LANCASHIRE COMBINED FIRE AUTHORITY
AUDIT COMMITTEE
Meeting to be held on 30 July 2019

EXTERNAL AUDIT – AUDIT FINDINGS REPORT
(Appendix 1 refers)

Contact for further information:
Keith Mattinson – Director of Corporate Services – telephone 01772 866804.

Executive Summary

The external auditor is required to produce an Audit Findings Report summarising the conclusions from their work undertaken as part of the year-end audit of accounts.

The report for the financial year ended 31 March 2019 is attached which does not identify any significant issues.

Recommendation

The Committee is asked to:-

- Note and endorse the matters raised in the report;
- Note the unqualified opinion on the financial statements;
- Note the value for money conclusion.

Information

Under the statutory Code of Audit Practice for Local Government bodies our external auditors Grant Thornton are required to issue a report to those charged with governance summarising the conclusions from their audit work.

This report, known as the Audit Findings Report, is attached as Appendix 1, and will be presented by the Audit Manager. At the time of writing the report the audit work was substantially complete and there were no issues which they were aware of that would require further modification of the audit opinion or material change to the financial statements.

As such the anticipated audit opinions are:-
- Our anticipated audit report opinion will be unqualified;
- We anticipate issuing an unqualified value for money conclusion.

As reported earlier on the agenda (Revisions to the Statement of Accounts 2018/19) there was one adjusted mis-statement relating to costs associated with both the Fire-fighter Pensions scheme and the Local Government Pension Scheme, which arose from a legal challenge in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Firefighters Pension Regulations 2015. Initial accounting advice provided by CIPFA was to treat this as a contingent liability, however following the Supreme Court's refusal to allow an appeal the accounting policy adopted by external auditors required the additional liability to be recognised in the accounts.

In addition there were three minor misclassification and disclosure changes which were required (as set out on page 20 of the Audit findings Report).

It is worth noting that the auditor report highlights “The financial statements were received on time ……and were prepared to a good standard”.

Audit Action Plan

Grant Thornton have not made any recommendations following the audit.

Financial Implications

The fee charged for the audit includes an additional £2k in respect of additional work in respect of the pensions adjustment referred to earlier, bringing the total fee to £26k. It is clear that the late change in the treatment of the pension adjustment did result in additional work for the auditors. However, had the relevant accounting treatment been agreed at the outset of the accounts process, then this could have been incorporated into the accounts published in May and would therefore have negated the need for additional work. It is extremely disappointing that CIPFA and the National Audit Office failed to agree a consistent approach to cover the eventuality of the Supreme Court refusing the right to appeal, and it is undoubtedly this that has led to the additional audit work/fee, as well as additional actuarial fees in revising their assessment of liabilities.

The proposed increase in fee is consistent with similar audited bodies, and ultimately requires Public Sector Audit Appointments approval before final agreement (this is the national body responsible for audit fees).

Human Resource Risk Implications

None

Equality and Diversity Implications

None

Environmental Impact

None

Business Risk Implications

The report does not identify any new risk issues that the Authority needs to address.

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

Paper None	Date	Contact
Reason for inclusion in Part II, if appropriate:		

The Audit Findings for Lancashire Combined Fire Authority

Year ended 31 March 2019

23 July 2019

Contents

Your key Grant Thornton team members are:

Robin Baker
Key Audit Partner
T: 0161 214 6399
E: robin.j.baker@uk.gt.com

Richard Tembo
Engagement Manager
T: 0161 234 6352
E: richard.z.tembo@uk.gt.com

Dianne Webster
In Charge Auditor
T: +44 (0) 161 214 6364
E: Dianne.M.Webster

Appendices

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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire Combined Fire Authority (the Authority) and the preparation of the Authority's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and 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 • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our final accounts audit work was completed on site during June and July 2019. Our findings are summarised on pages 4 to 21. One adjustment to the primary financial statements has been made by management to include the impact of a national legal case where events occurring in June 2019 altered the Authority's initial accounting treatment. This resulted in a compensating balance sheet classification adjustment of £33.249m in relation to the Authority's Net Pension liability and the Penson Reserve balances. There is no impact to the usable reserves of the Authority as a result of this adjustment. Other amendments identified relate to minor changes in wording and were adjusted by management. We have not had to raise any recommendations for management from our audit work. Our work is substantially complete and there are no matters of which we are currently aware that would require modification of our audit opinion or material changes to the financial statements, subject to the satisfactory resolution of the matters listed on page 4. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unqualified. A draft of the proposed audit opinion is detailed at Appendix C.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Lancashire Combined Fire Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Authority received a positive assessment by the Fire Inspectorate this year and continues to have appropriate arrangements in place to manage its financial position. We anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 16 and 17
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit Committee on 30 July 2019.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- an evaluation of the Authority's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have had to alter our assessment regarding the risk of improper revenue recognition as documented on page 6.

