

## Responses from Management

<b>General Enquiries of Management</b>	
<b>Auditor question</b>	<b>Response</b>
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	<p>McCloud remedy assumptions included in the International Accounting Standard 19 (IAS19) valuations.</p> <p>Local Government Pension Scheme IAS19 asset valuations – continued market uncertainty.</p> <p>Property, Plant and Equipment valuations - continued market uncertainty.</p> <p>Updated position on pensionability of allowances as still not fully resolved.</p> <p>Unspent S31 grants (protection funding/Grenfell infrastructure/protection accreditation) carried forward via earmarked reserves.</p> <p>Inflation rates impacting future Private Finance Initiative charges.</p> <p>Year-end debtor/reserve in respect of Business Rate reliefs.</p>
2. Have you considered the appropriateness of the accounting policies adopted by Lancashire Combined Fire authority?	Yes, accounting policy review carried out in April 2023 – but no policy changes required.
Have there been any events or transactions that may cause you to change or adopt new accounting policies?	No
3. Is there any use of financial instruments, including derivatives?	No
4. Are you aware of any significant transaction outside the normal course of business?	No
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No – an impairment review is being carried out as part of the annual valuation exercise.
6. Are you aware of any guarantee contracts?	No

7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No – we expect to have an accrual relating to the backdating of pensionable allowances again – this has not yet been resolved but will be discussed further as part of year end audit.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Lancashire Combined Fire Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Analysis of legal fees paid during 2023 available at interim.</p> <p>We are involved in national issues such as the transitional pensions arrangement case, but these are all done on a national basis with LFRS picking up a share of legal/advisor costs.</p> <p>Other than that, solicitors are used to deal with Property matters, Insurance matters and Prosecutions.</p> <p>Details of contingent liabilities disclosed by directors and the in-house solicitor will be available at year end audit – but nothing material exists at the present time.</p>
9. Have any of Lancashire Combined Fire Authority’s service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	We have not used advisors to deal with any legal issues. Advisors are typically used to support Property issues (QS/architects/BREEAM etc).
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details.	No
<b>Fraud Risk Assessment</b>	
<b>Auditor question</b>	<b>Response</b>
1. Have Lancashire Combined Fire Authority assessed the risk of material misstatement in the financial statements due to fraud?	Due to the budget monitoring measures in place, and the reconciliation between DFM and the accounts, we assess ourselves to be at extremely low risk of the financial statements being materially misstated. Budgets are reviewed in detail at least quarterly with Finance/Dept Head/Director. Bi-annual departmental fraud risk

<p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>assessments submitted to Director of Corporate Services.</p> <p>During the year, quarterly check for duplicated Accounts Payable transactions. Participation in the National Fraud Initiative, whistle blowing and anti-fraud policies. NFI checks ongoing, but nothing reportable as part of the audit yet.</p> <p>Financial risk is assessed as part of budget setting process, and incorporated into Reserves and Balances Policy.</p> <p>Reduction in funding is one of the key risks on the corporate risk register.</p>
<p>2. What have you determined to be the classes of accounts, transactions, and disclosures most at risk to fraud?</p>	<p>Potential areas of risk identified (same as previous year):</p> <ul style="list-style-type: none"> <li>• Duplicated payments</li> <li>• Bank mandate fraud</li> <li>• Payroll</li> <li>• Pensions</li> </ul> <p>On that basis the Net Cost of Services (NCoS) and segmental reporting notes are most at risk of fraud.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Lancashire Combined Authority as a whole or within specific departments since 1 April 2021?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Yes, an instance of a bank mandate fraud was identified whereby the fraudster managed to change the bank account details of an existing employee by obtaining a new starter form. LFRS processes were not followed, and the department concerned has been contacted and reminded of the correct processes. One payment was made totalling £1,465.45.</p> <p>Via Audit Committee, i.e., Risk Management reported at each Audit Committee, outcomes of NFI considered by Audit Committee.</p>
<p>4. Have you identified any specific fraud risks?</p>	<p>Potential areas of risk identified (same as previous year):</p> <ul style="list-style-type: none"> <li>• Duplicated payments</li> </ul>

