

Informing the audit risk assessment for Lancashire Combined Fire Authority 2024/25

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Lancashire Combined Fire Authority's external auditors and Lancashire Combined Fire Authority's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Lancashire Combined Fire Authority's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2024/25?	International Accounting Standard 19 (IAS19) valuations. Local Government Pension Scheme IAS19 asset valuations. Property, Plant and Equipment valuations. IFRS 16 adoption
2. Have you considered the appropriateness of the accounting policies adopted by Lancashire Combined Fire Authority? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Yes, accounting policy review carried out in April 2024 – but no policy changes required. No
3. Is there any use of financial instruments, including derivatives? If so, please explain.	No
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No – an impairment review is being carried out as part of the annual valuation exercise.
6. Are you aware of any guarantee contracts? If so, please provide further details	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Lancashire Combined Fire Authority during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Analysis of legal fees paid during 2024 available at interim.</p> <p>Solicitors are used to deal with Property matters, Insurance matters and Prosecutions.</p> <p>Details of contingent liabilities disclosed by directors and the in-house solicitor will be available at year end audit – but nothing material exists at the present time.</p>

General Enquiries of Management

Question	Management response
9. Have any of the Lancashire Combined Fire Authority's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	We have not used advisors to deal with any legal issues. Advisors are typically used to support Property issues (QS/architects/BREEAM etc)
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	No

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Lancashire Combined Fire Authority's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Lancashire Combined Fire Authority's management.

Fraud risk assessment

Question	Management response
<p>1. Has Lancashire Combined Fire Authority assessed the risk of material misstatement in the financial statements due to fraud?</p>	<p>Due to the budget monitoring measures in place, and the reconciliation between DFM and the accounts, we assess ourselves to be at extremely low risk of the financial statements being materially misstated. Budgets are reviewed in detail at least quarterly with Finance/Dept Head/Director. Bi-annual departmental fraud risk assessments submitted to Director of Corporate Services.</p>
<p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p>	<p>During the year, quarterly check for duplicated Accounts Payable transactions. Participation in the National Fraud Initiative, whistle blowing and anti-fraud policies. NFI checks ongoing, but nothing reportable as part of the audit yet.</p>
<p>How do the Lancashire Combined Fire Authority's risk management processes link to financial reporting?</p>	<p>Financial risk is assessed as part of budget setting process and incorporated into Reserves and Balances Policy. Reduction in funding is one of the key risks on the corporate risk register.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Potential areas of risk identified (same as previous year):</p> <ul style="list-style-type: none"> • Duplicated payments • Bank mandate fraud • Payroll • Pensions <p>On that basis the Net Cost of Services and segmental reporting notes are most at risk of fraud.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Lancashire Combined Fire Authority as a whole, or within specific departments since 1 April 2024? If so, please provide details</p>	<p>None</p>

Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Via Audit Committee, i.e., Risk Management reported at each Audit Committee, outcomes of NFI considered by Audit Committee
5. Have you identified any specific fraud risks? If so, please provide details	<p>Potential areas of risk identified (same as previous year):</p> <ul style="list-style-type: none"> • Duplicated payments • Bank mandate fraud • Payroll • Pensions
Do you have any concerns there are areas that are at risk of fraud?	No
Are there particular locations within Lancashire Combined Fire Authority where fraud is more likely to occur?	For the above risk areas – Headquarters departments (Finance, Procurement, HR/payroll), Local Pension Partnership (pensions provider), Greater Manchester Combined Authority (payroll provider)
6. What processes do Lancashire Combined Fire Authority have in place to identify and respond to risks of fraud?	Quarterly check for duplicate Accounts Payable transactions, participation in NFI, whistle blowing and anti-fraud policies, induction process, employee code of conduct, agreed set of organisational values – STRIVE. Internal audit checks.

