

# The Audit Findings for Lancashire Combined Fire Authority

**Year ended 31 March 2021**

22 September 2021



# Contents



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## Section

1. Headlines
2. Financial statements
3. Value for money arrangements
4. Independence and ethics

## Page

- 3
- 5
- 16
- 18

## Appendices

- A. Action plan
- B. Audit adjustments
- C. Fees
- D. Audit Opinion
- E. Audit letter in respect of delayed VFM work

This Audit Findings 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. Its contents have been discussed with management and the Audit Committee.

*Andrew J Smith*

Name : Andrew Smith  
For Grant Thornton UK LLP  
Date : 22 September 2021

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

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# 1. 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 2021 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 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 Statement on Annual Governance Arrangements and Narrative Report), 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 on remotely during July to September. Our findings are summarised on pages 5 to 15. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Authority's Comprehensive Income and Expenditure Statement. Other audit adjustments are detailed in Appendix B. We have also raised recommendations for management as a result of our audit work 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 (Appendix D) or material changes to the financial statements, subject to the outstanding matters listed below:

- completing work on journals, PPE valuations and pensions valuations;
- processing samples of debtors, creditors, income and expenditure;
- response from the Lancashire County Pension Fund auditor to our request for assurance over IAS 19;
- clearance of issues from the audit quality review process;
- receipt of the signed management representation letter; and
- review of the final set of financial statements.

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 unmodified.

# 1. Headlines

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## Value for Money (VFM) arrangements

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Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We expect to issue our Auditor's Annual Report in November 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any risks of significant weakness at this stage, however our work on is still ongoing underway and an update is set out in the value for money arrangements section of this report.

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## Statutory duties

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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 expect to certify the completion of the audit upon the completion of our work on the Authority's VFM arrangements, which will be reported in our Annual Auditor's report in November 2021.

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## Significant Matters

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We did not encounter any significant difficulties or identify any significant matters arising during our audit.

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## 2. Financial Statements

### 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 the Audit Committee.

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;
- 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 not had to alter our audit plan, as communicated to you at the Audit Committee on 20 July 2021.

### 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 28 September 2021, as detailed in Appendix D. These outstanding items are listed on page 3.

#### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted on page 4 of our audit plan presented to the Audit Committee on 20 July 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as insert details of remote access working arrangements such as remote accessing financial systems, video calling, physical verification of assets, verifying the completeness and accuracy of information provided remotely produced by the entity.

## 2. 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 on 20 July 2021.

We detail in the table our determination of materiality for Lancashire Combined Fire Authority.

Authority	Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,192,500	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	894,375	Assessed to be 75% of financial statement materiality, to reflect the strong recent track record for producing accurate financial statements.
Trivial matters	59,600	This equates to 5% of materiality.
Materiality for banding of directors' remuneration	20,000	This is a sensitive disclosure for some users of the accounts, so we have used a lower level of precision

