Appendix 1

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated DD MMM YYYY

The Audit Findings for Lancashire Combined Fire Authority

Year ended 31 March 2023

Contents

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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.

Georgia Jones

For Grant Thornton UK LLP
Date: March 2024

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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire Combined Fire Authority's ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2023 for the attention of 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 its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) 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 during August 2023 to February 2024. Our findings are summarised on the following pages. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work which are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our work is now near completion and there are no matters of which we are aware that would require modification of our audit opinion [Appendix G]. Since our last report to you we have completed the following areas of work;

- verified the responses from the pension fund auditor to gain assurances on underpinning controls and supporting data for the pension fund net liability
- checked the International Financial Reporting Interpretation Committee (IFRIC 14) assessment from the actuary on the amount of pension fund asset (surplus) in the LGPS scheme and tested the amendments to the financial statements (as set out in Appendix D)
- tested the updated Government Actuary Department (GAD) report which reflects part year inflation for the valuation of the Firefighters pension fund and agreed the revised entries in the financial statements (as set out in Appendix D)
- completed testing on areas of land and buildings valuations, including examining the assessment of the impact of reinforced autoclaved aerated concrete (RAAC)
- completed testing on the fair value of financial instruments
- examined the Information Technology (IT) assessment on the data migration controls to the new Oracle Fusion system and completed additional work in this area; and
- checked the final set of financial statements.

Our work is substantially complete subject to:

- receipt of the final management representation letter; and
- completing our final quality procedures.

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 financial statements audit report opinion will be unqualified.

Our work on the Authority's value for money (VFM) arrangements is now complete. The outcome of our VFM work is reported in our commentary on the Authority's arrangements in our Auditor's Annual Report (AAR).

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council'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 Council's arrangements under the following specified criteria: • Improving economy, efficiency and effectiveness; • Financial sustainability; and • Governance	We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report. We identified a significant weakness in the Authority's arrangements and so are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report (Section 3).
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.
Significant matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Authority for their support in working with us constructively to get to completion by this point.

National context – level of borrowing

All local government bodies are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on local government budgets, there are concerns as local government bodies look to alternative ways to generate income. We have seen an increasing number of councils and other local government bodies look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by local government bodies' existing resources, we have also seen some local government bodies take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on local government bodies, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

Lancashire Combined Fire Authority has debt of £2m at 31 March 2023. All the debt is from the Public Works Loans Board (PWLB) and is all at fixed rates of interest and is repayable on maturity. We have not identified any areas of risk in the Authority's Treasury Management activities.

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; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 28 March 2024, as detailed in Appendix G.

Our work is complete subject to:

- receipt of the final management representation letter; and
- completing our final quality procedures.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

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 benchmarks remain the same as reported in our audit plan in June 2023. We set out in this table our determination of materiality for the Authority.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,181,560	This equates to 2% of your gross operating expenditure for the 2021/22 year (1.88% of 2022/23 gross expenditure) and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Authority has expended its revenue and other funding.
Performance materiality	886,170	The performance materiality has been set at 75% of financial statement materiality. This reflects a standard benchmark based on risk assessed knowledge of potential for errors arising.
Trivial matters	59,100	This is the threshold for matters that are clearly inconsequential, whether taken individually or in aggregate. It is a standard benchmark set at 5% of materiality.

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 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.	We have: • evaluated the design and implementation of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk journals For example: - journals created by senior management - journals which impacted the financial outturn - year-end adjustment journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. From our review of all journals posted during the year, we identified 38 higher risk or unusual journals that warranted detailed audit testing. From the testing carried out there has been no evidence of inappropriate management override of controls through journals. Our commentary on key accounting estimates is set out on pages 13 to 15. We found accounting policies to be appropriate other than for depreciation on assets first brought into use. We noted the Authority do not charge depreciation on assets in the year of acquisition and when brought into use as required by the CiPFA Code ref 4.1.2.44. Depreciation is charged from the following financial year. The impact of this for the 2022-23 financial statements would be a maximum £46k on the assumption assets were depreciated when bought into use on receipt (see the Action Plan recommendation in Appendix B for further details).