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Lancashire Combined Fire Authority, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Strong control environment with appropriate internal controls, segregation of duties and financial reporting analysis. We use internal audit annual reviews, in particular for our key financial systems. These reviews give substantial assurance.</p> <p>N/A, strong controls in place.</p> <p>Quarterly budget monitoring review carried out with budget holder, director and head of finance. Overall financial position reported to Exec Board and Resources Committee roughly quarterly – differences between previous reports are reviewed and explained.</p> <p>No</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No, not for material items – the size of the budget and the granular level of reporting make misreporting unlikely.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Lancashire Combined Fire Authority communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>Induction process, employee code of conduct, agreed set of organisational values – STRIVE. Contractor terms and conditions.</p> <p>Whistle blowing & anti-fraud policies are on the intranet. They can also discuss with their manager or the Finance department.</p> <p>They are expected to report anything that doesn't 'feel right', so it can be investigated. No significant issues reported.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Segregation of duties exists for Treasury activities. Due to this, we do not consider that we have any high-risk posts.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>None</p> <p>Relevant disclosures requested and controls put in place where necessary.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>In the event of a fraud, contact would be made with the Chair and vice-chair of audit committee. Updates would be reported at the next available meeting.</p> <p>Internal audit review reports are presented to Audit Committee at each meeting.</p> <p>None identified.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Lancashire Combined Fire Authority's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Lancashire Combined Fire Authority have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>Existence of the in-house solicitor and governance role of the Clerk to the CFA to provide guidance & advice.</p> <p>Prevention - Data protection policies and procedures; Environmental & H&S policies; HR policies Detection - Whistle blowing/anti fraud policies.</p> <p>No</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Internal audit reviews and the annual governance report. Existence of the in-house solicitor and governance role of the Clerk to the CFA.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2024 with an on-going impact on the 2024/25 financial statements? If so, please provide details</p>	<p>No</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>Will be reviewing contingent liability position (& note) for all previously reported items. We request details of known items from Directors and the solicitor at the end of March. We review all Employee Liability and Public Liability insurance outstanding claims.</p> <p>There is an ongoing mesothelioma case but the exposure to the CFA is capped.so would not materially impact on the financial statements.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Lancashire Combined Fire Authority have in place to identify, evaluate and account for litigation or claims?	We request details of known items from Directors and the solicitor at the end of March. We review all EL/PL insurance outstanding claims. We also review the legal fees spend to identify any ongoing cases.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