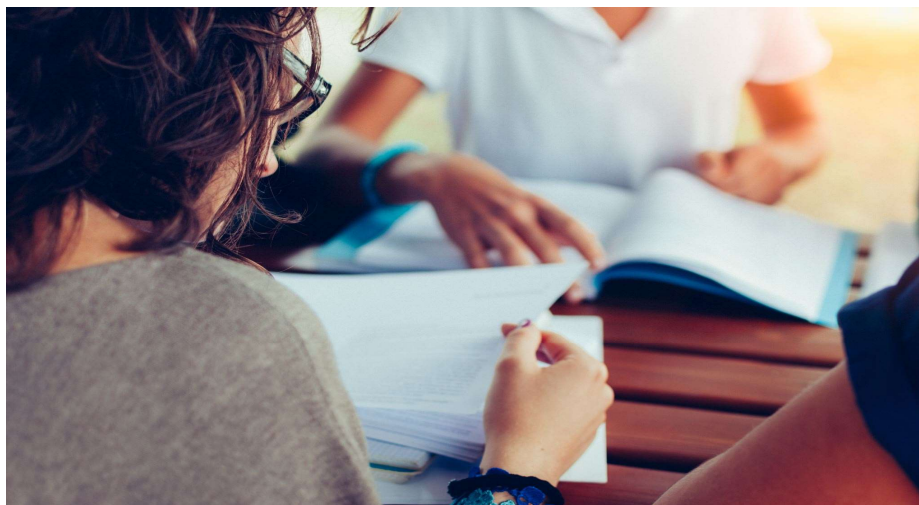


## 2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls	<p>We have:</p> <ul style="list-style-type: none"><li>• evaluated the design effectiveness of management controls over journals</li><li>• analysed the journals listing and determine the criteria for selecting high risk unusual journals</li><li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li><li>• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence</li><li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li></ul> <p>Our work in this area is ongoing at time of drafting this report. To date, our audit work has not identified any evidence of management override of controls.</p>



## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

#### The revenue and expenditure cycles include fraudulent transactions and / or improper recognition

Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override 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 for the Authority, which was one of the most significant assessed risks of material misstatement.

### Commentary

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.

#### Valuation of Land & Buildings

The Authority revalues its land and buildings on a rolling five yearly basis with 20% of assets valued each year. In the intervening years, such as 2020/21, the Authority requests a confirmation through a desktop exercise from its engaged valuation expert to ensure that there is no material difference. This valuation (£88.531m in 2019/20) represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Additionally for land and buildings, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where annual valuations are not carried out.

We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's valuation of land and buildings are not materially misstated and evaluated the design of the associated controls
- 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
- discussed with the valuer 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
- tested revaluations made during the year, to see if they had been input correctly into the Authority's asset register
- evaluated 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.

Our work in this area is ongoing at the time of drafting this report. To date, our audit work has not identified any issues in respect of the valuation of land and buildings.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of the 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 (£816.796m in 2019/20) is considered a significant estimate due to the size of the numbers involved 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 have:

- 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 experts (actuaries) for this estimate and the scope of the actuaries' work;
- assessed the competence, capabilities and objectivity of the actuaries who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuaries 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 reports from the actuaries;
- undertook 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; and
- obtained 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.

Our work in this area is ongoing at the time of drafting this report. To date, our audit work has not identified any issues in respect of the valuation of the Pension Fund Net Liability.



## 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Other Land &amp; Buildings – £60.783m</p> <p>PFI Assets – Land &amp; Buildings – £29.200m</p> <p>Total Land and Building valuations – £89.983m</p>	<p>Land and buildings comprises £89.964m 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 (£0.019m) 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 2021 on a five yearly cyclical basis. 20% of total assets (£29.595m) were fully revalued during 2020/21 with the remaining 80% subject to a desktop valuation exercise.</p> <p>The total year end valuation of land and buildings was £89.983m, a net increase of £1.452m from 2019/20 (£88.531m).</p>	<p>We reviewed the estimate, considering:</p> <ul style="list-style-type: none"> <li>• We have assessed the valuer used as management's expert, Amcat Limited, to be competent, capable and objective.</li> <li>• We have confirmed the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate.</li> <li>• We have evaluated the method, data and assumptions used by management's expert to derive the accounting estimate to be reasonable</li> <li>• We confirmed that the valuation method remains consistent with the prior year.</li> <li>• We confirm consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate.</li> <li>• We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts.</li> <li>• We have confirmed the adequacy of disclosure of estimate in the financial statements.</li> <li>• We have confirmed the appropriateness of alternative site assumptions.</li> </ul>	<p>Management's process is appropriate and key assumptions are neither too optimistic or too cautious</p>

