The Audit Findings for Lancashire Combined Fire Authority

Year ended 31 March 2020

18 November 2020

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Your key Grant Thornton team members are:

Andrew Smith
Key Audit Partner
T: +44 (0)161 953 6472
E: andrew.j.smith@uk.gt.com

Andy Ayre
Audit Manager
T: 0151 224 7200
E: andy.j.ayre@uk.gt.com

Olalekan Ayilara
In-charge Auditor
T: +44 (0)161 953 6471
E: olalekan.l.ayilara@uk.gt.com

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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Authority. These included the redeployment of frontline uniformed fire and rescue staff to support local ambulance services and local authorities in their response to Covid-19, including the distribution of food parcels and maintaining contact with vulnerable adults. For the finance team there was the difficulty of remote working. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	Our audit risk assessment considered the impact of the pandemic on our audit. We reported an financial statement risk in respect of Covid -19. Further detail is set out on page 6. Restrictions for non-essential travel has meant both Authority and audit staff have had to work from home and had to use remote access financial systems, video calls, physical verification of completeness and accuracy of information produced by the entity. The draft statement of accounts were published on the Authority's website on 15 July 2020.
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 audit work was completed remotely between August and November. Our findings are summarised on pages 5 to 17. There has been three adjustments to the financial statements. Two that have resulted in a £4.12m adjustment to the Authority's Comprehensive Income and Expenditure Statement for 2019/20 and the third is a prior period adjustment of £1.83m to restate the 2018/19 figures. Audit adjustments are detailed in Appendix A. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the outstanding matters listed on page 5. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2020 which was prior to the outbreak of the Covid-19 coronavirus pandemic. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting material valuation uncertainties in land and building. See page 8 for further details.

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 2020 for those charged with governance.

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. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified as detailed in a separate item on the Audit Committee agenda. Our findings are summarised on pages 18 to 19.
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 and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

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.

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 27 November 2020. These outstanding items include:

- final quality assurance procedures;
- receipt of management representation letter; and
- review of the final set of financial statements.

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.

Materiality levels remain the same as reported in our audit plan.

	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,270,00	This equates to around 2% of your draft account gross operating expenditure for the year and is considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure.
Performance materiality	952,500	Assessed to be 75% of financial statement materiality, to reflect the strong recent track record for producing accurate financial statements.
Trivial matters	63,500	This equates to 5% of materiality.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence Our audit work has not identified any issues in respect of the Covid-19 risk. We have drawn the attention of users of the statement of accounts to the inclusion of the disclosure of a material uncertainty regarding to the valuation of the Authority's Land and Buildings and the value of the net pension liability by means of an emphasis of matter in our audit opinion as detailed in relation to our response to the significant risk of the valuation of land and buildings.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire Combined Fire Authority, 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 • the culture and ethical frameworks of local authorities, including Lancashire Combined Fire Authority, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for Lancashire Combined Fire Authority.	We rebutted this risk as part of our risk assessment process. This assessment remains appropriate. In addition, in accordance with PN10, the audit team have considered the risk of fraudulent manipulation of expenditure. We do not consider that this is a significant risk for the Authority, after consideration of the following: • The staff preparing and approving the accounts are consistent with those in previous years. • There have been no changes in accounting processes and controls in the year. • There have been no significant unexplained movements in funding position. • There have been no changes in the methodology for calculation of estimates. • There have been no instances of adjustments being posted by a senior finance officer without independent authorisation. There are no issues to bring to your attention.
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 Auth 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.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine 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 consider 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 audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Authority revalues its land and buildings on a rolling five-yearly basis with assets not valued in year subject to a desktop valuation This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£86.5m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. 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 have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding of the Authority's valuer's report and the assumptions that underpin the valuation. • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. The valuer reported their valuations on the basis of 'material valuations uncertainty' as a result of the Covid-19 pandemic. This was because market activity had been impacted in many sectors. As at the valuation date, they considered that they could attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The response to Covid-19 meant that they were faced with an unprecedented set of circumstances on which to base their judgement. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in their valuation report, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements. Our audit work has not identified any other issues in respect of the valuation of land and buildings.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
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 (£864.9 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 will: • 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 evaluate 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; • undertaken 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; • obtained assurances from the auditor of the 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 the valuation of the Firefighters' Pension Scheme liability valuation by Government Actuary's Department (GAD). Lancashire County Pension Fund (the LGPS scheme) is reporting their valuations of direct and indirect property on the basis of 'material valuations uncertainty' as a result of the Covid-19 pandemic. This was because market activity had been impacted in many sectors. As at the valuation date, they considered that they could attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The response to Covid-19 meant that they were faced with an unprecedented set of circumstances on which to base their judgement. Consequently, the auditor of the pension fund is planning to include an Emphasis of Matter (EOM) paragraph in their audit report drawing attention to the disclosure made in the pension fund statement of accounts. Given the Authority's share of the pension fund's direct and indirect property valuations are material to the Authority, and the caveat made by the valuer in their valuation report and Emphasis of Matter in the pension fund's audit report, we will highlight the material uncertainty to the Authority in our audit report, in an Emphasis of Matter paragraph, drawing attention to the disclosure made in the Authority's statement of accounts. The Emphasis of Matter paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the pension fund's accounts included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements. Our audit work has not identified any issues in respect of valuation of the net liability