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. Practice Note 10, issued by the FRC, states auditors should also consider that material misstatements may occur by the manipulation of expenditure recognition. These presumptions can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition or the manipulation of expenditure recognition. Having considered the risk factors set out in ISA240 and PN10 and the nature of the expenditure streams at the Fund, we have determined that the risk of fraud arising from revenue recognition and expenditure manipulation can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition and expenditure are very limited • classes of expenditure that could be prone to manipulation, such as management expenses and payments to and on account of leavers are not material • the culture and ethical frameworks of local authorities, including Lancashire Combined Fire Authority, mean that all forms of fraud are seen as unacceptable Therefore we do not consider these to be significant risks for Lancashire Combined Fire Authority.	The revenue and expenditure recognition risks have been rebutted. Despite revenue and expenditure recognition not being a significant risk we still undertook the following procedures to ensure that revenue and expenditure included within the accounts is materially correct. To gain this assurance we: • evaluated the Authority's accounting policies for income and expenditure recognition for appropriateness and compliance with the Code • updated our understanding of the Authority's system for accounting for income and expenditure and evaluated the design of relevant controls • undertook detailed substantive testing on the income and expenditure streams in 2021/22. Our substantive income and expenditure testing has not identified any errors that we are required to bring to your attention.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and 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 the Authority requests a confirmation through a desktop exercise from its engaged valuation expert to ensure that there is no material difference. This valuation £118.327m 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 evaluate 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 including investment properties, 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. As part of our overall audit work we tested 33 asset valuations, including individually large assets or those with unusual movements, as well as a sample across the remainder of the total population. In completing our work we examined the accounting entries, data and assumptions used and relevant asset indices. The Authority has identified it has one property impacted by Reinforced autoclaved aerated concrete (RAAC). This reduced the value of the property by £840k in 2023/24. We completed additional work to gain assurance on whether there is any other potential impact across the Authority's property portfolio for 2022/23. We are satisfied there is no material impact on the 2022/23 financial statements. Our audit work has not identified any other issues in respect of valuation of land and buildings (see page 13 for further commentary on estimates used by management).

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Pension Fund Net Liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability of £619.619m is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). However, for the first time since IFRS have been adopted the Authority has had to consider the potential impact of IFRIC 14 - IAS 19 -the limit on a defined benefit asset. Because of this we have assessed the recognition and valuation of the pension asset as a significant risk. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	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 evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Lancashire 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. Audit commentary The pension fund net liability of £619.619m is made up of the Firefighters pension scheme (FFPS) net liability of £639.496m and Local Government pension scheme net asset of £19.877m. The Authority should show the pension liability and pension asset as separate balances and not net these off in the financial statements. Where a pension fund asset arises the Authority should consider the potential impact of International Financial Reporting Interpretation Committee (IFRIC) 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction . This limits the amount of any net defined benefit asset to a ceiling which is the present value of those future benefits. The Authority obtained an IFRIC 14 assessment from its actuary which concluded the asset ceiling as £nil. The Authority has now updated the financial statements to reflect this assessment (see Appendix D). Discussions were held with the Government Actuary's Department (GAD) on the level of inflationary increases within their assessment of the year end liability. GAD had not accounted for part year inflation within their figures. As a result, the Authority received a revised assessment which increased the FFPS year-end liability by £12,040k (from £639,496k to £651,536k).

2. Financial Statements - Observations in respect of other risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

Issue	Commentary and controls weaknesses	
New General Ledger Incomplete or inaccurate financial information transferred to the new general ledger	In January 2023 Lancashire Combined Fire Authority moved from using Oracle E- Business Suite (EBS) ledger system to Oracle Fusion, which is a cloud-based system. Lancashire County Council (LCC) host the Oracle Fusion system on behalf of Lancashire Combined Fire Authority and process employee, supplier and customer personal and financial data. It is important when implementing a new significant accounting system that sufficient controls are in place to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system and potential challenges in producing robust control account reconciliations and detailed transaction reports. We are aware that LCC experienced problems with the data migration from the Oracle EBS to Fusion system and there were also instances of data breaches (although our understanding is that these data breaches did not relate to Lancashire Fire and Rescue Service data). The IT work examining the controls in place over the data migration reported some controls deficiencies within the implementation of the new Oracle Fusion system. The significant controls weaknesses included: • Lack of proper documentation and retention of the IT project related activities • Business users with inappropriate administrative access to Oracle EBS and Oracle Fusion • Insufficient retention of documents related to Oracle Fusion system changes and access provisioning • Lack of formal process in managing Oracle Fusion self-assigned roles. The above-mentioned IT deficiencies have been included in detail on page 27 in Appendix B along with our recommendations and management responses.	**Auditor response** To gain assurance over the completeness and accuracy of the data migration from Oracle EBS to Oracle Fusion for the preparation of the 2022/23 financial statements we carried out a full substantive test on the balance transfer. We found these were all correctly entered in the new Oracle Fusion system. In addition, we completed additional work to check user access controls as part of our work on journals with no issues arising. **Auditor view** Although there were control issues over the data migration to the Oracle Fusion system, we found the ledger balances were all correctly transferred for the compilation of the 2022/23 financial statements.