# 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management’s approach	Audit Comments	Assessment																														
Firefighters’ Pension Scheme Net pension liability – £872.386m	<p>The Authority’s total net pension liability at 31 March 2021 is £887.704m (PY £812.676m) comprising the unfunded defined benefit pension obligations of the Firefighters Pension Scheme and the Lancashire County Pension Fund Local Government Pension Scheme.</p> <p>Firefighter’s Pension Scheme</p> <p>The Authority uses Government Actuary’s Department (GAD) to provide actuarial valuations of the Authority’s liabilities derived from the Firefighters’ Pension Scheme.</p> <p>A full actuarial valuation is required every four years. The latest full actuarial valuation was completed as at 31 March 2020. 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 £55.040m net actuarial loss during 2020/21.</p> <p>Local Government Pension Scheme</p> <p>The Authority uses Mercers to provide actuarial valuations of the Authority’s assets and liabilities derived from the LGPS.</p> <p>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 £1.490m net actuarial loss during 2020/21.</p>	<ul style="list-style-type: none"><li>• We have assessed the Authority’s actuaries, GAD and Mercer, to be competent, capable and objective.</li><li>• We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2020/21 roll forward calculation carried out by the actuary and have no issues to raise.</li><li>• 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 assumptions:</li></ul> <table><tr><th>Assumption</th><th>FFPS value</th><th>LGPS value</th><th>Within PwC range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>2.00%</td><td>2.05-2.10%</td><td>Yes</td><td>●</td></tr><tr><td>Pension increase rate</td><td>2.40%</td><td>2.80%</td><td>Yes</td><td>●</td></tr><tr><td>Salary growth</td><td>4.15%</td><td>3.50-4.20%</td><td>Yes</td><td>●</td></tr><tr><td>Life expectancy – Males currently aged 45 / 65</td><td>23.1 years / 21.4 years</td><td>22.4-23.9 years / 21.4-22.4 years</td><td>Yes</td><td>●</td></tr><tr><td>Life expectancy – Females currently aged 45 / 65</td><td>23.1 years / 21.4 years</td><td>26.9-25.7 years / 24.0-25.1 years</td><td>Yes</td><td>●</td></tr></table>	Assumption	FFPS value	LGPS value	Within PwC range	Assessment	Discount rate	2.00%	2.05-2.10%	Yes	●	Pension increase rate	2.40%	2.80%	Yes	●	Salary growth	4.15%	3.50-4.20%	Yes	●	Life expectancy – Males currently aged 45 / 65	23.1 years / 21.4 years	22.4-23.9 years / 21.4-22.4 years	Yes	●	Life expectancy – Females currently aged 45 / 65	23.1 years / 21.4 years	26.9-25.7 years / 24.0-25.1 years	Yes	●	Management’s process is appropriate and key assumptions are neither too optimistic or too cautious
Assumption	FFPS value	LGPS value	Within PwC range	Assessment																													
Discount rate	2.00%	2.05-2.10%	Yes	●																													
Pension increase rate	2.40%	2.80%	Yes	●																													
Salary growth	4.15%	3.50-4.20%	Yes	●																													
Life expectancy – Males currently aged 45 / 65	23.1 years / 21.4 years	22.4-23.9 years / 21.4-22.4 years	Yes	●																													
Life expectancy – Females currently aged 45 / 65	23.1 years / 21.4 years	26.9-25.7 years / 24.0-25.1 years	Yes	●																													
LGPS Net pension liability – £15.318m		<ul style="list-style-type: none"><li>• We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.</li><li>• We have confirmed there were no significant changes in 2020/21 to the valuation method.</li><li>• We conducted an analytical review to confirm the reasonableness of the Authority’s share of LGPS pension assets.</li><li>• Our work confirms that the decrease in the IAS 19 estimates are reasonable.</li><li>• We have reviewed the adequacy of disclosure of estimate in the financial statements.</li></ul>																															
Total Net pension liability – £887.704m																																	

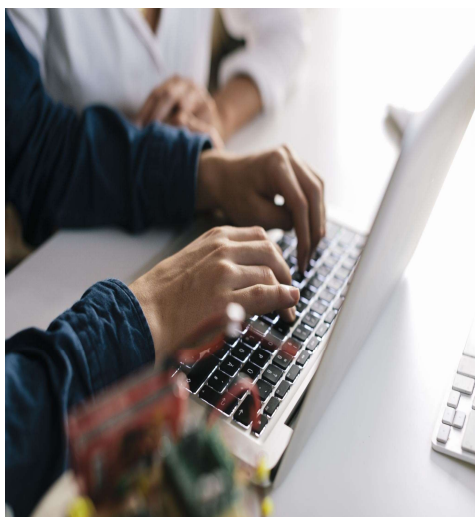


## 2. Financial Statements - other communication requirements

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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee and not been made aware any such incidents. 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	Our work on the disclosure of related parties identified material undisclosed transactions with Lancashire County Council. Following challenge from the audit team, these have been included within the updated statement of accounts. We are not aware of any other material 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.