Closedown arrangements

The financial statements were received on time and published in line within the statutory deadline. The financial statements were prepared to a good standard and there is an appropriate quality review process in place. Working papers were available before the start of the audit and were clear to understand. The responses to our audit samples and queries were comprehensive and timely.

Early work was undertaken by officers to review the new accounting standards introduced during 2018/19 for International Financial Reporting Standards (IFRS) 9 and 15.

Conclusion

We have substantially completed our audit of your financial statements and subject to the resolution of the outstanding items set out below, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 30 July 2019. A draft of the Audit Report is included as Appendix C.

The outstanding items include:

- receipt of the management representation letter;
- review and challenge of the valuer's assumptions and methodology used in valuation of Land and buildings;;
- Engagement Lead final review of the completed audit working papers and resolution any final queries;
- review of the final set of financial statements;
- receipt and review of the assurance letter from the Lancashire County Pension Fund auditor; and
- updating our post-balance sheet review to the date of the audit opinion.

Summary

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.

We have redetermined materiality. We reported in our Audit Plan that we determined planning materiality to be £1.108m (PY £919k) which equates to 2% of your forecast gross expenditure for the year. We have redetermined materiality to be based on actual gross operating expenditure for the year. We detail in the table below our determination of materiality for Lancashire Combined Fire Authority.

	Amount (£)	Factors considered
Materiality for the financial statements	1,046,000	• This equates to 2% of your gross operating expenditure for the 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.
Performance materiality	784,500	• Assessed to be 75% of financial statements materiality
Trivial matters	52,300	• This equates to 5% of financial statement materiality

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
①	**Improper revenue recognition** The revenue cycle includes fraudulent transactions: Income from room hire, Princes Trust, other miscellaneous sources including colleges This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** We have revisited our assessment regarding this risk reported in the audit plan. Having considered the risk factors set out in ISA240, and having analysed the nature of the revenue streams at the Authority which include room hire, Princes Trust, other miscellaneous sources including colleges, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Lancashire Combined Fire Authority, mean that all forms of fraud are seen as unacceptable We have • evaluated the Authority’s accounting policy 29(b) for recognition of miscellaneous and other income for appropriateness; • gained an understanding of the Authority's system for accounting for miscellaneous and other income. • agree, on a sample basis amounts recognised as miscellaneous and other income in the financial statements to supporting documentary evidence. Our audit work has not identified any issues in respect of revenue recognition.
②	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride 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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We carried out the following work: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
③ **Valuation of land and buildings** The Authority revalues its land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£86.5 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2019. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement	We carried out the following work: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • wrote to the valuer to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register, and • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. Our audit work confirmed that revaluations were carried out by an appropriate external expert. We are satisfied that the value of land and buildings not revalued during the year was not materially different to their reported value at 31 March 2019. Our audit work on the valuation of property, plant and equipment has not identified any significant issues that we need to bring to members attention. Our work on the estimation process is in the judgements and estimates section on page 10.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	**Valuation of pension fund net liability** The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£801 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We carried out the following work: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested 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; • completed 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; • sought assurances from the auditor of Lancashire County 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, and • obtained assurances from PWC in respect of valuation of the firefighters pension fund liability valuation by GAD. We are awaiting the assurance from the auditor of Lancashire County 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. We draw your attention to page 9 regarding a national issue relevant to all local authorities to consider and assess how the result of the McCloud case has impacted upon the valuation of the pension fund net liability. The McCloud /Sergeant cases have a direct impact on the Firefighters Pension Scheme and are a significant development for the Fire and Rescue sector. Our audit work has not identified any other issues in respect of valuation of net pension liabilities

Significant findings – other issues

<table>
<tr><th></th><th>Issue</th><th>Commentary</th></tr>
<tr><td>5</td><td>Potential impact of the McCloud Judgement

The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.