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation has been delayed by one year The public sector was due to implement this standard from 1 April 2020. However, this has been deferred for one year due to the Covid-19 pandemic. When it is implemented, it will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements, or if that impact is not known or reasonably estimable, a statement to that effect should be made.	In the draft accounts, Note 27 - *Accounting Standards issued but not yet adopted* did not include any reference to IFRS 16.	In respect of IFRS 16, in Note 27, we would expect to see the title of the standard and the date of initial application, the nature of the changes in accounting policy for leases and, if known, an assessment on the of the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves. Management have agreed to include this disclosure. See Appendix B for the disclosure omission.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Firefighters' Pension Scheme Net pension liability – £809.626m **LGPS Net pension liability – £7.170m** **Total Net pension liability – £816.796m**	The Authority's total net pension liability at 31 March 2020 is £816.796m (PY £864.889m) comprising the unfunded defined benefit pension obligations of the Firefighters Pension Scheme and the Lancashire County Pension Fund Local Government Pension Scheme. **Firefighter's Pension Scheme** The Authority uses Government Actuary's Department (GAD) to provide actuarial valuations of the Authority's liabilities derived from the Firefighters' Pension Scheme. A full actuarial valuation is required every four years. The latest full actuarial valuation was completed as at 31 March 2016. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £47.6m net actuarial gain during 2019/20. **Local Government Pension Scheme** The Authority uses Mercers to provide actuarial valuations of the Authority's assets and liabilities derived from the LGPS. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £0.5m net actuarial gain/ during 2019/20.	• We have assessed the Authority's actuaries, GAD and Mercer, to be competent, capable and objective. • We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to raise. • We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial	Green

Assumption	Actuary Value - LGPS	Within PwC range?	Actuary Value - FFPS	Within PwC range?	Assessment
Discount rate	2.40%	Yes	2.25%	Yes	●
Pension increase rate	2.20%	Yes	2.00%	Yes	●
Salary growth	3.60%	Yes	4.00%	Yes	●
Life expectancy – Males currently aged 45 / 65	23.8 years / 22.3 years	Yes	23.0 years / 21.3 years	Yes	●
Life expectancy – Females currently aged 45 / 65	26.8 years / 25.0 years	Yes	23.0 years / 21.3 years	Yes	●