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Other Land & Buildings (OLB) – £81.895m PFI Assets – Land & Buildings – £36.432m Total Land and Building valuations – £118.327m	Land and buildings are 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. There are only £19k of land and buildings that are not specialised are valued at their existing use (EUV). The Authority has engaged Amcat Limited to complete the valuation of its land and buildings as at 31 March 2023 on a five yearly cyclical basis. 20% of total assets were fully revalued during 2022/23 with the remaining 80% subject to a desktop valuation exercise. The total year end valuation of land and buildings was £118.327m, a net increase of £18.038m from 2021/212 (£100.289m).	We completed the following work. • We assessed the valuer used as management's expert, Amcat Limited, as competent, capable and objective • We have confirmed the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate • We have evaluated the method, data and assumptions used by management's expert to derive the accounting estimate to be reasonable • We confirmed that the valuation method remains consistent with the prior year • We confirmed the consistency of the estimate using information on Local Government asset values movements 22/23 provided by Montagu Evans (appointed by the NAO), and reasonableness of the increase in the estimate • We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts • We have confirmed the adequacy of the disclosure of the estimate in the financial statements • We have confirmed the appropriateness of alternative site assumptions. We consider the level of disclosure in the financial statements to be appropriate. We selected a sample of 33 Land and Buildings valuations to test for appropriate use of valuation assumptions and input data. We have not identified any significant issues from this testing.	Light purple

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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 – £639.496m LGPS Net pension asset – £19.877m Total Net pension liability – £619.619m	See below	See below	Light purple

Summary of management's approach

The Authority's total net pension liability at 31 March 2023 is £619.619m (2021/22 £883.434m) comprising the unfunded defined benefit pension obligations of the Firefighters Pension Scheme and the Lancashire County Pension Fund Local Government Pension Scheme.

Firefighter's Pension Scheme

The Authority uses Government Actuary's Department (GAD) to provide actuarial valuations of the Authority's liabilities derived from the Firefighters' Pension Scheme.

A full actuarial valuation is required every four years. The latest full actuarial valuation was completed as at 31 March 2023. 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 £246.520m actuarial gain during the year.

Local Government Pension Scheme

The Authority uses Mercers to provide actuarial valuations of the Authority's assets and liabilities derived from the LGPS.

A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2023. 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.

Audit Comments

We have completed the following work on the estimate:

- assessed the Authority's actuaries, GAD and Mercer, to be competent, capable and objective.
- performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns and have no issues to raise.
- 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:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.8%	4.7-4.9%	
Pension increase rate	2.8%	2.70% p.a. for all employers	
Salary growth	4.2%	1.25% - 1.50% p.a. above CPI.	
Life expectancy – Males currently aged 45/65	22.8 21.5 yrs	22.4-24.3 21-22.6 yrs	
Life expectancy – Females currently aged 45/65	25.6 23.8 yrs	25.3-26.6 23.5-24.7 yrs	

- confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- conducted an analytical review to confirm the reasonableness of the Authority's share of LGPS pension assets.
- assessed the reasonableness of the change in estimate.
- reviewed the adequacy of disclosure of estimate in the financial statements.
- confirmed there have been no changes to the valuation methodology since the previous year, other than the updating of key assumptions above.
- examined the IFRIC 14 assessment of the pension fund asset on the local government scheme.

