Appendix 1

Grant Thornton

The Annual Audit Letter for Lancashire Combined Fire Authority

Year ended 31 March 2020

February 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Lancashire Combined Fire Authority (the Authority) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority's Audit Committee as those charged with governance in our Audit Findings Report and Addendum on 27 November 2020.

Respective responsibilities

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

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

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

Our work

Materiality	We determined materiality for the audit of the Authority's financial statements to be £1,270,000 which is around 2% of the Authority's gross operating expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 30 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Authority's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Authority's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Authority's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 30 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of Lancashire Combined Fire Authority in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Executive Summary

Working with the Authority

We have worked with the council to complete the audit despite the impact of the Covid-19 pandemic on the Council and on us. We worked remotely throughout the pandemic adapting our approach to the audit to ensure access to key Council data and holding regular virtual meetings with management and the Audit Committee.

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

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the Authority's financial statements to be £1,270,000, which is around 2% of the Authority's gross operating expenditure. We used this benchmark as, in our view, users of the Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We set a lower threshold of £63,500, above which we reported errors to the Audit Committee in our Audit Findings Report and Addendum.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Authority and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence	Our audit work did not identify any issues in respect of the Covid-19 risk. We drew the attention of users of the statement of accounts to the inclusion of the disclosure of a material uncertainty regarding to the valuation of the Authority's Land and Buildings and the value of the net pension liability by means of an emphasis of matter in our audit opinion as detailed in relation to our response to the significant risk of the valuation of land and buildings.

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Auth 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, which was one of the most significant assessed risks of material misstatement.	We: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work did not identify any issues in respect of management override of controls.

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Authority revalues its land and buildings on a rolling five-yearly basis with assets not valued in year subject to a desktop valuation This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£86.5m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • 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 • written to the valuer to confirm 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 of the Authority's valuer's report and the assumptions that underpin the valuation. • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluating 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.	The valuer reported their valuations on the basis of 'material valuations uncertainty' as a result of the Covid-19 pandemic. This was because market activity had been impacted in many sectors. As at the valuation date, they considered that they could attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The response to Covid-19 meant that they were faced with an unprecedented set of circumstances on which to base their judgement. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in their valuation report, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements. Our audit work did not identify any other issues in respect of the valuation of land and buildings.

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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 is considered a significant estimate due to the size of the numbers involved (£864.9 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We: • 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; • obtained assurances from the auditor of the Lancashire County Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements; and • obtained assurances from PwC in respect of the valuation of the Firefighters' Pension Scheme liability valuation by Government Actuary's Department (GAD).	Lancashire County Pension Fund (the LGPS scheme) is reporting their valuations of direct and indirect property on the basis of 'material valuations uncertainty' as a result of the Covid-19 pandemic. This was because market activity had been impacted in many sectors. As at the valuation date, they considered that they could attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The response to Covid-19 meant that they were faced with an unprecedented set of circumstances on which to base their judgement. Consequently, the auditor of the pension fund is planning to include an Emphasis of Matter (EOM) paragraph in their audit report drawing attention to the disclosure made in the pension fund statement of accounts. Given the Authority's share of the pension fund's direct and indirect property valuations are material to the Authority, and the caveat made by the valuer in their valuation report and Emphasis of Matter in the pension fund's audit report, we will highlight the material uncertainty to the Authority in our audit report, in an Emphasis of Matter paragraph, drawing attention to the disclosure made in the Authority's statement of accounts. The Emphasis of Matter paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the pension fund's accounts included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements. Our audit work has not identified any other issues in respect of valuation of the net liability

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 30 November 2020.

Preparation of the financial statements

The Authority presented us with draft financial statements in July 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Authority's Audit Committee on 27 November 2020.

In addition to the key audit risks reported on pages 6 to 9, we identified the following issues and adjustments throughout our audit work:

- A £1.83m Prior Period Adjustment was made for the backdating of pension contributions on certain allowances paid to firefighters.
- A £4.12m adjustment was made following the Authority obtaining an updated IAS19 calculation of the value of the pension fund net liability from their actuary that took into consideration changes in the transitional arrangements from the Ministry of Housing, Communities & Local Government consultation on reforms to public sector pension schemes that was published on 16 July 2020.

Annual Governance Statement and Narrative Report

We are also required to review the Authority’s Annual Governance Statement and Narrative Report. It published them on its website in alongside the draft Statement of Accounts in July 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Authority was below the audit threshold of expenditure of £500m.

Other statutory powers

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

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Lancashire Combined Fire Authority in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment to identify any significant risks on which we will concentrate our work. We did not identify any significant risks.

The net budget for 2019/20 was £56.1m, and increase of £1.3m compared to the 2018/19 budget. The increase was largely due to forecast pay awards and revised pension contributions, offset by an efficiency savings target of £1.2m.

The Authority has a good track record of delivering savings, over £20m of efficiency savings has been made between April 2011 and March 2020. The Authority overspent against its planned budget by £0.25m for 2019/20 despite exceeding its efficiency savings target. This was mostly due to backdating of various pensionable allowances to March 2019.

The Authority has adequate reserves. In 2019/20 the Authority's General Fund decreased by £0.2m from £8.4m to £8.2m, and its Earmarked reserves by £0.2m from £8.0m to £7.8m. The General Fund balance remains within the target level identified by the Treasurer (a minimum of £3.2m and a maximum of £10.0m) which will provide capacity to cope with anticipated funding cuts in the short term and funding uncertainty whilst all local authorities await the result of the Fair Funding Review. £2.2m of General Fund and £1.5m of

Commentary on finances (continued)

Earmarked Reserves are expected to be utilised within the life of the Medium Term Financial Strategy, reducing them to £6.0m and £6.3m respectively by March 2025. This does not include any potential impact of backdating of pensionable allowances earlier than March 2019 which would further deplete the General Fund balance. Whilst this would still leave sufficient reserves, utilising reserves each year is not sustainable in the longer term.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

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A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	July 2020
Audit Findings Report	November 2020
Annual Audit Letter	February 2021

Fees

	Planned fee per Audit Plan £	Actual fees £	2018/19 fees £
Statutory audit	28,419	34,419	28,169
Total fees	**28,419**	**34,419**	**28,169**

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £23,669 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table. Fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
PSAA Scale Fee		**23,669**
Variation per Audit Plan	As reported in the Audit plan, we adjusted the PSAA scale fee for raising the bar work to meet new requirements of the FRC, additional work to be carried our on PPE valuation and pensions liability valuation, new standards and developments, and initial estimate for additional work due to Covid-19.	4,750
Revised Scale fee per Audit Plan		**28,419**
Additional work on prior period adjustment and the impact of Covid-19	We identified a prior period adjustment which created additional work beyond the expected scope of the audit which we are required to charge for. Additionally, as reported in the Audit Findings Report, the impact of Covid-19 led to an increase in the work we had to complete and the time it took to complete this work due to revisiting planning, increased risk around management's assumption and estimates, more detailed work on financial resilience, and remote working.	6,000
Final Total		**34,419**