



The Annual Audit Letter for Lancashire Combined Fire Authority

Year ended 31 March 2016

October 2016

Karen Murray

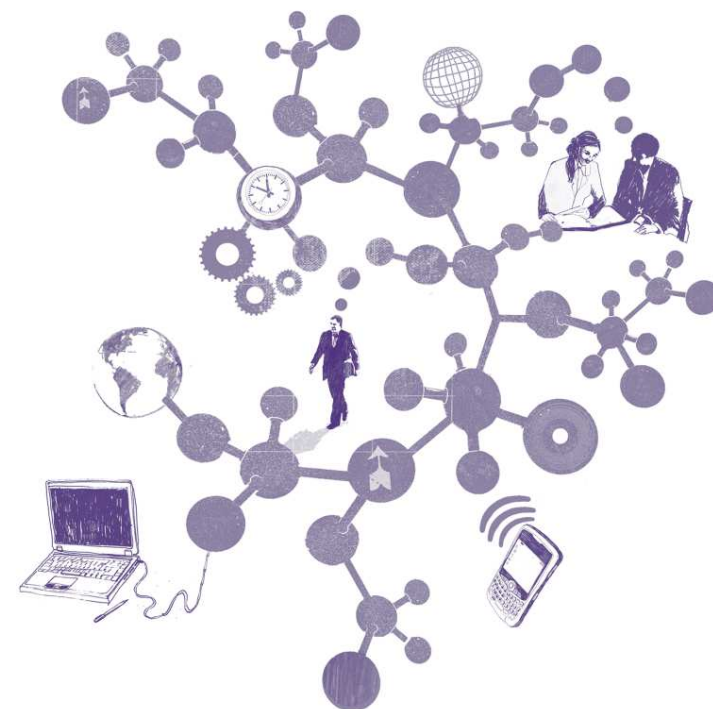
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Lancashire Combined Fire Authority (the Authority) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Authority and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Authority's Audit Committee as those charged with governance in our Audit Findings Report on 29 September 2016.

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Authority's financial statements on 29 September 2016.

Value for money conclusion

We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

Other work completed

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

Working with the Authority

We have worked with you to move towards the early close of the accounts. You have a good track record of preparing your accounts ahead of the deadline and we have worked with you to bring our work forward.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Authority's accounts to be £970,000, which is 2% of the Authority's gross revenue expenditure. We used this benchmark, as in our view, users of the Authority's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as auditor's and senior officer remuneration.

We set a lower threshold of £48,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

This includes assessing whether:

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Authority and with the accounts on which we give our opinion.

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

Our audit approach was based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts - Authority

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

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire Combined Fire Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Lancashire Combined Fire Authority, mean that all forms of fraud are seen as unacceptable. <p>We did not identify any issues to report.</p>
<p>Valuation of property plant and equipment</p> <p>The Authority revalues its property assets on a rolling basis over a five year period.</p> <p>The Code requires that the Authority ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate. • reviewed the competence, expertise and objectivity of any management experts used. • reviewed the instructions issued to valuation experts and the scope of their work • confirmed the basis on which the valuation is carried out and challenged the key assumptions. • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. • tested revaluations made during the year to ensure they are input correctly into the 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. <p>We identified the following issues in relation to this risk:</p> <p>For the assets which had been revalued in the year, it was identified there had been a significant change in the value of your asset base. Management reviewed the assets that had not been valued in the year and, following discussions with the valuer, agreed a percentage indexation increase to apply to the rest of your assets.</p> <p>The accounts were amended to reflect this.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • reviewed entity level controls • tested journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions <p>We did not identify any issues to report.</p>