- As part of the procedures we undertook to review the actuarial assumptions we performed additional procedures, in particular reviewing the adjustments made as a result of the McCloud judgement and considering the impact of the 'other experience' adjustment arising from the updating of member data as part of the 2019 triennial actuarial update.
- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We have confirmed there were no significant changes in 2019/20 to the valuation method.
- We conducted an analytical review to confirm reasonableness of the Authority's share of LGPS pension assets.
- Our work confirms that the decrease in the IAS 19 estimates are reasonable.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Other Land & Buildings – £58.891m **PFI Assets – Land & Buildings – £29.640m** **Total Land & Buildings – £88.531m**	Land and buildings comprises £88.450m of specialised assets such as fire stations, the Fire HQ and other operational buildings, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£0.081m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Authority has engaged Amcat Limited to complete the valuation of properties as at 31 March 2020 on a five yearly cyclical basis. 20% of total assets were fully revalued during 2019/20 with the remaining 80% subject to a desktop valuation exercise. In line with RICS guidance, the Authority's valuer disclosed a material uncertainty in the valuation of the Authority's land and buildings at 31 March 2020 as a result of Covid-19. The Authority has included disclosures on this issue in Note 26 - Assumptions made about the future and other major sources of estimation and uncertainty. The valuation of properties valued by the valuer has resulted in a net increase of £2.001m from 2018/19.	We reviewed the estimate, considering: • We have assessed the valuer used as management's expert, Amcat Limited, to be competent, capable and objective. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate. • The valuation method remains consistent with the prior year. • We confirm consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate. • We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts. • the consistency of your estimate against near neighbours and available indices; • the reasonableness of the overall increase in estimate; • challenged the sensitivities used by the valuer to assess completeness and consistency with our understanding; and • the adequacy of disclosure of estimate in the financial statements.	Green

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	Auditor view
Pension contributions on allowances The Authority had disclosed a contingent liability in respect of the backdating of pension contributions on certain allowances paid to firefighters. The Authority also included an accrual of £600k in the 2019/20 accounts for pension contributions. Discussions with the Fire Brigade Union continue to determine the whether there will be any backdating of pension contributions.	When preparing the draft accounts, the Authority believed it was probable that pension contributions would need to be paid on certain allowances since the High Court ruling in March 2019. As a result, it has included an £600k accrual in the 2019/20 accounts for this. In terms of backdating of pension contributions, the Authority is still in discussions with the Fire Brigade Union (FBU) on the basis that it had a local agreement in place unlike other fire and rescue services across the country. Based on legal advice, at the time of preparing the accounts, the Authority believed it was not yet probable that it would incur further costs relating to prior years. The legal advice states that the Pensions Ombudsman has not gone beyond the simple point of determining whether the allowance should be pensionable. It was therefore the Authority's view that without further court proceedings being instigated the Authority did not believe that the need to backdate pension contributions had any legitimacy. However, in mid-November 2020, further evidence increased the probability that the Authority will need to backdate pension contributions on day crew plus and other allowances. In line with other authorities, the Authority has gone back six years from the March 2019 High Court ruling in its calculation of the liability. Management have adjusted the draft accounts to include £1.8m provision. As the estimated value is material and the obligation relates to events prior to the start of the financial year, management has included disclosed a prior period adjustment in relation to this matter.	The key judgement to be made is whether the backdating of pension contributions should be included as a provision or a contingent liability in the 2019/20 accounts. As part of our audit, we challenged management on this judgement and reviewed the available evidence. We also reviewed the completeness and accuracy of management's estimation of the potential liability. Based on the evidence, we initially agreed with management that there was still uncertainty over whether any payment is required given the local agreement that the Authority has in place with the FBU. However, that uncertainty was removed by the further evidence. Therefore, we concur with management's decision to adjust the draft accounts to include a new provision and disclose a prior period adjustment. See Appendix A for details of the prior period adjustment. We have reviewed management's estimation of the potential liability and the estimate was within our expected range. As the liability is over our materiality level, we have asked management to disclose their judgement on this issue within the critical judgements note.