continued

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 – £639.496m LGPS Net pension asset – £19.877m Total Net pension liability – £619.619m		Conclusion The Lancashire Pension Fund auditor has provided assurances on 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. The Authority obtained an IFRIC 14 assessment from its actuary which concluded the asset ceiling as £nil. The Authority has now updated the financial statements to reduce the Local Government pension fund net asset from £19.877m to £nil (see Appendix D). Discussions were held with the Government Actuary's Department (GAD) on the level of inflationary increases within their assessment of the year end liability. GAD had not included part year inflation in their original calculations. As a result, the Authority received a revised assessment which increased the year end liability by £12,040k (from £639,496k to £651,536k). The Authority has updated the financial statements to reflect this (see Appendix D).	Light purple

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

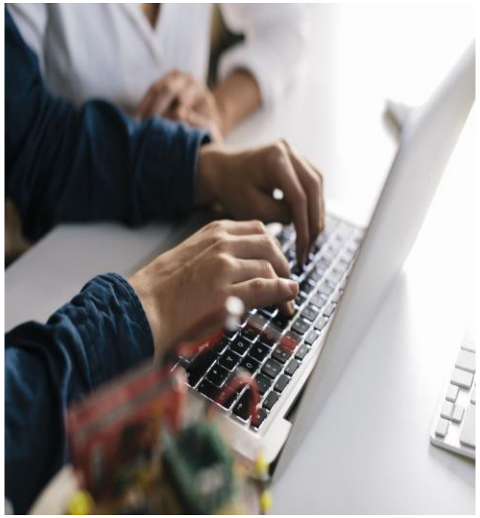
			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
Oracle Fusion: E-Business Suite Finance and Payroll	Financial reporting	●	●	●	●	Data migration from Oracle EBS during 2022/23	To gain assurance over the completeness and accuracy of the data migration from Oracle EBS to Oracle Fusion for the preparation of the 2022/23 financial statements we carried out a full substantive test on the balance transfer. We found these were all correctly entered in the new Oracle Fusion system. (see further details on page 12)

Assessment

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

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. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Authority, which will be re-signed on closure of the audit.
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. All requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. We noted the Authority do not charge depreciation on assets in the year of acquisition and when brought into use as required by the CiPFA Code ref 4.1.2.44. Depreciation is charged from the following financial year. The impact of this for the 2022-23 financial statements would be a maximum £46k on the assumption assets are depreciated when bought into use on receipt (see the Action Plan recommendation in Appendix B for further details). Our review found no material omissions in the financial statements, other than those mentioned in Appendix C - disclosure misstatements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements: other communication requirements

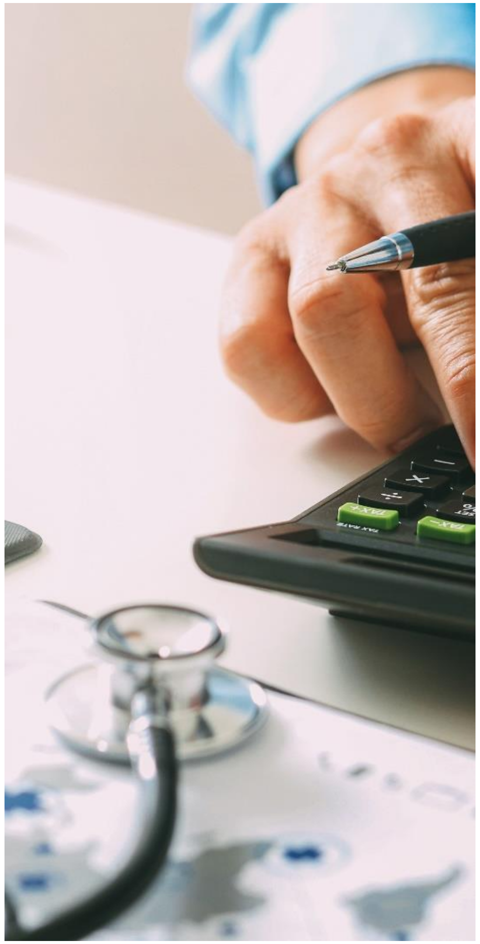
Our responsibility

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	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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 • 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. 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: • the nature of the Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the 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. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect as reported at Appendix G.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • 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, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness/es. We have reported a significant weakness on financial sustainability as part of our value for money assessment within our Annual Auditor report.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work is not required as the Authority has not exceeded the NAO's thresholds. We will complete the Assurance Statement in line with the issue of our Auditor report.
Certification of the closure of the audit	We intend to certify the closure of the 2022/23 audit of Lancashire Combined Fire Authority in the audit report, as detailed in Appendix G.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. 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

3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report.