## 2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to banking institutions and local authorities with whom the Authority has money on deposit. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation, however one request was not received so we undertook alternative procedures, including viewing the online banking portal to confirm the balance as at 31 March 2021.
Accounting practices	We have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. Our review found some areas for improved disclosure of the accounting policies for Provisions and Joint Control, and an unnecessary policy for non-current assets held for sale that has been removed.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

## 2. Financial Statements - other communication requirements



### 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).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"><li>• the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li><li>• for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li></ul> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"><li>• the nature of the Authority and the environment in which it operates</li><li>• the Authority’s financial reporting framework</li><li>• the Authority’s system of internal control for identifying events or conditions relevant to going concern</li><li>• management’s going concern assessment.</li></ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"><li>• a material uncertainty related to going concern has not been identified</li><li>• management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li></ul>

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Annual Governance Arrangements and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>One minor inconsistency was identified but has been adequately rectified by management. We plan to issue an unmodified opinion in this respect – see Appendix D</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"><li>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,</li><li>• if we have applied any of our statutory powers or duties.</li><li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li></ul> <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>Specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions are not required as the Authority does not exceed the NAO's thresholds.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit of Lancashire Combined Fire Authority in the audit report, as detailed in Appendix D, due to the incomplete Value for Money work.</p>



# 3. Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

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# 3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix E to this report. We expect to issue our Auditor's Annual Report by 30 November 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weaknesses at the planning stage and have continued to monitor the Authority's finances, governance arrangements and performance monitoring during the audit for any indications of risks of significant weaknesses in arrangements.

We have not identified any risks of significant weaknesses at this stage of the audit and expect to report that we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resource on our conclusion of the work later this year.

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# 4. 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 C.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

## 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.



# Appendices

# A. Action plan – Audit of Financial Statements

We have identified one recommendation for the Authority as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Low	<b>Self-authorisation of journals</b>  Our risk assessment of journal controls identified that there are no automated controls on the finance system to prevent members of finance staff approving their own journals.  Whilst our audit work on journals so far has not identified any significant issues as a result of this weakness in internal controls, we recommend that the Authority establishes an authorisation control to reduce the risk of financial reporting fraud and/or error in future.	Implement a journals authorisation control, which prevents the self authorisation of journals and ensures segregation of duties between the journal poster and the journal authoriser.  <b>Management response</b>  We have considered the recommendation. We believe our financial monitoring processes are sufficient to identify if such an instance occurred. Neither ourselves, nor internal and external audit, have discovered any instances of error or reporting fraud that the implementation of this would have prevented. Hence, given the size of our finance team (3.5 FTE including the Head of Finance), we don't feel that introducing further controls is practical or proportionate to the risk.

## Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# 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

We have not identified any adjusted misstatements impacting the key statements or the reporting next expenditure for the year ending 31 March 2021.

## 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	Auditor recommendations	Adjusted?
<b>Accounting policies</b> In the draft financial statements: <ul style="list-style-type: none"><li>the accounting policy for provisions was very brief.</li><li>there was no accounting policy for joint control.</li><li>there was an accounting policy for non-current assets held for sale, even though the Authority does not have any.</li></ul>	Include more detail in the accounting policy for provisions.  Include an policy for how joint control is accounted for.  Remove the policy for non-current assets held for sale.	✓
<b>Assumptions made about the future and other major sources of estimation and uncertainty</b>  Disclosure was made that LGPS property related assets were subject to material valuation uncertainty at the LCPF which was not the case.	Remove this disclosure	✓
<b>Critical Judgements</b>  Going concern and Business rates additional reliefs S31 grant 2020/21 were disclosed as a critical judgement. These do not appear to be critical judgements, and should be disclosed elsewhere.  Disclosure of the judgements around the Authority's assessment that North West Fire Control Limited is a joint operation and that group accounts are not required were not included in the note, but would be useful for users of the accounts to understand these judgements.	Remove the going concern as a critical judgement disclosure.  Consider whether Business rates additional reliefs S31 grant 2020/21 would be better disclosed as an estimation uncertainty if there is a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year  Include a disclosure of judgements around the accounting for North West Fire Control Limited.	✓