<p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Lancashire Combined Fire Authority where fraud is more likely to occur?</p>	<ul style="list-style-type: none"> <li>• Bank mandate fraud</li> <li>• Payroll</li> <li>• Pensions</li> </ul> <p>No</p> <p>For the above risk areas – Headquarters departments (Finance, Procurement, HR/payroll), Local Pension Partnership (pensions provider), Greater Manchester Combined Authority (payroll provider).</p>
<p>5. What processes do Lancashire Combined Fire Authority have in place to identify and respond to risks of fraud?</p>	<p>Quarterly check for duplicate Accounts Payable transactions, participation in NFI, whistle blowing and anti-fraud policies, induction process, employee code of conduct, agreed set of organisational values – STRIVE. Internal audit checks.</p>
<p>6. How do you assess the overall control environment for Lancashire Combined Fire Authority including:</p> <ul style="list-style-type: none"> <li>• the existence of internal controls, including segregation of duties; and</li> <li>• the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p>	<p>We use internal audit annual reviews, in particular for our key financial systems. These reviews give substantial assurance.</p> <p>Quarterly check for duplicate Accounts Payable transactions, participation in the National Fraud Initiative, whistle blowing and anti-fraud policies, induction process, employee code of conduct, agreed set of organisational values – STRIVE.</p> <p>Quarterly budget monitoring review carried out with budget holder, director and head of finance. Overall financial position reported to Exec Board and Resources Committee roughly quarterly – differences between previous reports are reviewed and explained.</p> <p>No</p>

<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>No, not for material items – the size of the budget and the granular level of reporting make misreporting unlikely.</p>
<p>8. How do Lancashire Combined Fire Authority communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Induction process, employee code of conduct, agreed set of organisational values – STRIVE. Contractor terms and conditions.</p> <p>Whistle blowing &amp; anti-fraud policies are on the intranet. They can also discuss with their manager or the Finance department.</p> <p>They are expected to report anything that does not 'feel right', so it can be investigated.</p> <p>No</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>LFRS do not have access to perform bank transactions (i.e., payments), other than an impress account with circa £40k balance, a prepaid debit card account with circa £10k balance. All other transactions must be actioned by Lancashire County Council.</p> <p>Due to this, we do not consider that we have any high-risk posts.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The former Treasurer to the CFA is married to the Treasurer at Chorley &amp; South Ribble Councils (note until the end of April 21 she was the Treasurer at Blackburn with Darwen Council), however transactions between LFRS and each council relate to Precepts, business rates income and property rates payments.</p> <p>All of this will be noted and evidenced in our Related Party Transactions note and working papers.</p>
<p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for</p>	<p>In the event of a fraud, contact would be made with the Chair and vice-chair of audit committee. Updates would be reported at the next available meeting.</p>

identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?	Internal audit review reports are presented to Audit Committee at each meeting. One fraud or breaches of internal control in 22/23.
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	No
13. Have any reports been made under the Bribery Act?	No
14. Have any reports been made under the Bribery Act? If so, please provide details	No
<b>Laws and Regulations</b>	
<b>Auditor question</b>	<b>Response</b>
1. How does management gain assurance that all relevant laws and regulations have been complied with?  What arrangements does Lancashire Combined Fire Authority have in place to prevent and detect non-compliance with laws and regulations?  Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?	Existence of the in-house solicitor and governance role of the Clerk to the CFA to provide guidance & advice.  Prevention - Data protection policies and procedures; Environmental & H&S policies; HR policies.  Detection - Whistle blowing/anti-fraud policies;  No
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Internal audit reviews and the annual governance report. Existence of the in-house solicitor and governance role of the Clerk to the CFA.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2022/23 financial statements?	No
4. Is there any actual or potential litigation or claims that would affect the financial statements?	Will be reviewing contingent liability position (& note) for all previously reported items. We request details of known items from Directors and the solicitor at the end of March. We review all Employee Liability and Public Liability insurance outstanding claims.  The backdating of pensionable allowances may be subject to legal challenge citing

	Norman v Cheshire Fire and there may be a legal challenge relating to payments made to individuals when on annual leave citing the Bear v Fulton legal decision as the basis of their challenge.
5. What arrangements Lancashire Combined Fire Authority have in place to identify, evaluate and account for litigation or claims?	We request details of known items from Directors and the solicitor at the end of March. We review all EL/PL insurance outstanding claims. We also review the legal fees spend to identify any ongoing cases.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No
<b>Related Parties</b>	
<b>Auditor question</b>	<b>Response</b>
1. Have there been any changes in the related parties including those disclosed in Lancashire Combined Fire Authority's 2021/22 financial statements? If so, please summarise: <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and Lancashire Combined Fire Authority</li> <li>whether Lancashire Combined Fire Authority has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	No – we will issue the Related Party Transactions disclosure form to all current CFA members this year. We gather evidence for any organisations disclosed. Not expected to be different to last year.  CFA members constituent councils have business rates transactions, precepts etc, these will be gathered together for evidence as part of the year end Working Papers.
2. What controls does Lancashire Combined Fire Authority have in place to identify, account for and disclose related party transactions and relationships?	We issue a questionnaire to all directors and CFA members at the end of March each year and analyse the disclosed organisations against Accounts Payable / Accounts Receivable transactions.
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Significant transactions would largely be the precepts (Council Tax and Business Rates) income coming into LFRS – this is subject to the budget setting process and administered by LCC.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	We do not have access to bank transactions outside of normal office hours,