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. The risk we identified is detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Authority's arrangements and so are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code, see Appendix G.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
Financial sustainability Significant weakness in arrangements identified in relation to the Authority's level and use of reserves to manage its financial position.	We considered how the Service: • identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans • plans to bridge its funding gaps and identify achievable savings • plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities • ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system • identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.	The Authority has an established and consultative approach to setting its annual budget, Medium-Term Financial Strategy (MTFS) and annual savings plan. It has clear and transparent financial reporting and a grasp of the financial challenges it faces. Like many other Authorities, however, it faced significant financial pressures moving into 2022/23 and overspent its revenue budget by £1.673 million (2.65% of the Net Revenue Budget) causing it to draw down on its General Fund Reserves. The 2023/24 budget includes a challenging savings target of £1.9 million to be delivered. In addition, there is a funding gap of £0.3 million which the Authority has made provision to be drawn down from general reserves. Further funding gaps amounting to £1.5 million have been identified between 2024/25 and 2026/27. At the time of writing the AAR, the year-end forecast for 2023/24 is an overspend of £0.176 million. The Authority does have a good track record of delivering savings; however; it needs to consider a longer term solution to deliver greater efficiencies. Otherwise, the Authority is facing an increasing risk of not being able to deliver a balanced budget with more reliance on drawing down on reserves. Due to the significance of the challenge and the current level of risk at the present time, we have identified a significant weakness in the Authority's arrangements relating to financial sustainability.	Key recommendation The Authority needs to ensure it maintains a robust framework of financial governance to ensure risks to financial resilience and sustainability are adequately monitored and controlled. The Authority should: • Develop a plan to address its general reserves position and its current use of reserves to balance its financial position. It needs to set out how its General Fund will be brought to a level that mitigates the risk to future financial sustainability. • Continue to take steps to contain expenditure and deliver sustainable savings.

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 and consider that an objective reasonable and informed third party would take the same view. 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 E.

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 Grant Thornton International Transparency report 2023.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Authority that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Authority
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Authority's board, senior management or staff that would exceed the threshold set in the Ethical Standard

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 3 recommendations 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 2023/24 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
●	**Fixed asset register** As part of our work testing the detail for individual assets held within the fixed asset register, we noted that 9 assets had negative net book values at 31 March 2023. This is due to excess depreciation charged against the cost or value. The total excess deprecation was £190k on assets with a gross value of £587k, resulting in additional depreciation charged against the assets. In addition there are around £5.5m of assets in the FAR with nil NBV's which the authority still has but which need reviewing to determine any residual useful economic lives (UEL's) and continuing usage.	We recommend the Authority examine the fixed asset register to ensure excess depreciation is not charged against fully depreciated assets and correct this for future years. It should also examine those assets with nil NBV's to determine any residual UEL. **Management response** The assets with a negative net book value will be corrected during 2023/24 and new procedures will be put in place to ensure assets are not depreciated beyond their cost or value in the future.
●	**Journal entry testing** As part of our work testing the journals, we identified an issue with journals listing we obtained as it did not contain the complete information such as the preparer name and the name of person authorizing the journal. The system allows journals to be self authorized and we found this did occur in some cases. This is a control risk, although not uncommon in smaller finance teams. The Authority does have an additional review process to compensate for this control issue.	We recommend the Authority looks into whether the system can be updated to include details of preparer/authoriser. **Management response** A new process was implemented towards the end of 2022/23 to record the journal preparer and approver. The approval of journals is required by Accountants, or more senior members of the Finance Team, and this is required to be saved within the journal file. A journal register records the unique journal reference, accounting period, preparer, and approver. This is reviewed to minimise the risk of self-authorisation on journal postings.
●	**Depreciation on assets brought into use** The Authority do not charge depreciation on assets in the year of acquisition and when brought into use as required by the CiPFA Code ref 4.1.2.44. Depreciation is charged from the following financial year. The impact of this for the 2022-23 financial statements would be a maximum £46k on the assumption assets were bought into use on receipt.	Although there is no significant impact on the 2022-23 financial statements in not charging depreciation on assets when first brought into use this is not in line with the CiPFA Code we recommend the Authority examine this policy for future years. It should ensure the economic benefit from newly acquired assets, particularly those with a significant value, are charged appropriately in the financial statements to reflect the period of use. **Management response** Consideration will be addressed annually at Audit Committee on the review of all accounting policies.