The Government applied to the Supreme Court for permission to appeal this ruling, but the permission to appeal was unsuccessful. We understand the case will now be remitted back to employment tribunal for remedy.

The legal ruling around age discrimination (McCloud – Court of Appeal) has implications not just for the firefighters' pension funds, but also for other pension schemes where they have implemented transitional arrangements in changing benefits such as the local government Pension Scheme and Police Pension Scheme.</td><td>Management requested an updated estimate from the scheme actuary of the potential impact of the McCloud ruling. This has now been received from both Mercers and Government Actuarial Department (GAD) (Officers). The updated assessments indicate increases in past service costs of £33.404m and actuarial gains by £0.135m and therefore an increase the net liability of £33.269m.
<table>
<tr><th></th><th>LGPS</th><th>Firefighters pension</th><th></th></tr>
<tr><td></td><td></td><td>Pension</td><td>Total</td></tr>
<tr><td></td><td>£m</td><td>£m</td><td>£m</td></tr>
<tr><td>Increase in past service costs</td><td>- 0.434</td><td>- 32.970</td><td>- 33.404</td></tr>
<tr><td>Increase in actuarial gains</td><td>0.135</td><td>-</td><td>0.135</td></tr>
<tr><td>Increase in net pension liability</td><td>- 0.299</td><td>- 32.970</td><td>- 33.269</td></tr>
</table>
The accounts are being amended and once complete we will review the analysis performed by the actuaries, and consider whether the approach that has been taken to arrive at this estimate is reasonable.

North West Fire Control Ltd (NWFC)
Management have also assessed the impact of the McCloud judgement on the North West Fire Control Ltd for purposes of consolidation. It has been determined that the increase in net pension liability for NWFC would be less than 1% of its net liability which amounts to £23k . The Authority's share of the increase would be trivial to the financial statements. Management have therefore not included in the financial statements the transactions relating to McCloud judgement for NWFC.</td></tr>
<tr><td>6</td><td></td><td></td></tr>
</table>

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Other Land and Buildings: £57.641m **PFI Assets: Land and Buildings: £28.889m** **Total Land and Building: £86.530m**	Other land and buildings comprises £86.361m of specialised assets such as fire stations and fire training schools, which are valued at depreciated replacement cost (DRC) reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£0.169m) are not specialised in nature and are valued at existing use value (EUV) at year end. The Authority has engaged Tim Ellams registered external valuer to complete the valuation of properties as at 31 03 2019 on a cyclical basis. 20% of total assets were fully revalued and 80% was revalued using a desktop valuation exercise during 2018/19. The valuation of properties valued by the valuer and the desktop valuation has resulted in a net increase of £4,539m. The total year end valuation of Other land and buildings was £86.530m, a net increase of £3.093m from 2017/18.	We reviewed the detail of your assessment of the estimate, considering; • the assessment of management's expert, your external valuer; • the completeness and accuracy of the underlying information used to determine the estimate; • the reasonableness of the overall increase in the estimate; and • the adequacy of the disclosure of the estimate in the financial statements. There are no issues to raise from the work carried out on the estimate.	🟢

Assessment

🔴 We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated

🟠 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic

🟡 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious

🟢 We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

Net pension liability – £845.4m

Summary of management's policy

The Authority's net pension liability at 31 March 2019 is £878.683m (PY £814.3m) comprising the Local Government Pension Scheme and unfunded defined benefit pension scheme obligations. Liability figures are higher than the previous year mainly due to a general fall in corporate bond yields, the increase in the market expectations of inflation and the impact of the McCloud judgement. Full actuarial valuations are undertaken every three years.

The Authority uses Mercers to provide actuarial valuations of the Authority's assets and liabilities derived from the Local Government Pension Scheme. The latest full actuarial valuation by Mercers was completed as at 31 March 2016.

The Authority uses GAD to provide actuarial valuations of the Authority's liabilities derived from the Firefighters' Pension Schemes. Full actuarial valuations are required every three years. The latest full actuarial valuation was completed by GAD was as at 31 March 2016.

Both actuaries use a roll forward approach in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £19.9m net actuarial loss during 2018/19.

Audit Comments

We reviewed the detail of your assessment of the estimate, considering;

- the assessment of management's experts, Mercers and GAD;
- the completeness and accuracy of the underlying information used to determine the estimates;
- the reasonableness of the Authority's share of the LGPS assets;
- the reasonableness of the overall increase in the estimates;
- the adequacy of the disclosure of the estimates in the financial statements.