	as LCC carry out these tasks on LFRS' behalf. There is no out of hours service.
<b>Going Concern</b>	
<b>Auditor question</b>	<b>Response</b>
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Lancashire Combined Fire Authority will no longer continue?	<p>The annual budget setting process will identify whether we are able to continue to operate in the longer term, this includes our ability to set a balanced short- and medium-term budget, our assessment of the adequacy of reserves to meet short- and medium-term commitments, and the assessment of the robustness of our budget assumptions.</p> <p>The s151 officer has been able to set a balanced budget for 2023/24, negating the need for an unbalanced budget report to members in line with Section 114 of the Local Government Finance Act 1988 (England and Wales).</p> <p>The authority's forward financial planning arrangements indicate that the authority will be able to meet its obligations in the foreseeable future.</p> <p>There are no significant doubts about the forward financial planning arrangements of the authority, leading to uncertainty as to the projected financial position for the foreseeable future, as indicated by the budget monitoring reports to the Resources Committee.</p> <p>In addition, we produce an Annual Assurance Statement looking at operational, financial and governance issues which is reported to the Home Office, and this did not identify any significant gaps.</p> <p>His Majesty's Inspectorate of Constabulary and Fire &amp; Rescue Services (HMICFRS) in July 2022 graded the service:</p> <p>'good' at effectively keeping people safe and secure from fire and other risks;</p> <p>'good' at efficiently keeping people safe and secure from fire and other risks; and</p> <p>'good' at looking after its people.</p>



	Specifically, the Inspectorate commented that 'The service shows sound financial management' and 'The service is outstanding at promoting the right culture and values and has developed a talent management process. It has a good understanding of its future financial challenges and has identified savings and investment opportunities.
2. Are management aware of any factors which may mean for Lancashire Combined Fire Authority that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No, we are not aware of any such factors.
3. With regard to the statutory services currently provided by Lancashire Combined Fire Authority, does Lancashire Combined Fire Authority expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Lancashire Combined Fire Authority to cease to exist?	We expect to continue to deliver services for the foreseeable future.
4. Are management satisfied that the financial reporting framework permits Lancashire Combined Fire Authority to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes, we believe the statements should be prepared on a going concern basis and that doing so provides a faithful representation of the items in the financial statements.
<b>Accounting Estimates - General Enquiries of Management</b>	
<b>Auditor question</b>	<b>Response</b>
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	PP&E – valuation, impairment & depreciation. Pensions – valuation of liability & underlying assets. Expenditure accruals relating to backdated pensionability.

2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	Internal review of estimates and comparison to previous year position done by Head of Finance and DoCS. This will be reporting to Audit Committee.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Use of the CIPFA code of practice for local govt accounts. Review of source data provided to external experts (PP&E, pensions) and comparison of assumptions and results between financial years.
4. How do management review the outcomes of previous accounting estimates?	Comparison of estimates to eventual actual transactions, use this to form future judgements. Use these to review and challenge current outcomes of estimates.
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	No changes made to the processes, however underlying assumptions are reviewed and potentially changed.
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Review of skills held internally, and outsource identified gaps, using knowledge of reputable and appropriate experts.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Review the underlying assumptions, and where there is material change, analyse to understand it and/or challenge the results.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	As per Q4 & Q7
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> <li>• Management's process for making significant accounting estimates</li> <li>• The methods and models used</li> <li>• The resultant accounting estimates included in the financial statements</li> </ul>	Audit committee will have the estimates and bases of calculation reported to them for approval before the final accounts are produced.
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in the specific questions below)?	Will issue question to directors, at the same time as requesting Related Party Transactions and Contingent Liability information at the end of March. Responses required before end of April.

11. Are the management arrangements for the accounting estimates, as detailed in the specific questions below reasonable?	Yes.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate?	From the new report they will receive, plus confidence from previous years' clean audit opinions.

## Accounting Estimates

<b>Estimate</b>	<b>Method / model used to make the estimate</b>	<b>Controls used to identify estimates</b>	<b>Whether management have used an expert</b>	<b>Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates</b>	<b>Has there been a change in accounting method in year?</b>
Land and buildings valuations	Land and buildings are revalued on a rolling five-year basis by a suitably qualified surveyor. As at 31 March 2023, Amcat Limited, an external organisation, using surveyors qualified by the Royal Institution of Chartered Surveyors, carried out revaluations on the identified properties. All valuations are on the basis of depreciated replacement cost, with the exception of one property used as offices, valued at Existing Use Value.	Valuations are carried out in accordance with RICS guidance and the Code of Practice on Local Authority Accounting.	Yes, suitably qualified surveyor	Management consider the estimation uncertainty based on advice and discussions with independent valuation experts. Consistency and sensitivity are also assessed.	No