Related Parties

Matters in relation to Related Parties

Lancashire Combined Fire Authority are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Lancashire Combined Fire Authority;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any body that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Lancashire Combined Fire Authority's 2024/25 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Lancashire Combined Fire Authority whether Lancashire Combined Fire Authority has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>There are no related party transactions relating to senior officers. CFA members constituent councils have business rates transactions, precepts etc., these will be gathered for evidence as part of the year end Working Papers.</p>
<p>2. What controls does Lancashire Combined Fire Authority have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>We issue a questionnaire to all directors and CFA members at the end of March each year and analyse the disclosed organisations against Accounts Payable / Accounts Receivable transactions.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Significant transactions would largely be the precepts (Council Tax and Business Rates) income coming into LFRS – this is subject to the budget setting process and administered by LCC.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Director and s151 officer approval before approving significant transactions.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Lancashire Combined Fire Authority will no longer continue?</p>	<p>The annual budget setting process will identify whether we are able to continue to operate in the longer term, this includes our ability to set a balanced short and medium term budget, our assessment of the adequacy of reserves to meet short and medium term commitments, and the assessment of the robustness of our budget assumptions.</p> <p>The s151 officer has been able to set a balanced budget for 2024/25 budget and MTFS for the 5 year period, negating the need for an unbalanced budget report to members in line with Section 114 of the Local Government Finance Act 1988 (England and Wales).</p> <p>The authority's forward financial planning arrangements indicate that the authority will be able to meet its obligations in the foreseeable future.</p> <p>There are no significant doubts about the forward financial planning arrangements of the authority, leading to uncertainty as to the projected financial position for the foreseeable future, as indicated by the budget monitoring reports to the Resources Committee.</p> <p>In addition we produce an Annual Assurance Statement looking at operational, financial and governance issues which is reported to the Home Office, and this did not identify any significant gaps.</p> <p>His Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) in July 2022 graded the service:</p> <p>'good' at effectively keeping people safe and secure from fire and other risks; 'good' at efficiently keeping people safe and secure from fire and other risks; and 'good' at looking after its people.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	PP&E – valuation, impairment & depreciation Pensions – valuation of liability & underlying assets Expenditure accruals relating to backdated pensionability Implementation of IFRS16
2. How does the Authority's risk management process identify and address risks relating to accounting estimates?	Internal review of estimates and comparison to previous year position done by Head of Finance and DoCS. This will be reporting to Audit Committee.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Use of the CIPFA code of practice for local govt accounts. Review of source data provided to external experts (PP&E, pensions) and comparison of assumptions and results between financial years.
4. How do management review the outcomes of previous accounting estimates?	Comparison of estimates to eventual actual transactions, use this to form future judgements. Use these to review and challenge current outcomes of estimates.
5. Were any changes made to the estimation processes in 2024/25 and, if so, what was the reason for these?	No changes made to the processes, however underlying assumptions are reviewed and potentially changed.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Review of skills held internally, and outsource identified gaps, using knowledge of reputable and appropriate experts.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Review the underlying assumptions, and where there is material change, analyse to understand it and/or challenge the results.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	As per Q4 & Q7
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	Audit committee will have the estimates and bases of calculation reported to them for approval before the final accounts are produced.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	Will issue question to directors, at the same time as requesting Related Party Transactions and Contingent Liability information at the end of March. Responses required before end of April.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	The Audit Committee are provided with a report of the main accounting estimates.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Land and buildings are revalued on a rolling five year basis by a suitably qualified surveyor. As at 31 March 2025, Amcat Limited, an external organisation, using surveyors qualified by the Royal Institution of Chartered Surveyors, will carry out revaluations on the identified properties. All valuations are on the basis of depreciated replacement cost, with the exception of one property used as offices, valued at Existing Use Value.	Valuations are carried out in accordance with RICS guidance and the Code of Practice on Local Authority Accounting.	Yes, suitably qualified surveyor	Management consider the estimation uncertainty based on advice and discussions with independent valuation experts. Consistency and sensitivity are also assessed.	No
Depreciation	Depreciation is charged on those assets which have a finite useful life, in the year after acquisition:	The annual depreciation charge is compared to previous years, there is consideration of the age of assets in the asset	Independent external valuation experts are used.	The estimation uncertainty is considered through the regular re-assessment of an asset's useful life as part of the valuation programme. Based on advice and discussions with external independent	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Pension Liabilities (LGPS & FF)	<p>The schemes liabilities, calculated by qualified actuaries (Mercers for LGPS, and Government Actuary Department (GAD) for FF schemes.</p> <p>For the LGPS liability the Projected Unit Credit (PUC) Method is used: This method allocates the present value of benefits into two parts: the actuarial accrued liability for past service and the normal cost for future service. It considers factors such as salary increases, inflation, and life expectancy to project future pension payments and discount them to present value.</p> <p>Similar to the LGPS, the FF scheme used the PUC method is used to calculate firefighter pension liabilities.</p>	<p>The schemes liabilities, calculated by qualified actuaries (Mercers for LGPS, and Government Actuary Department (GAD) for FF schemes). These calculations are based on complex judgements relating to the discount rates used, the projected increased rates of salaries and pensions, mortality rate assumptions, and expected returns on pension fund assets (for LGPS only). These assumptions, proposed by the actuaries as experts in their field, disclosed to management in advance of the year end valuations calculations, giving the opportunity</p>	Yes	These assumptions and the subsequent movement in the liabilities, reviewed by management to check for reasonableness, with any queries referred to the actuaries for resolution.	No



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