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	Auditor view
Restitution for McCloud In 2018 the Court of Appeal ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits.	In 2018/19, the Authority included a past service cost for the potential impact of the McCloud/Sargeant ruling in their Statement of Accounts. For 2019/20, the Authority had an initial discussion with GAD, the Firefighter Pension Scheme actuary, and requested updated IAS 19 calculations for the additional McCloud/Sargeant liability to allow for Authority specific membership data, rather than using data for the Fire scheme as a whole. In line with CIPFAs guidance the Authority have included this change in the remeasurement item. This resulted in a reduction of £4.1m to the Firefighter Pension Scheme liability. In addition, the production of the statements Mercer made an allowance for McCloud as a past service cost (as well as the 2019 valuation). GAD's and Mercer's calculations of the additional liabilities and service costs have generally been done in line with the proposed underpin in the consultation.	The Ministry of Housing, Communities & Local Government published its consultation on reforms to public sector pension schemes on 16 July2020. Initial feedback from the Government Actuary Department (GAD) indicates that this is likely to lead to a reduction in the IAS 19 liability previously calculated. The auditor has concluded that the consultation is an event after the reporting period which provides an indication of possible remedy. However, as there remain a number of uncertainties before this is enacted, and as the outcome is unclear the firm does not regard publication of the consultation to be an adjusting event. In the 2019/20 accounts we expect the Authority to remeasure the pension liability, as normal, via an actuarial report, and to take account of best estimates in relation to the impact of McCloud judgements. The Authority has adjusted in line with the consultation remedy. However, we believe that the estimate that management has made is reasonable and not materially misstated. We asked management to disclose this adjustment as a critical judgement in calculating the pension liability.

Significant findings – 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	Auditor commentary
Management's assessment process In order to assess their going concern basis management have: • Prepared a cash flow forecast to the end of November 2021 • Considered events or conditions that may impact their going concern assumption • Considered the impact of Covid-19 Management concluded it is appropriate to prepare their accounts on going concern basis and that no material uncertainty exists.	• The Authority's use of the going concern basis of accounting is appropriate • The Authority has provided us with its assumptions and supporting working paper for its assessment of going concern. • The disclosure of the going concern basis within the draft financial statements was very brief and cross-referred to the future financial plans section of the narrative report. A fuller explanation of management's assessment of the going concern basis on which the statement of accounts are prepared would be useful. Management agreed to provide further explanation. See Appendix B for adjustment.
Work performed We discussed the financial standing of the Authority with the Treasurer and Head of Finance. We reviewed management's assessment of going concern and the assumptions and supporting information.	• No material uncertainty identified. • We reviewed the assumptions used by management in the forecasting their cash position to the end of November 2020. We considered they had used reasonable assumptions, and that the forecasting process and underlying data used were reliable. • We considered the reliability of the forecasting process and the underlying data
Concluding comments The Authority's use of going concern basis of accounting is appropriate.	• Our opinion is unmodified in respect of the going concern conclusion. • The Authority has adequate cash and reserves to meet the 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. • The impact of Covid-19 is not considered material to the assessment of going concern.

Other matters for communication

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	Auditor commentary
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 other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Authority, which is included in the Audit Committee papers. Specific representations have been requested from management in respect of the valuation of land and buildings being reported on a material valuation uncertainty basis and the completeness and accuracy of the information provided to us in relation to the backdating of pension contributions on day crew plus and other allowances.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to banks, lenders and local authorities who had borrowed from the Authority. These permissions were granted and the requests were sent. All of these requests were returned with positive confirmation.
Disclosures	The disclosure of critical judgements in applying accounting policies was omitted from the draft accounts. Additionally, we identified improvements that could be made to the disclosures of post balance sheet events, accounting standards issued but not yet adopted and going concern. See Appendix B for details.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. The financial statements were received on 15 July 2020, and published in advance of 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
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, 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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
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 We have nothing to report on these matters.
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.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Lancashire Combined Fire Authority in the audit report.

