

The Annual Audit Letter for Lancashire Combined Fire Authority

Year ended 31 March 2019

August 2019



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Lancashire Combined Fire Authority (the Authority) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority's Audit Committee as those charged with governance in our Audit Findings Report on 30 July 2019

Our work

Materiality	We determined materiality for the audit of the Authority's financial statements to be £1,046,000, which is 2% of the Authority's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 30 July 2019.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 30 July 2019. 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.
Certificate	We certified that we have completed the audit of the financial statements of Lancashire Combined Fire Authority in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Working with the Authority

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June and July, delivering the ahead of the 31 July deadline
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

- Providing training – we provided your finance team with training on financial statements and annual reporting

We would like to record our appreciation for the assistance and co-operation provided to us during our audit.

Grant Thornton UK LLP
August 2019

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Authority's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Authority's financial statements to be £1,046,000, which is 2% of the Authority's gross revenue expenditure. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We set a lower threshold of £52,300, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements, the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Authority and with the financial statements on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Authority's business and is risk based. We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

The Financial Reporting Council (FRC) is responsible for reviewing and assessing the quality of local public audit work undertaken by Grant Thornton and the other audit firms. In response to the latest feedback from the FRC we have updated our approach to the audit of PPE and Pensions which has resulted in additional audit procedures being undertaken. We have included a proposed fee adjustments to cover the additional procedures which is set out at page 10 of this report.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>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.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2019.</p> <p>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</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> 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. 	<p>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.</p> <p>No issues were found with the revaluation of land and buildings</p>
<p>Management override of internal controls</p> <p>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.</p> <p>The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> 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. 	<p>Our audit work has not identified any issues in respect of management override of controls</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension 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.</p> <p>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.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • 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 <p>The Authority updated their estimate of the IAS 19 pension fund liability due to the outcome of the national ruling on the McCloud case which ruled that there was age discrimination in the judges and firefighters pension schemes. There is an implication for pension schemes where they have implemented transitional arrangements on changing benefits. The increase in the net liability was £33.269m and was adjusted by management in the final set of financial statements.</p>	<p>The financial statements and disclosure notes were adjusted by management for the Actuary's assessment of the likely impact of the McCloud legal case.</p> <p>We did not identify any other issues in respect of the valuation of the pension fund net liability or with the associated disclosure notes within the financial statements.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 30 July 2019.

Preparation of the financial statements

The Authority presented us with draft financial statements in accordance with the deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Authority's Audit Committee on 30 July 2019.

Management made one adjustment to the primary financial statements to reflect 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 and comprehensive income and expenditure classification adjustment for £33.269million in relation to the IAS19 Pension liability. There is no impact to the useable reserves of the Authority as a result of this adjustment.

Annual Governance Statement and Narrative Report

We are required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

Whole of Government Accounts (WGA)

Specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions were not required as the Authority does not exceed the threshold of £500m.

We issued an assurance statement to NAO which confirmed the Authority was below the audit threshold.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

We have not had to use any of these other powers

Certificate of closure of the audit

We certified the completion of the audit of Lancashire Combined Fire Authority in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

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 focused our work on identifying whether there were any significant risks to our VfM conclusion in the Authority's arrangements. We did not identify any significant risks.

We updated our review of the Authority's arrangements as part of our audit. Our work included reviewing key documents and discussing issues with the Authority's 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.

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.

Financial Sustainability

The Authority has a good record of delivering savings, with £18.5m of efficiency savings have been made between April 2011 and March 2018. The Authority delivered its planned budget for 2018/19 which included £1.1m of efficiencies.

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 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 also has capital reserves and receipts amounting to £19m.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

Reports issued

Report	Date issued
Audit Plan	9 January 2019
Audit Findings Report	23 July 2019
Annual Audit Letter	August 2019

Fees

	Planned £	Proposed fees £	2017/18 £
Statutory audit	23,669	28,169	30,739
Total fees	23,669	28,169	30,739

Audit fee variation - proposed

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £23,669 assumes that the scope of the audit does not significantly change. There are a number of areas where, in our view, the scope of the audit has changed, which has led to additional work. These are set out in the table opposite. The proposed additional fees are subject to approval by Public Sector Audit Appointments Ltd.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	2,000
Additional audit procedures on Pensions liabilities	Additional procedures now required in response to the Financial Reporting Council's feedback on audit work on Pensions liabilities	1,000
PPE Valuation – work of experts	The Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	1,500
Total		4,500

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Authority companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