Depreciation	<p>Depreciation is charged on those assets which have a finite useful life, in the year after acquisition:</p> <ul style="list-style-type: none"> <li>• Intangible assets are assessed over their estimated useful life, 5 years.</li> <li>• Land is assessed as having an infinite life, and therefore is not depreciated.</li> <li>• Building assets are assessed for an appropriate property life by property professionals, in 10-year bands up to a maximum of 50 years.</li> <li>• Equipment is depreciated over their estimated useful life, ranging from 5 to 20 years.</li> <li>• Vehicles are depreciated over their estimated useful life,</li> </ul>	<p>The annual depreciation charge is compared to previous years, there is consideration of the age of assets in the asset category to assess if the useful life estimation is still appropriate and review of other similar organisations for comparability.</p>	<p>Independent external valuation experts are used.</p>	<p>The estimation uncertainty is considered through the regular re-assessment of an asset's useful life as part of the valuation programme. Based on advice and discussions with external independent valuation experts and professional best practice.</p>	No
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	<p>ranging from 5 to 15 years.</p> <p>The charges are based on the opening net book value of assets at the start of the financial year and the estimated useful life of the asset, and are calculated in such a way as to give an equal charge to the revenue account in each of the years the asset is used.</p>				
Investment property valuations	N/A				
Fair Value Estimates	<p>Financial liabilities are initially measured at fair value and carried at their amortised cost. For all of the borrowings the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principle</p>	<p>In accordance with IFRS 9, financial liabilities, financial assets represented by investments and long-term creditors, are carried in the Balance Sheet at amortised cost.</p>	<p>Yes, the Authority uses Treasury Management services from Lancashire County Council.</p>	<p>Management consider the estimation uncertainty based on advice and discussions with external experts and review of similar organisations.</p>	No

	<p>repayable plus accrued interest and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.</p> <p>The Authority holds only one type of financial asset, loans and receivables. These are its cash investments and debtors - assets that have fixed or determinable payments but are not quoted in an active market.</p> <p>Investments are initially measured at fair value and carried at their amortised cost. For all of the investments that the Authority has made, this means that the amount presented in the Balance Sheet is</p>	<p>Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:</p> <ul style="list-style-type: none"> <li>• Estimated ranges of interest rates at 31 March 2021 of 4.48% to 4.49% for loans from the Public Works Loan Board</li> <li>• This valuation takes into account the penalties that would be payable or discounts receivable on early repayment of loans to the Public Works Loan Board. These penalties</li> </ul>			
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	<p>the outstanding principal receivable. The interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year under the terms of the deposit agreement.</p>	<p>and discounts depend on the rate and period of each individual loan and on the rates for loans with similar periods to maturity prevailing at the balance sheet date.</p> <ul style="list-style-type: none"> <li>• Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value</li> <li>• The fair value of trade and other receivables is taken to be the invoiced amount.</li> <li>• The fair value of the PFI liabilities has been calculated by discounting the contractual cash flows (excluding</li> </ul>			
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		service charge elements) at the appropriate AA-rated bond yield rates.			
Provisions	<p>There are two provisions; insurance liabilities and Business Rates Appeals.</p> <p>Business Rates Appeals: Rely on information provided by billing authorities.</p> <p>Insurance provisions use historical data and known claims.</p>	<p>Business rates: reliance on experts.</p> <p>Insurance: Comparisons with previous years and management review.</p>	<p>Insurance: None although information is provided from the insurance service provider at the County Council.</p> <p>Business Rates Appeals: No, reliance on information provided by billing authorities.</p>	<p>Insurance: comparison with previous year.</p> <p>Business Rates Appeals: comparison with previous year and other billing authorities.</p>	No
Accruals	<p>There are a range of methods used across the Finance team. All methods and models will be reviewed are part of closedown to ensure they remain sound and are a</p>	<p>The finance team ensure that the design, methods and models used in assessing accounting estimates of accruals are sound.</p>	No	<p>Assumptions are selected in a range of ways across Finance and are selected and/or reviewed by appropriately qualified and experienced finance staff.</p> <p>Any changes to the assumptions and the effect of</p>	No

	suitable basis for the accounts.	Material accruals will be reviewed by the finance team and management will ensure these processes have taken place.		these will be assessed as part of the closedown process.	
Credit Loss and Impairment Allowances	NA				
Finance Lease Liabilities	Liabilities relate to photocopiers. The method used is based on information derived from the contracts using the methodology set out in IFRS16.	Review of calculations by management.	No	Based on details of the contractual arrangements.	No
PFI Liabilities	The accounting entries are derived from the PFI accounting models which were prepared, based on the operator's financial model, at the commencement of the three PFI schemes.  The fair values of the liabilities are calculated	Comparison with previous years and management review of reasonableness.	Yes to develop the accounting models.	Assumptions were selected by the external consultant when the PFI models were set up on the commencement of the schemes.	No

	informed by the Treasury management advisors.				
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