External auditors are provided with assurance in the form of an auditors expert report from PWC to assess the assumptions made by the Actuaries, the table below sets out the key assumptions.

Assumption	Actuary Value - LGPS	Actuary Value - FFPS	Within PwC range	Assessment
Discount rate	2.4%	2.45%	Yes	🟢
Pension increase rate	2.3%	2.35%	Yes	🟢
CP inflation	2.2%	2.35%	Yes	🟢
Life expectancy – Males over 65	22.8 years	22.0 years	Yes	🟢
Life expectancy – Females over 65	25.5 years	22.0 years	Yes	🟢

Other than the issue already noted on page 9 regarding the McCloud judgement, there are no further issues to note from the work carried out.

Assessment

🟢

Assessment

- 🔴 We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- 🟠 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- 🟡 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- 🟢 We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary
①	Significant events or transactions that occurred during the year	• The implementation of new accounting standards IFRS9 and IFRS15 from 1 April 2018 were discussed with officers during 2018/19. The impact of the new accounting standards have been disclosed within the financial statements. • There has not been a material impact to the financial statements as a result of the implementation of IFRS9 and IFRS15, with movements in the classification of financial instruments disclosed within the financial statements. Management provided us with detailed working papers setting out their assumptions and judgements for the implementation of IFRS9 and IFRS15.
②	Business conditions affecting the Authority, and business plans and strategies that may affect the risks of material misstatement	• No such issues were identified
③	Concerns about management's consultations with other accountants on accounting or auditing matters	• No such issues were identified
④	Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	• We were reappointed as auditors to the Authority for five years from 2018/19
⑤	Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	• No such issues were identified
⑥	Other matters that are significant to the oversight of the financial reporting process	• No such issues were identified

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
The Authority has reviewed their going concern position and has concluded that it is appropriate to produce their accounts on a going concern basis and no material uncertainties exists.	• The Authority’s use of the going the concern basis of accounting is appropriate. • The Authority has provided us with its working paper for its assessment of going concern. • The disclosure of the going concern basis within the financial statements is satisfactory.
Work performed	**Auditor commentary**
We discussed the financial standing of the Authority with the Director of Corporate Services and the Head of Finance and reviewed management's assessment of going concern and the assumptions and supporting information.	No material uncertainty identified. The Authority has determined that it is difficult to anticipate what funding will look like beyond the existing settlement having considered important issues like the economic uncertainty surrounding Brexit, the potential impact of the Fair Funding Review and the roll out of greater local retention of Business rates. Consequently, for the purpose of its medium term financial strategy the Authority has assumed that funding is frozen in future years. Based on this the Authority will be faced with a funding gap in future years, the extent of which depends on future Council tax decisions. The Authority has put in place plans to use its available reserves to fill this funding gap in future years. The latest medium term financial strategy, identified at the time of setting the 2019/20 budget, shows approximately £5m of reserves being used by March 2024. In 2018/19 the Authority’s General Fund balance has increased by £0.5m from £7.9m to £8.4m and its earmarked reserves has increased from £7.9m to £8m. The General Fund balance is within the target level identified by the Treasurer (a minimum of £3.2m and a maximum of £10.0m) which will provide capacity to cope with anticipated funding cuts in the short term whilst appropriate efficiencies are identified. The majority of the earmarked reserves will be utilised within the medium term financial strategy, reducing to a level of £6m by March 2024.
Concluding comments	**Auditor commentary**
The Authority’s use of going concern basis of accounting is appropriate.	• The Authority has adequate reserves to meet its financial challenges that it faces in the medium term, and will continue to balance future council tax levels and the need for investment whilst maintaining effective service delivery. • Our opinion is unmodified in respect of the going concern conclusion.

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.

	Issue	Commentary
①	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
②	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
③	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④	**Written representations**	• A letter of representation has been requested from the Authority. The draft letter of representation is included as an agenda item at the Audit Committee on 30 July 2019.
⑤	**Confirmation requests from third parties**	• We obtained direct confirmation from PWLB for loans and requested from management permission to send confirmation requests to the Authority's bankers and those with whom it placed investments. This permission was granted and requests were sent. All of these requests were returned with positive confirmation.
⑥	**Disclosures**	• Our review found no material omissions in the financial statements.
⑦	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided. • The financial statements were received on time, and published within the statutory deadline. • The financial statements were prepared to a good standard with embedded quality review processes in place. • Working papers were available at the start of the audit and were detailed, and clear to understand. • The responses to our audit samples and queries were comprehensive and timely.