# B. Audit Adjustments



Disclosure omission	Auditor recommendations	Adjusted?
<p><b>Narrative Report</b></p> <p>In the draft financial statements, the narrative report says the reserves policy has a minimum level of £3.2m. According to the reserves policy this is actually £3.5m.</p>	Update the disclosure of the minimum level of reserves inline with the policy.	✓
<p><b>PFI</b></p> <p>The wrong RPI figure was used in the model for the calculation for the future payments of services for the Balfour Beatty Fire and Rescue NW Limited scheme. The assumed 2.5% should have been replaced by 4.489%. This led to a total difference of £78k over the payables within 1-20 years.</p>	Update the disclosure based on the correct RPI figure used in the PFI model.	✓
<p><b>Financial Instruments</b></p> <p>In note 8 of the draft financial statements:</p> <ul style="list-style-type: none"> <li>Current investment of 2019/20 is wrongly disclosed as £15,000k instead of £5,000k.</li> <li>£3,387k of Other trade receivables was erroneously excluded from financial instruments.</li> <li>Trade payable of 2019/20 is wrongly disclosed as £6,086K instead of £4,255K.</li> </ul>	Update the disclosure for the issues noted.	✓
<p><b>Classification of income by nature</b></p> <p>In note 27 of the draft financial statements, we identified income £6,523k in 2020/21 and £6,177k in 2019/20 that had been classified as Fees, charges and other service income that should have been classified as Government grants and contributions.</p>	Reclassify the income between the two lines in the disclosure.	✓
<p><b>Impact of unadjusted misstatements</b></p> <p>We have not identified any unadjusted misstatements for the year ending 31 March 2021.</p>		
<p><b>Impact of prior year unadjusted misstatements</b></p> <p>We have not identified any adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements.</p> <p>During our work on the 2020/21 audit, we have not identified any unadjusted misstatements to the 2019/20 comparative figures.</p>		

# C. Fees

We confirm below our final fees charged for the audit.

Audit fees	Proposed fee	Final fee
Authority Audit	£38,919	To be confirmed
Total audit fees (excluding VAT)	£38,919	To be confirmed

The fees reconcile to the draft financial statements.

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 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

# D. Audit opinion

Our audit opinion is included below.

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 on financial statements

We have audited the financial statements of Lancashire Combined Fire Authority (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and notes to the financial statements. 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; 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, as required by the Code of Audit Practice (2020) ('the Code of Audit Practice') approved by the Comptroller and Auditor General. 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 are responsible for concluding on the appropriateness of the Treasurer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Treasurer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Treasurer with respect to going concern are described in the 'Responsibilities of the Authority, the Treasurer and Those Charged with Governance for the financial statements' section of this report.

#### Other information

The Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, 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 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 the 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 in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Statement on Annual Governance Arrangements does not comply with 'delivering good governance in Local Government Framework 2016 Edition' 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 Statement on Annual Governance Arrangements 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 matters 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, the other information published together with the financial statements in the Statement of Accounts 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

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 Treasurer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, 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 Treasurer. The



# D. Audit opinion

Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Treasurer 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 Treasurer 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003 and the Fire and Rescue Services Act 2004. We also identified the following additional regulatory frameworks in respect of the firefighters' pension fund, the Public Service Pensions Act 2013, The Firefighters' Pension Scheme (England) Regulations 2014 and The Firefighters' Pension Scheme (England) Order 2006.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and any other fraud risks identified for the audit. We determined that the principal risks were in relation to:

- Large and unusual journal entries that impacted the comprehensive income and expenditure statement made during the year and after the balance sheet date; and
- accounting estimates and critical judgements made by management.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Treasurer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual journals;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, and defined benefit pensions liability valuations;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, and defined benefit pensions liability valuations.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

## Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.



# D. Audit opinion

## 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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

## Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Lancashire Combined Fire Authority for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report.

## 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.

[Insert signature]

Andrew J Smith, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Manchester

[Insert date]

# E. Audit letter in respect of delayed VFM work



