with appropriate internal controls, segregation of duties and financial reporting analysis. We use internal audit annual reviews, in particular for our key financial systems. These reviews give substantial assurance.</p>

Auditor question	Response
<ul style="list-style-type: none"> 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>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>N/A, strong controls are in place.</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>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 doesn't '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</p>

Auditor question	Response
	<p>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>None.</p> <p>Relevant disclosures requested and controls put in place where necessary.</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 identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</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> <p>Internal audit review reports are presented to Audit Committee at each meeting.</p> <p>None identified.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>
Laws and Regulations	
Auditor question	Response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Lancashire Combined Fire Authority have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may</p>	<p>Existence of the in-house solicitor and governance role of the Clerk to the CFA to provide guidance & advice.</p> <p>Prevention - Data protection policies and procedures; Environmental & H&S policies; HR policies</p> <p>Detection - Whistle blowing/anti fraud policies;</p> <p>No</p>

Auditor question	Response
have a significant impact on the Authority's financial statements?	
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 2023/24 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. No actual legal or potential litigations identified.
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 	Yes, this year there are no related party transactions relating to senior officers. 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.

Auditor question	Response
<p>enter into any transactions with these related parties</p> <ul style="list-style-type: none"> the type and purpose of these transactions 	
<p>2. What controls does Lancashire Combined Fire Authority have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>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.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>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.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>We don't 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.</p>
Going Concern	
Auditor question	Response
<p>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>	<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 2024/25 budget and MTFS for the 5 year period, 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</p>

Auditor question	Response
	<p>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> <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.</p>
<p>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?</p>	<p>No, we are not aware of any such factors</p>
<p>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?</p>	<p>We expect to continue to deliver services for the foreseeable future,</p>
<p>4. Are management satisfied that the financial reporting framework permits</p>	<p>Yes, we believe the statements should be prepared on a going concern basis and that</p>

Auditor question	Response
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?	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 2023/24 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.

Auditor question	Response
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 2024, 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

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?
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. 	<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

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?
	<ul style="list-style-type: none"> • Equipment is depreciated over their estimated useful life, ranging from 5 to 20 years. • Vehicles are depreciated over their estimated useful life, ranging from 5 to 15 years. <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</p>				

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?
	each of the years the asset is used.				
Investment property valuations	N/A				
Fair Value Estimates	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 repayable plus accrued interest and the interest charged to the Comprehensive Income and	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. Their fair value can be assessed by calculating the present value of the cash flows	Yes, the Authority uses Treasury Management services from Lancashire County Council.	Management consider the estimation uncertainty based on advice and discussions with external experts and review of similar organisations.	No

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?
	<p>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</p>	<p>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 from the Public Works Loan Board used • This valuation takes into account the penalties that would be payable or discounts receivable on early repayment of loans to the PWLB. These penalties and 			

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?
	<p>Authority has made, this means that the amount presented in the Balance Sheet is 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>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 			

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?
		<p>taken to be the invoiced amount.</p> <ul style="list-style-type: none"> 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</p>	<p>Business rates: reliance on experts.</p> <p>Insurance: Comparisons with previous years</p>	<p>Insurance: None although information is provided from the insurance service provider at the</p>	<p>Insurance: comparison with previous year.</p> <p>Business Rates Appeals: comparison with previous year and other billing authorities.</p>	No

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?
	information provided by billing authorities. Insurance provisions use historical data and known claims.	and management review.	County Council. Business Rates Appeals: No, reliance on information provided by billing authorities.		
Accruals	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 suitable basis for the accounts.	The finance team ensure that the design, methods and models used in assessing accounting estimates of accruals are sound. Material accruals will be reviewed by the finance	No	Assumptions are selected in a range of ways across Finance and are selected and/or reviewed by appropriately qualified and experienced finance staff. Any changes to the assumptions and the effect of these will be assessed as part of the closedown process.	No

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?
		team and management will ensure these processes have taken place.			
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	Comparison with previous years and management	Yes to develop the accounting models.	Assumptions were selected by the external consultant when the PFI models were	No

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?
	<p>which were prepared, based on the operator's financial model, at the commencement of the three PFI schemes.</p> <p>The fair values of the liabilities are calculated informed by the Treasury management advisors.</p>	<p>review of reasonableness.</p>		<p>set up on the commencement of the schemes.</p>	

Responses from Chair of the Audit Committee

Inquiry	Response from Chair of Audit Committee
1. The risks of fraud in the entity, including those that are specific to the entity's business sector.	No material risks identified. There are good governance arrangements in place and strong internal controls as set out in our Annual Governance Statement.
2. Your knowledge of any actual, suspected, or alleged fraud affecting the entity.	None.
3. Whether you have any knowledge of potential litigation or claims affecting the entity.	None.
4. Your knowledge of legislation or regulation related to climate that may impact the entity.	None.

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Lancashire Combined Fire Authority

Audit Committee

Meeting to be held on 8 July 2024

Internal Audit Monitoring Report

(Appendix A)

Contact for further information – (Steven Brown - Director of Corporate Services)
Tel: 01772 866(804)

Executive Summary

The attached report sets out the current position in respect of the internal audit plan for 2024/25.

Recommendation(s)

The Committee is asked to note 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 A and will be presented by the Head of Internal Audit.

Business risk

Effective Internal Audit is a key element of our Governance arrangements.

Sustainability or Environmental Impact

None.

Equality and Diversity Implications

None.

Data Protection (GDPR)

Will the proposal(s) involve the processing of personal data? N

HR implications

None

Financial implications

None.

Legal implications

None.

Local Government (Access to Information) Act 1985

List of background papers

Paper: N/A

Date: N/A

Contact: N/A

Reason for inclusion in Part 2 if appropriate: Insert Exemption Clause

Appendix A: Internal Audit Service monitoring report: period ended 06 June 2024

Lancashire Combined Fire Authority

**Internal Audit Service monitoring report: period ended
06 June 2024**

1 Purpose of this report

1.1 The Internal Audit Plan for 2024/25 was approved by the Audit Committee in March 2024. 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 2024/25 plan. The table at section 3 below provides a summary of the assignments that comprise the 2023/24 audit plan.

2.2 Time spent between 1 April 2024 and 6 June 2024 in completing assignments from the 2023/24 audit programme, has been accounted for within the 2023/24 Annual Report of the Head of Internal Audit.

Use of this report

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

3 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>					
Cyber Security	15	0	15	Not started	N/A
Implementation of learning from National Incidents	15	0	15	Not started	N/A
<i>Business processes</i>					

Accounts payable	9	0	9	Not started	N/A
Accounts receivable	9	0	9	Not started	N/A
General ledger	6	0	6	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	10	1	9	Ongoing	
National Fraud Initiative	1	0	1		
Total	70	1	69		

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.*