Other responsibilities under the Code

	Issue	Commentary
➊	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect which is detailed in Appendix C.
➋	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties There are embedded processes within the Authority to produce and review the Annual Governance Statement. We have nothing to report on these matters.
➌	**Specified procedures for Whole of Government Accounts**	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. • This work is not required as the Authority does not exceed the threshold of £500m
➍	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audit of Authority in the audit opinion, as detailed in Appendix C. .

Value for Money

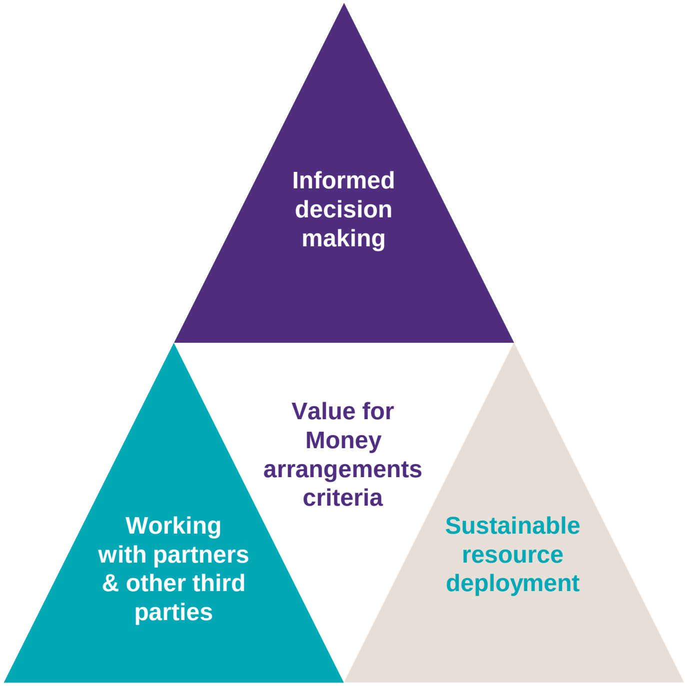
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2019 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 22 January 2018.

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.

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Value for Money

Our work

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 updated our review of your arrangements as part of our audit. Our work included reviewing key documents and discussing issues with your officers. Among the documents reviewed was Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) Report issued following an inspection of the Service.

The Authority was one of the first 14 services to be inspected by HMICFRS during the first tranche of inspections. Each inspection assesses how effective and efficient the service is, how it protects the public against fires and other emergencies and how it responds to the same. They also assess how well each service looks after the people who work there.

In carrying out inspections of fire and rescue services in England, HMICFRS have regard to the following main questions:

- How effective is the fire and rescue service at keeping people safe and secure from fire and other risks?
- How efficient is the fire and rescue service at keeping people safe and secure from fire and other risks?
- How well does the fire and rescue service look after its people?

The categories of judgement used are: outstanding, good, requires improvement and inadequate. Lancashire Combined Fire Authority was rated as '*Outstanding*' for promoting its values and culture. In all other areas, the Service was rated as *'Good*' with no areas that 'require improvement' in any of the 11 categories that were assessed.

The Authority was the only fire and rescue service to be given an 'outstanding' in any category. It was rated as 'outstanding' for promoting its values and culture, and was rated as 'good' in all other areas, with no areas that 'require improvement'. This was the highest rating of any Service in the first tranche of inspections, with the outcome of the second and third tranche expected in 2019/20

The net budget for 2018/19 was £54.8m, an increase of £0.9m compared to 2017/18 budget of £53.9m. This increase was largely the result of pay awards, partly offset by efficiency savings of £0.8m.

The Authority has a good record of delivering savings, £18.5m of efficiency savings have been made between April 2011 and March 2018. The Authority delivered its planned budget for 2018/19 and delivered £1.1m of efficiencies inclusive of an additional savings target of £0.3m required to deliver an increase in Council Tax within the referendum limit of 3% despite the reduction in government funding by £1m from £25.3m in 3017/18 to £24.3m in 2018/19.

