

# The Audit Findings for Lancashire Combined Fire Authority

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**Year ended 31 March 2017**

September 2017

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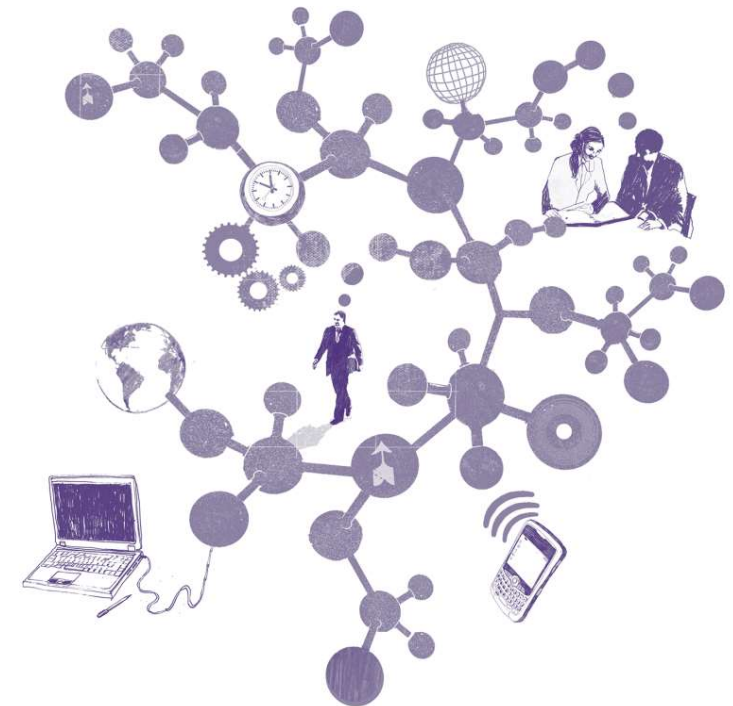
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28 September 2017

Dear Members of the Audit Committee

**Audit Findings for Lancashire Combined Fire Authority for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Lancashire Combined Fire Authority, the Audit Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours faithfully

Karen Murray

Engagement lead

**Chartered Accountants**

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# Section 1: Executive summary

**01. Executive summary**

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05. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Lancashire Combined Fire Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Authority acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Authority or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Authority and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2017..

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## **Key audit and financial reporting issues**

### **Financial statements opinion**

We have identified no adjustments affecting the Authority's reported financial position. The draft financial statements for the year ended 31 March 2017 recorded net expenditure of £41,859k at the net cost of services. We have also agreed a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Authority's financial statements are:

- The accounts were prepared to a high quality and were supported by comprehensive working papers

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

### **Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Authority's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## **Controls**

### **Roles and responsibilities**

The Authority's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Authority.

### **Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

## **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

## **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

### **The way forward**

Matters arising from the financial statements audit and our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Corporate Services

### **Acknowledgement**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**September 2017**

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## Section 2: Audit findings

01. Executive summary

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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £ 928k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £46.4k. This remains the same as reported in our audit plan

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£5k
Disclosure of related party transactions in the notes to the financial statements	Due to public interest in these disclosures.	£20k (Individual misstatements will also be evaluated with reference to how material they are to the other party).

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire Combined Fire Authority, we have determined the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Lancashire Combined Fire Authority, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have</p> <ul style="list-style-type: none"> <li>• reviewed your entity level controls</li> <li>• reviewed your journal entry processes and selected unusual journal entries for testing back to supporting documentation</li> <li>• reviewed accounting estimates, judgements and decisions made by management</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"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&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

# Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of property, plant and equipment</b>                      The Authority revalues its assets on a rolling basis over a five year period. The Code requires that the Authority ensures that the carrying value at the balance sheet date is not materially different from the current value. Management have undertaken a desktop valuation of those assets not revalued in the year.</p> <p>This represents a significant estimate by management in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• Confirmed the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Tested a sample of revaluations made during the year to ensure they were input correctly into the Authority's asset register</li> <li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves these were not materially different to current value.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Valuation of pension net liability</b>                      The Authority's pension net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and were sufficient to mitigate the risk of material misstatement.</li> <li>• Reviewed the competence, expertise and objectivity of the actuary who carried out the pension valuation.</li> <li>• Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Employee remuneration</b></p>	<p>Payroll expenditure represents a significant percentage of the Authority's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Employee remuneration accruals understated (Remuneration expenses not correct)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken a walkthrough of the key controls to assess whether those controls were operating in line with our documented understanding</li> <li>undertaken a trend analysis and risk identification for monthly payroll costs to confirm no unusual transactions</li> <li>reviewed the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Operating expenses</b></p>	<p>Non-pay expenditure represents a significant percentage of the Authority's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were operating in line with our documented understanding</li> <li>Reviewed managements processes to raise accruals and to ensure the accruals recognised are materially complete</li> <li>Tested a sample of creditor balances and accruals recognised in the year end balance sheet</li> <li>Tested cash payments made after the year end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

## Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Fire Pensions Benefits Payable</b></p>	<p>Benefits improperly computed / Claims liability understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• compared the total pensioner payroll with comparative figures and rationalised by reference to the changes to the expected value (e.g. pension increases, new pensioners, deaths).</li> <li>• Substantively tested a sample of pension benefit payments made in the year.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Changes to the presentation of local authority financial statements</b></p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li> <li>• reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure</li> <li>• reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>• tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>• tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>• tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>• reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Significant matters discussed with management

	Significant matter	Commentary
1.	<p>Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services.</p>	<p>We have raised the accounting treatment by the Authority of its 25 per cent share in North West Fire Control (NWFC), a joint operation. Whilst a note explaining the consideration of the arrangement is included within the Authority's accounts, its share of income and expenditure, assets and liabilities are excluded on the basis of not being material. IFRS 11 requires all income, expenditure, assets and liabilities to be included.</p> <p>We discussed with management the arrangements and the related accounting treatment of Lancashire Combined Fire Authority's share (25%) of North West Fire Control's balances. We are satisfied that management has demonstrated that it is appropriate to treat this arrangement as a joint operation.</p> <p>For joint operations, IFRS 11 requires a reporting authority that is a joint operator to recognise in relation to its joint interest in a joint operation, all:</p> <ul style="list-style-type: none"> <li>• its assets, including its share of any assets held jointly;</li> <li>• its liabilities, including its share of any liabilities incurred jointly;</li> <li>• its revenue from the sale of its share of the output arising from the joint operation;</li> <li>• its share of the revenue from the sale of the output by the joint operations; and</li> <li>• its expenses, including its share of any expenses incurred jointly.</li> </ul> <p>Management has determined that Lancashire Fire Authority's share of NWFC assets, liabilities and operating revenues and expenses are not material for 2016/17. The Authority has therefore not made any accounting adjustments for its share of NWFC's balances, above those processed as part of day-to-day transactions with NWFC through its income and expenditure account. We have reviewed the Authority's share of NWFC balances on a line by line basis and confirmed that after intra-group balances have been deducted, the Authority's share is not material.</p> <p>Although this is consistent with previous years, there is a need for the Authority to comply with accounting standards including International Financial Reporting Standards in preparing its accounts irrespective of materiality. We recommend the Authority incorporate all its share of NWFC into its accounts commencing 2017/18.</p>

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Authority's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Activity is accounted for in the year that it takes place, not simply when cash payments are made or received.</li> <li>Where income and expenditure have been recognised but cash has not been received or paid, a debtor or a creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.</li> </ul>	<ul style="list-style-type: none"> <li>The Authority's accounting policy is in line with the requirements of the CIPFA code and is adequately disclosed in the accounts.</li> <li>Our testing of income and debtors confirmed the Authority is recognising income in line with its accounting policy.</li> </ul>	●
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>Useful life of PPE and classification of fire premises as specialised or non-specialised</li> <li>Revaluation and Impairments</li> <li>Accruals</li> <li>Valuation of pension fund net liability</li> <li>Other provisions</li> </ul> </li> </ul>	<p>We have:</p> <ul style="list-style-type: none"> <li>reviewed the estimates and judgements made in the accounts as part of our work with no matters arising.</li> <li>reviewed the process by which management have used an external expert to provide a valuation of the Authority's property assets</li> <li>sample tested valuations undertaken in the year to confirm they are appropriately included in the statement of accounts.</li> <li>reviewed the calculation of your insurance provision and reviewed the basis for your provision for business rate appeals to confirm the judgements made by management are reasonable and consistent with prior years.</li> </ul>	●