Controls

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

B. Action Plan – Audit of Financial Statements (Contd.)

Based on our IT Audit team's work, 4 significant deficiencies have been identified in their system testing which have been listed below along with their potential impact on financial statements and financial audit. We have agreed our recommendations with management, and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that the IT audit team has identified during the course of their work 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
● Medium	**Lack of proper documentation retention of the IT project activities** This deficiency has the potential to impact the audit approach due to the pervasive nature of the deficiency. There is a risk that - non-standard reports have not been sufficiently tested as part of the project activities - system configurations have not been sufficiently tested - the opening balances may not be complete and accurate, or there could be presentational differences from the change to the chart of accounts.	We recommend the Authority ensures to retain proper documentation of the IT project activities and consider the potential impacts we have mentioned relating to the deficiency. **Management response** The finance system LFRS uses is owned by LCC and a SLA is in place. All shared project activities are owned and managed by LCC and LFRS test as an end user. Several non-standard reports remain in development, however there is confidence in general ledger reporting of opening balances.
● Medium	**Business users with inappropriate administrative access to Oracle EBS and Oracle Fusion** This deficiency has the potential to impact the audit approach due to the pervasive nature of the deficiency. There is a risk that erroneous postings have been made due to the privileges held.	We recommend the Authority looks into whether the system can be updated for the user accesses to both the systems. **Management response** There is awareness at LFRS that there has been a general system issue with inappropriate access, however there is confidence that there has been no unauthorised postings to LFRS general ledger. Work is ongoing with LCC for robust control of access.
● Medium	**Insufficient retention of documents related to Oracle Fusion system changes and access provisioning** User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data.	We recommend the Authority ensures proper documents related to Oracle Fusion system changes and access provisioning. **Management response** LFRS have an ongoing open request with LCC for user access reporting to manage and control accesses.
● Medium	**Lack of formal process in managing Oracle Fusion self-assigned roles** User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data.	We recommend the Authority ensures appropriate alignment to job role requirements which may not lead to inappropriate access within the application or underlying data. **Management response** LFRS do not have access to permissions management in Oracle Fusion. Any amendment in requirement is approved and submitted to LCC by senior LFRS Finance staff. There are robust inhouse controls to manage the LFRS approval hierarchy, including regular review by the Financial Accountant.

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of Lancashire Combined Authority's 2021/22 financial statements, which resulted in 1 recommendations being reported in our 2021/22 Audit Findings report.

We have followed up on the implementation of our recommendation and provide an update in the table.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Password security – Oracle database** We identified a weakness in Oracle password configuration. The password length is set to 6 characters and does not include a minimum password length of 8 character as per leading practices. We recommended password security access to the Oracle database is set to a minimum 8-character length to help prevent unauthorized access to the system.	The finance system used in 2021/22 was upgraded to Oracle Fusion during 2022/23. We are currently completing our work to examine the underlying controls within the newly implemented system. Our IT team are currently assessing the process and controls that were in place in relation to the data transfer. We will report further on completion of their work in this area. **Management response:** The password length for Oracle Fusion is a minimum of 16 characters and therefore meets the minimum length of eight characters recommended by leading practices.