The Authority has adequate reserves. In 2018/19 the Authority's General Fund has increased by £0.5m from £7.9m to £8.4m and its earmarked reserves has increased from £7.9m to £8m. The general fund balance is within the target level identified by the Treasurer (a minimum of £3.2m and a maximum of £10.0m) which will provide capacity to cope with anticipated funding cuts in the short term whilst appropriate efficiencies are identified. The majority of the earmarked reserves will be utilised within the medium term financial strategy, reducing to a level of £6m by March 2024. The Authority will also have at its disposal capital reserves and receipts amounting to £19m.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Authority had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Recommendations for improvement

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.

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.

Independence and ethics

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 confirm that we, as a firm, and each covered person, 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 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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement		Balance Sheet		Impact on total net surplus/(deficit)
		DR £'000	CR £'000	DR £'000	CR £'000	£'000
1	Dr Past Service Costs – Overheads Cr Long Term Liabilities - Pension Net Liabilities Being recognition of the impact of McCloud case .	33.404			33,401	£(33,404)
2	Dr Long Term Liabilities - Pension Net Liabilities Cr Actuarial (gains)/losses on pensions assets and liabilities Being recognition of the impact of McCloud case re:actuarial gains/losses		135	135		£135
		33,401	135	135	33,401	33,269
	Overall impact (Reversed out via adjustments between accounting basis and funding basis under regulations)	33.269			33,269	£nil
3	Various main statements and notes in the financial statements have been updated to reflect the impact of the above adjustment. The following are the statements and the notes affected: • Narrative Report : Table on page 4 and has been updated. Page 5 has been updated • Movement in Reserves Statement has been updated • Cashflow statement has been • Note 1, Income, Expense, Gains and Losses • Note 13, Other Long Term Liabilities • Note 15, Net Liability Related to Local Government and Firefighters' Pensions Schemes • Note 18, Unusable Reserves and Pensions Reserve • Note 19, Contingent liabilities • Note 23, Adjust net surplus/(deficit) on the provision of services for non cash movements • Note 26, Assumptions made about the future and other major sources of estimation and uncertainty • Note 28, Expenditure and Income Analysed by Nature					

Audit Adjustments

Misclassification 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.

Disclosure omission	Detail	Action required	Adjusted?
Note 1: Expenditure Funding Analysis	The figure for deficit on the provision of services (£13,203k) did not agree to figure on CIES (£12,365K).	Note 1: Expenditure Funding Analysis been amended to correct the error.	✓
Note 6: Property, Plant and Equipment.	There is an unusual reclassification of £869k of PFI assets (land and buildings) to Other Land and Buildings.	An explanatory note has been added at the bottom of the table in note 6. The amount relates to an adjustment to balance of land and buildings carried forward from 2017/18 which should have been classified as Other Land & Buildings.	✓
Note 8: Income, Expense, Gains and Losses	Interest payable on financial liabilities was disclosed as one figure of £1,479k	Note 8, Income, Expense, Gains and Losses has been amended to split the interest payable relating to: • PFI (£1,380K); • borrowing (£89k); and • Finance leases (£10k)	✓

Fees

We confirm below our final fees charged for the audit

Audit Fees

	Final fee 2017/18 (£)	Proposed fee 2018/19 (£)	Final fee 2018/19 (£)
Authority's accounts audit	30,739	23,669	23,669
Additional fee: McCloud case adjustment *****	-	-	2,000
Total audit fees (excluding VAT)	**£30,739**	**£23,669**	**£25,669**

* Due to additional time required to review the impact of the McCloud judgement case an additional fee of £2,000 has been included as part of the 2018/19 audit fee. We have discussed the fee adjustment with management and the amount will be subject to approval by Public Sector Audit Appointments Ltd.

DRAFT 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
Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Lancashire Combined Fire Authority (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including significant accounting policies, and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the Firefighters Pension Fund Notes. The notes to the financial statements include the Expenditure Fund Analysis (EFA), Notes to the Core Statements and Policies. 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 2018/19.
In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information
The Director of Corporate Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Arrangements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice
Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.
We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice
In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Arrangements for the financial year for which the financial statements are prepared is consistent with the financial statements.
Matters on which we are required to report by exception

DRAFT Audit opinion

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Director of Corporate Services and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 18, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Corporate Services. The Director of Corporate Services 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Corporate Services is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.
The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

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.

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2019.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Lancashire Combined Fire Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

DRAFT Audit opinion

Use of our report
This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

[Signature]

Robin J Baker, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
Liverpool

xx July 2019

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