

Audit Committee  
Lancashire Combined Fire Authority  
Progress Report and Update  
Year ended 31 March 2017

June 2017

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# Introduction

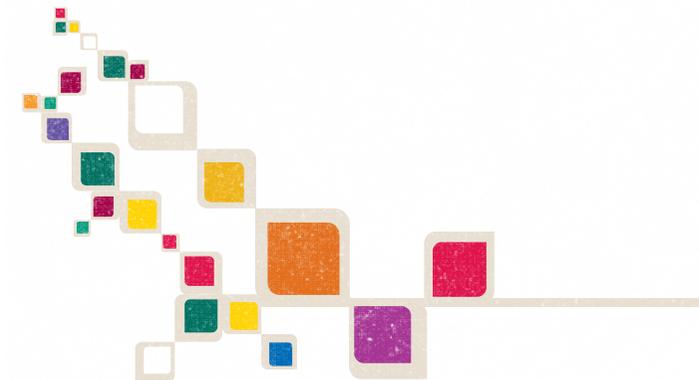
This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

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

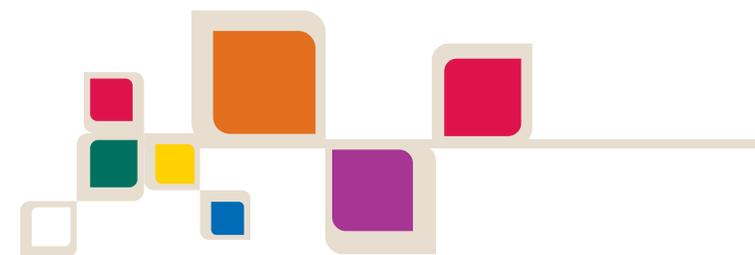
- Fraud risk, 'adequate procedures', and local authorities (December 2016);  
<http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- New laws to prevent fraud may affect the public sector (November 2016);  
<http://www.grantthornton.co.uk/en/insights/new-laws-to-prevent-fraud-may-affect-the-public-sector/>
- Brexit: local government – transitioning successfully (December 2016)  
<http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/>

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

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

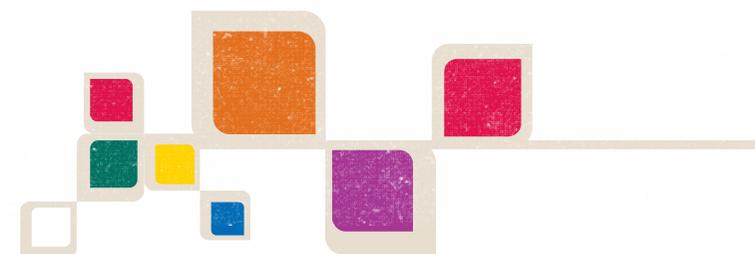


# Progress at March 2017



2016/17 work	Planned Date	Complete?	Comments
<p><b>Fee Letter</b></p> <p>We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016</p>	April 2016	Yes	The fee letter was sent on 21 April 2016. It confirmed the 2016/17 scale audit fee of £30,739 for Lancashire Combined Fire Authority.
<p><b>Accounts Audit Plan</b></p> <p>We are required to issue a detailed accounts audit plan to the Authority setting out our proposed approach in order to give an opinion on the Authority's 2016-17 financial statements.</p>	March 2017	Yes	The audit plan was presented to the March Audit committee.
<p><b>Interim accounts audit</b></p> <p>Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> <li>• updated review of the Authority's control environment</li> <li>• updated understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• Value for Money conclusion risk assessment.</li> </ul>	February to March 2017	Yes	We have completed our interim work at the Authority. As reported in our audit plan in March, we did not identify any significant issues that we needed to bring to your attention.
<p><b>Final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2016/17 financial statements</li> <li>• proposed opinion on the Authority's accounts</li> <li>• proposed Value for Money conclusion</li> <li>• review of the Authority's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16</li> </ul>	July 2017	No	The Audit Findings Report will be presented to the September meeting of the Audit Committee and the Auditor's Report will be given by the deadline of 30 September.

# Progress at March 2017



2016/17 work	Planned Date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	May – July 2017	In progress	<p>We have carried out an initial risk assessment to determine our approach and reported this in our Audit Plan.</p> <p>We will report our work in the Audit Findings Report and give our value for money conclusion by the deadline in September 2017.</p>
<p><b>Annual Audit Letter</b></p> <p>Our Annual Audit Letter summarises the key findings arising from the work that we have carried out for the year ended 31 March 2017.</p>	October 2017	On track	We will issue an Annual Audit Letter to the Authority in line with specified deadlines after the audit of the 2016/17 financial statements.

# Technical Matters



## Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures

## Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

# Sector issues and developments



# Integrated Thinking and Reporting

## Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders*.

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

CIPFA Publications



Grant Thornton



# The Income Spectrum

## Helping local authorities to achieve revenue and strategic objectives to create vibrant economies

Local government is under immense financial pressure to do more with less. The 2015/16 spending review is forecast to result in a £13 billion funding hole by 2020/21 that requires councils to make savings of up to 29 per cent.

Despite this challenge, most councils continue to manage their finances proficiently and have become lean and many local authority chief financial officers (CFOs) are confident they can continue to balance the books.

Income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency. Our report gives local authorities the tools needed to maximise their ability to do so.

Our latest report shares insights on this evolution process and how and why local authorities are reviewing and developing their approach to income generation.

The report draws on:

- learning from public and private sector stakeholders
- Grant Thornton's own experience as an advisor to local government
- analysis from the Grant Thornton/CIPFA CFO Insights tool
- insight from roundtables we convened on the topic in Leeds, Bristol and Exeter.

The key messages arising from the report are:

- councils are increasingly using income generation to diversify their funding base and are commercialising in a variety of ways. This ranges from fees and charges, asset management and company spin-offs, through to treasury investments
- the ideal scenario is investing to earn with a financial and social return. Councils are striving to generate income in a way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.
- stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. While there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development.

## Grant Thornton report

### Questions to help ensure success

- Have all your options to maximise use of revenue and assets been explored?
- Do you understand what your strengths are and what you are less good at compared to the market place?
- How does each department and service compare on net income and cost recovery against neighbours and peers?
- Is it clear how generating income delivers both a financial and social return that is aligned to your local political priorities?
- Are governance processes robust enough to scrutinise business case proposals for new income generation?



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