Assessment

✓ Action completed

X Not yet addressed

D. Audit Adjustments

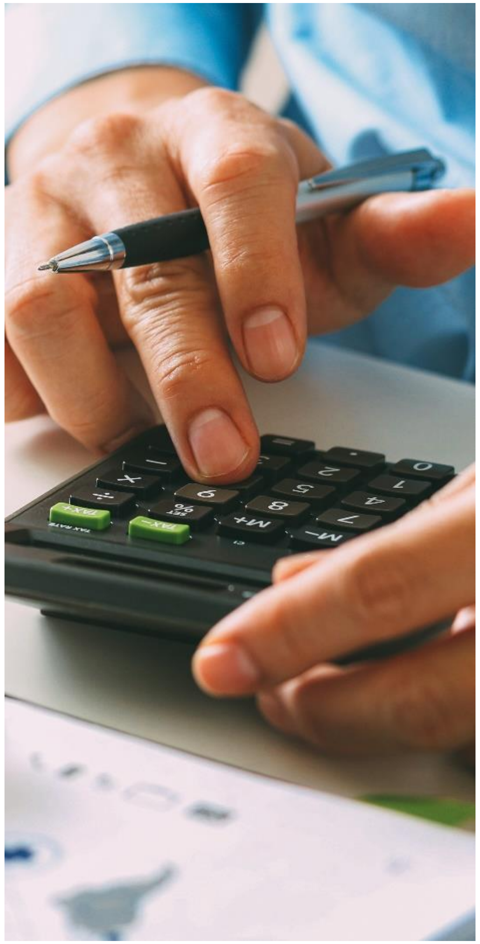
We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
Other long term liabilities				
Pension Funds				
1. LG pension asset reduced to nil (asset ceiling under IFRIC 14)				
Pension liability (long term)		Cr 19,877		
Pension reserve (actuarial (gains)/loss)	Dr 19,877			
2. FFPS revised GAD assessment		Cr 12,040		
Pension liability FFPS (long term)	Dr 12,040			
Pension reserve (actuarial (gain)/loss)				
Creditors				
Debtor balances netted from creditors shown gross				
Creditors		Cr 92		
Debtors		Dr 92		
Overall impact	Dr 31,917	Cr 31,917	Dr 31,917	Cr 31,917

D. Audit Adjustments (continued)



Impact of unadjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Excess depreciation charged					
PPE		Dr 190			Immaterial
Negative depreciation	Cr 190		Cr 190	Dr 190	
Unaccrued expenses					
Net Cost of Services	Dr 276		Dr 276	Cr 276	Immaterial
Short-Term Creditors		Cr 276			
Overall impact	**Dr 86**	**Cr 86**	**Dr 86**	Cr 86	

D. Audit Adjustments (continued)

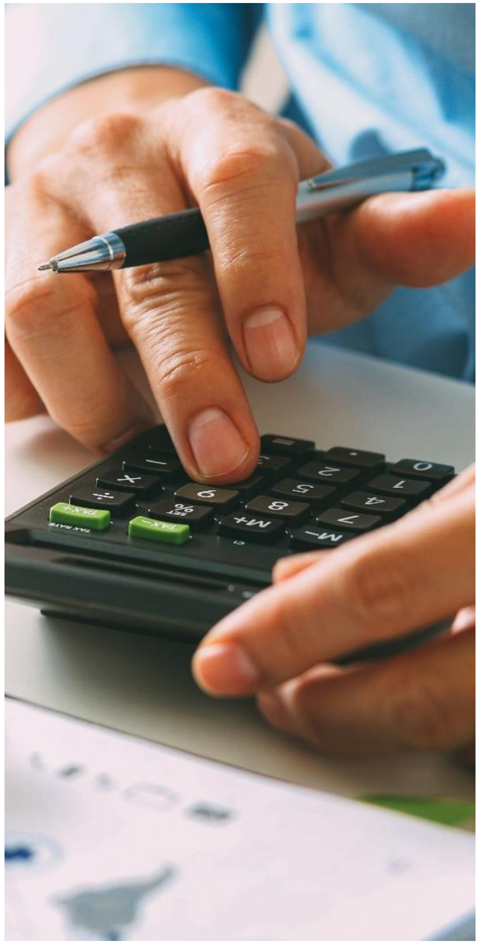
We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