Audit of the accounts – Authority continued

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of pension fund net liability</p> <p>The Authority's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • documented the key controls put in place by management to ensure the pension fund liability was not materially misstated. • reviewed the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation. • gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • reviewed the consistency of the pension fund asset and liability and associated disclosures in notes to the financial statements with the actuarial report from your actuary. <p>We did not identify any issues to report.</p>
<p>Employee remuneration</p> <p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the payroll transaction cycle • undertaken walkthrough testing of the key controls to assess the whether those controls were operating in line with our understanding • reconciled your payroll system to the general ledger • undertaken a trend analysis to identify if there are any variances which needed further explanation • tested a sample of payments made to employees to ensure they were correctly calculated. <p>We did not identify any issues to report.</p>
<p>Operating expenses</p> <p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the expenditure transaction cycle • undertaken walkthrough testing of the key controls to assess the whether those controls were operating in line with our understanding • tested a sample of payments made in the year • tested new year payments to confirm they have been included in the correct financial year. <p>We did not identify any issues to report.</p>

Audit of the accounts – Authority continued

Risks identified in our audit plan	How we responded to the risk
<p>Firefighters Pensions Benefit Payments Benefits improperly computed/ claims liability understated Payments to retiring officers are low in volume but high in value and the service is reliant on effective controls both within and outside the organisation to ensure that payments made are valid and accurate.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none">• documented our understanding of processes and key controls over the firefighters pensions payments transaction cycle• undertaken walkthrough testing of the key controls to assess the whether those controls were operating in line with our understanding• Tested a sample of benefits coming into payment to confirm correctly calculated. <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Authority's accounts on 29 September 2016, in advance of the 30 September 2016 national deadline.

The Authority made the accounts available for audit in line with the agreed timetable, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Authority to the Authority's Audit Committee on 29 September 2016.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Authority and with our knowledge of the Authority.

Other statutory duties

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

We have not used these powers in 2015/16.

Value for Money conclusion

Overall VfM conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. We carried out an initial risk assessment in February 2016 and identified no significant risks. We communicated this to you in our Audit Plan dated 31 March 2016.

We considered risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We continued our review of relevant documents up to the date of giving our report on the 29 September 2016, and did not identify any further significant risks where we needed to perform further work.

Informed decision making

There are sound arrangements in place to support decision making. Budget information is taken to the Authority on an annual basis. The reporting and updating of the medium term financial plan means that the Authority is maintaining a sound financial position.

The Authority's risk management process includes the regular reporting of the risk register to the Audit Committee. The register is well developed and there is evidence that the key strategic risks are considered and updated regularly.

Changes in risks are clearly explained to members and scrutinised by the Audit Committee. The risk register considers the key risks to, mitigations and actions by the Authority around staff and appliance deployment.

Resource deployment

The Authority recognises its staff as the key resource. It has recently refreshed its workforce strategy. As a result, there has been some planned recruitment of firefighters. Efforts continue to support and recruit retained firefighters across the county area although current levels compare favourably with other fire and rescue services.

In setting the 2016/17 budget, decisions were made based on the best estimates of the likely funding settlement. The budget was then updated once the final settlement was confirmed. This revised budget identified that the net budget position is £27.6m which is an improvement of circa £1.1m on the position originally forecast by the Authority. This provides the Authority with greater financial resilience as it seeks to deliver savings across the service.

Working with partners

The Authority has a good track record of working with partners and has continued this in 2015/16. The Authority understands those areas where it can best deliver in partnership with other organisations. Key relationships include the Prince's Trust and other "blue light" services. The Authority has been proactive in piloting both co-responding and shared premises with North West Ambulance Service with the aim of maintaining public safety and reducing costs.

The Authority is a key partner in the control centre with Greater Manchester, Cheshire and Cumbria Fire services. This is now fully operational and provides a control function across the north west footprint

Working with the Authority

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes:

An efficient audit – we delivered the accounts audit ahead of the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we provided regular audit committee updates covering best practice. Areas we covered included Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work, Reforging local government. We also shared with you our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Providing training – we provided training on financial accounts and key audit issues. The session was attended by your Head of Finance.

We ran a workshop on the impact of early closure on your accounts which was attended by your Head of Finance.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of the Authority	30,739	30,739	40,985
Total fees (excluding VAT)	30,739	30,739	40,985

Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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