Value for Money

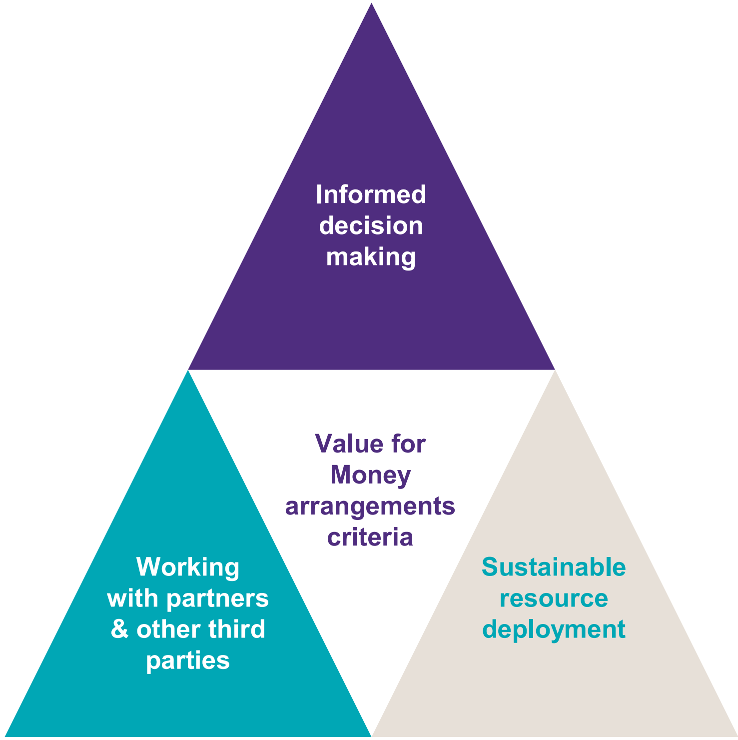
Background to our VFM approach

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 April 2020. 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 May 2020 and identified no significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan at the Audit Committee on 28 July 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work. We have not identified any new VfM risks in relation to Covid-19, as we do not consider Covid-19 to be a significant risk given the pandemic impacted so late in the financial year.

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 identifying whether there are 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 not identified any 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 the Head of Internal Audit Annual Report for 2019/20 and your own Statement on Governance Arrangements. Internal Audit Provided substantial assurance and identified no significant areas of weakness in governance, risk management or control. Our updated risk assessment die not identify any significant VFM risks.

Commentary on finances

The net budget for 2019/20 was £56.1m, and increase of £1.3m compared to the 2018/19 budget. The increase was largely due to forecast pay awards and revised pension contributions, offset by an efficiency savings target of £1.2m.

The Authority has a good track record of delivering savings, over £20m of efficiency savings has been made between April 2011 and March 2020. The Authority overspent against its planned budget by £0.25m for 2019/20 despite exceeding its efficiency savings target. This was mostly due to backdating of various pensionable allowances to March 2019.

The Authority has adequate reserves. In 2019/20 the Authority’s General Fund decreased by £0.2m from £8.4m to £8.2m, and its Earmarked reserves by £0.2m from £8.0m to £7.8m. The General Fund balance remains 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 and funding uncertainty whilst all local authorities await the result of the Fair Funding Review. £2.2m of General Fund and £1.5m of Earmarked Reserves are expected to be utilised within the life of the Medium Term Financial Strategy, reducing them to £6.0m and £6.3m respectively by March 2025. This does not include any potential impact of backdating of pensionable allowances earlier than March 2019 which would further deplete the General Fund balance. Whilst this would still leave sufficient reserves, utilising reserves each year is not sustainable in the longer term.

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 as a separate committee paper.

Recommendations for improvement

There were no other matters from our work which were significant to our considerations 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No non-audit services were identified which were charged from the beginning of the financial year to September 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
McCloud – IAS 19 adjustment for HM Treasury Consultation remedy	(4,120)	4,120	(4,120)
Difference between valuers report and fixed asset register	Nil	100	Nil
Overall impact	**(4,120)**	**4,220**	**(4,120)**

Impact of prior year 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 £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Backdating of pension contributions of day crew plus and other allowances	1,831	(1,831)	1,831
Overall impact	**1,831**	**(1,831)**	**1,831**

Impact of unadjusted misstatements

There are no unadjusted misstatements identified as part of the 2019/20 audit.

Impact of prior year unadjusted misstatements

There are no prior year adjusted misstatements identified as part of the 2019/20 audit.