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/issue/Omission	Detail	Adjusted?
Narrative Report	The Authority made some updates to the details within the Narrative Report to ensure this was consistent with other entries in the financial statements.	✓
Note to the Expenditure and Funding Analysis (note 1a)	The Authority updated the totals in the comparative 2021/22 table which were incorrect.	✓
Employees emoluments and Senior officers remuneration (note 3)	The Authority corrected some compilation errors in the tables to reflect: • a reduction in total employee emoluments bandings for 2022/23 to 147 (previously 148) • changes in the pension contributions and total remuneration in the 2021/22 comparative table for 2 Directors.	✓
Property, plant and equipment movements (note 6) Capital expenditure analysis.	The Authority amended the details within the capital expenditure analysis 2022/23 for Intangible assets and revenue contributions to capital to make these consistent with other entries in the financial statements.	✓
Assets and Liabilities in Relation to Post-employment Benefits (note 15)	The Authority corrected a transposition error for the Gain/(Loss) on financial assumptions from a negative value to a positive one (£295,950k). The Authority corrected the various values in note 15 to align with the amended figures for the LGPS and Firefighters pensions scheme (as set out in the adjustments table).	✓
Financial Instruments (note 8)	The Authority corrected the fair value for the PWLB loans from £3,134 to £1,195 on receipt of updated figures from Lancs County.	✓
Assumptions made about the future and other major sources of estimation and uncertainty (Note 26)	The authority has included disclosure around assumptions made about the future and other major sources of estimation and uncertainty. Included LGPS Asset Ceiling as new item with its corresponding description of uncertainty and effect if actual results differ from assumptions.	✓
Minor presentational updates	Various minor amendments to narratives and disclosures.	✓

D. Audit Adjustments (continued)



Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
Creditor	0	Decrease 550	0	0	Not material
Provisions		Increase 550			
The Authority included a creditor for ongoing pensionable allowance claims. These first arose in 2019/20 and are still subject to legal challenge and for which the outcome is uncertain. We recognise the prudency of including these but as the outcome is uncertain they should be held as a provision, rather than a creditor.					
Overall impact	**£0**	**£0**	**£0**	£0	

E. Fees

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

Audit fees	Proposed fee	Final fee
Scale fee published by PSAA 2022/23	£29,295	£29,295
Issues not included in the above		
Additional work on Value for Money (VfM) under new NAO Code	£8,000	£8,000
Increased audit requirements of revised ISA 540	£1,800	£1,800
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£2,000	£2,000
Enhanced audit procedures for Payroll – Change of circumstances	£500	£500
Local risk factors – general ledger	£200	£3,000
Increased audit requirements of revised ISA 315	£2,000	£2,000
IFRIC 14 additional costs		£4,000
GAD additional costs		£1,500
Total audit fees 2022/23 (excluding VAT)	£43,795	**£52,095**

Reconciliation of fees to Note 4 of the financial statements.:

Fees per financial statements £43.8k

Additional costs £5.5k

General ledger uplift £2.8k

Final fees £52.1k

This covers all services provided by us and our network to the Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Audit opinion - DRAFT

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 2023, 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 notes to the financial statements include notes to the core financial statements and firefighters pension fund notes. 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 2022/23.

In our opinion, the financial statements:

• give a true and fair view of the financial position of the Authority as at 31 March 2023 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 2022/23; 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 2022/23 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 2022) 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.

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.

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.

Our responsibilities and the responsibilities of the Treasurer with respect to going concern are described in the relevant sections of this report.

G. Audit opinion

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. The Treasurer is responsible for the other information. 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.

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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this 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, 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 and the Treasurer

As explained more fully in the Statement of Responsibilities set out on page 15, 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 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 2022/23, 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 they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

G. Audit opinion

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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, 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 management 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 management, 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 management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- large and unusual journal entries; and
- accounting estimates and critical judgements made by management.

Our audit procedures involved:

• evaluation of the design effectiveness of controls that management 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 the defined pension fund net liability valuations, and

• 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. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as 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.

• we communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings and the defined pension fund net liability valuations.

• we remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

G. Audit opinion

Our 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.

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. This description forms part of our auditor's report.

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 2023.

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 2023.

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.

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 January 2023. 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.

G. Audit opinion

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of Lancashire Combined Fire Authority for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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 44 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.

Signature:

Georgia Jones, Key Audit Partner

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

Liverpool

Date:

H. Audit letter in respect of delayed VFM work

Councillor John Shedwick

Chair of Audit Committee

17 November 2023

Dear Councillor Shedwick

Delayed Value for Money reporting

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible can be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 December 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Georgia Jones

Director

grantthornton.co.uk