**Assessment**

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	<p>The Director of Corporate Services (s151 officer) has a reasonable expectation that the services provided by the Authority will continue for the foreseeable future. Members concur with this view.</p> <p>For this reason, the Authority continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Authority's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p>	●
<b>Other accounting policies</b>	<p>The Authority has reviewed the standard CIPFA accounting policies and adopted them as appropriate to its statement of accounts.</p>	<p>We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice.</p> <p>The Authority's accounting policies are appropriate and consistent with previous years.</p>	●

**Assessment**



## Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	<b>Issue</b>	<b>Commentary</b>
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>• We have previously discussed the risk of fraud with the Audit Committee.</li> <li>• We have not been made aware of any other incidents in the period.</li> <li>• No other issues have been identified during the course of our audit procedures</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>• From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations.</li> <li>• We have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>• A standard letter of representation has been requested from the Authority</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>• We requested from management permission to send a confirmation requests to your bank. This permission was granted and the request was sent.</li> <li>• The request was returned with positive confirmation.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>• Our review found no material omissions in the financial statements.</li> <li>• Management have included some minor amendments and improvements to the statement of accounts.</li> </ul>

## Other communication requirements continued

	Issue	Commentary
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>• We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas</li> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Authority acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Work is not required as the Authority does not exceed the threshold.</p>

## Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	5,000	Long term investments	An investment which matured within four months of the balance sheet date of 31 March 2017 had been included as a long term investment on the balance sheet. As the investment matures in less than 12 months from the balance sheet date it has been reclassified as a short term investment.
2 Misclassification	£293	Council tax and business rates	The split between the council tax and business rates included in the statement of comprehensive income and expenditure was incorrect with Council tax originally shown as £293k lower than actual and business rates as £293k higher. This was a classification issue only and has had no impact on the total council tax and business rates income.
3 Disclosure	n/a	Note 4	The note was originally incorrect owing to an error in the working paper. This has been amended in the revised accounts.

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## Section 3: Value for Money

01. Executive summary

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## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. The Act and NAO guidance state that for local government bodies, including fire authorities, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2017 and identified no significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We communicated this to you in our Audit Plan dated 30 March 2017.

We have continued our review of relevant documents up to the date of giving our report. We have not identified any further significant risks where we need to perform further work.

### **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the identifying whether there were any significant risks to our VfM conclusion that we identified in the Authority's arrangements. We reported to you in our audit plan that we had identified no risks at that stage.

We ensured that we updated our review of your arrangements to ensure that there were no additional risks identified. Our work included reviewing key documents and discussing issues with your officers.

### **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that:

- the Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix A.

### **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

### **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

### **Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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## Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

06. Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

### Fees

	Proposed fee £	Final fee £
Authority audit	£30,739	£30,739
<b>Total audit fees (excluding VAT)</b>	<b>£30,739</b>	<b>£30,739</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

### Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence.
- 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 Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- No non-audit or audit related services have been undertaken for the Authority



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## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Authority's key risks when reaching our conclusions under the Code.

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 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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
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	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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# Appendix

## A. Draft Audit Opinion

# B: Audit opinion

**We anticipate we will provide the Authority with an unmodified audit report**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE COMBINED FIRE AUTHORITY**

We have audited the financial statements of Lancashire Combined Fire Authority (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Treasurer and auditor**

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

## **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

**Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2017.

**Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

Karen Murray  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

September 2017



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