Audit adjustments

Misclassification and disclosure changes (continued)

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 changes	Detail	Auditor recommendations	Adjusted?
Note 27 - Accounting Standards issued but not yet adopted – IFRS 16	A disclosure, in line with the requirements of IAS 8, about IFRS 16 was not included in the draft statement of accounts.	Add a disclosure that meets the requirement of IAS 8 that includes the title of the standard and the date of initial application, the nature of the changes in accounting policy for leases and, if known, an assessment on the of the impact of IFRS16 on its 2020/21 financial statements and whether the estimated impact on assets, liabilities and reserves.	✓
Accounting Policies - O – Going Concern	The disclosure in the draft accounts was very short and lacking in detail.	Provide a fuller explanation of management's assessment of the going concern basis on which the statement of accounts are prepared.	✓
Critical Judgements In Applying Accounting Policies	In the draft accounts, there was no disclosure of the critical judgements the Authority has made in applying accounting policies or lack thereof.	Include critical judgements for recognising HM Treasury's consultation as an adjusting post balance sheet event and the provision for backdating pension contributions following a ruling by the High Court in March 2019.	✓
Note 26 - Assumptions made about the future and other major sources of estimation and uncertainty	In the draft accounts, carrying amount at the balance sheet date was not included within the disclosure. Additionally, disclosure should be made of the uncertainty arising from the HM Treasury consultation remedies for the McCloud issue. Furthermore, disclosure should be made of the material valuation uncertainty of the Authority's share of the Lancashire County Pension Fund's property investments as this information was not available at the time the Authority's draft accounts were published.	For each item in the disclosure, the carrying amounts as at the balance sheet date should be added to the disclosure so support users of the accounts understanding of the quantum of the uncertainty. Disclosure should be made of the uncertainty deriving from the HM Treasury consultation remedies for the McCloud issue. Disclosure should be made of the uncertainty relating to the Authority's share of the Lancashire County Pension Fund's property investments .	✓
Note 20 - Post Balance Sheet Events	In the draft accounts, no post balance sheet events were identified.	Subsequent to the accounts being signed by the Treasurer, the Authority have recognised HM Treasury's consultation on the remedies for McCloud as an adjusting post balance sheet event. This should be disclosed as such.	✓
Note 8 – Financial Instruments	In the draft accounts, the financial instruments were categorised under IAS 39 categories. IAS 39 has been replaced by IFRS 9.	Financial instruments should be categorised under IFRS 9 categories.	✓
Prior Period Adjustment	A disclosure note, in line with the requirements of IAS 1, detailing the impact of the prior period adjustment on the statement of the accounts	Add a disclosure that meets the requirement of IAS 1, that includes a third balance sheet.	✓

Fees

We confirm below our final fees charged for the audit. No non-audit or audited related services have been undertaken for the Authority.

Audit fees	Proposed fee	Final fee
Authority Audit	£28,419	TBC
Total audit fees (excluding VAT)	**£28,419**	**TBC**

Additional audit work has been required to review the critical judgement on the backdating of pension contributions on day crew plus allowances.

In addition, Covid-19 has impacted on the audit of your financial statements in several ways. These impacts include:

1. Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has driven additional areas of audit work
2. Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions.
3. Financial resilience assessment – we are required to consider the financial resilience of audited bodies. Whilst the impact on the Authority has not been as significant as on other parts of the local government sector, there has been a small increase in the amount of work that we need to undertake on going concern and value for money (financial sustainability).
4. Remote working – the most significant impact in terms of delivery is the move to remote working (both our teams and yours). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. The Government's current expectation to work from home as the default position is now likely to make this a greater issue for the audit than if we had been able to gradually return to our offices and Authority premises over the autumn of this year, as originally anticipated.

We have been discussing the impact Covid-19 has been having on audits with PSAA over the last few months and note that these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

To date, we estimate that the issues highlighted above are increasing the time taken on audits by an average of 25%, in some cases higher. We understand from discussions with the ICAEW that this is similar to other firms.

Pleased be assured that we are trying to mitigate this as far as possible through reduced travel time and travel costs and will be looking how we can absorb some of the remaining overrun ourselves. However, it is unlikely that this will not be sufficient to cover the full additional cost. We are aware that the Authority's finances are constrained and we will seek to minimise these costs as best we can and will also consider our own performance in delivering to the November deadline. We will discuss any variations to the planned audit fee with the Director of Corporate Services before reporting to the Audit Committee at its next meeting.