

# The Annual Audit Letter for Lancashire Combined Fire Authority

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**Year ended 31 March 2017**

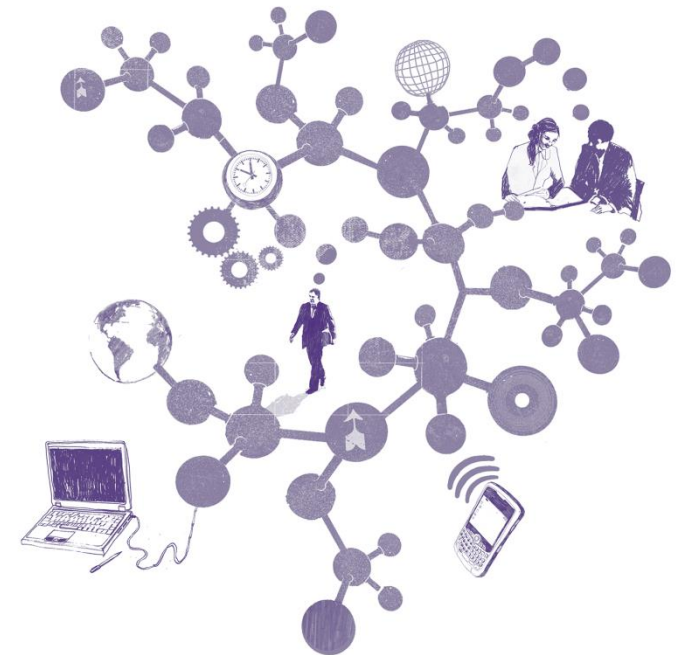
October 2017

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Lancashire Combined Fire Authority (the Authority) for the year ended 31 March 2017.

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

We reported the detailed findings from our audit work to the Authority's Audit Committee (as those charged with governance) in our Audit Findings Report on 28 September 2017.

## **Our responsibilities**

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

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

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

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Authority's financial statements on 28 September 2017.

### **Value for money conclusion**

We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 28 September 2017.

### **Certificate**

We certified that we had completed the audit of the accounts of Lancashire Combined Fire Authority in accordance with the requirements of the Code on 28 September 2017.

## **Working with the Authority**

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

**Grant Thornton UK LLP**  
**October 2017**

# Audit of the accounts

## **Our audit approach**

### **Materiality**

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

We determined materiality for our audit of the Authority's accounts to be £928k, which is 2% of the Authority's gross revenue expenditure. We used this benchmark, as in our view, users of the Authority's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for related party transactions and senior officer remuneration.

We set a lower threshold of £46k, above which we reported errors to the Audit Committee in our Audit Findings Report.

### **The scope of our audit**

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

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

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

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

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

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

# Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Lancashire Combined Fire Authority, we have determined the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Lancashire Combined Fire Authority, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work did not identify any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have</p> <ul style="list-style-type: none"> <li>• reviewed your entity level controls</li> <li>• reviewed your journal entry processes and selected unusual journal entries for testing back to supporting documentation</li> <li>• reviewed accounting estimates, judgements and decisions made by management</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p>

# Audit of the accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of property, plant and equipment</b>            The Authority revalues its assets on a rolling basis over a five year period. The Code requires that the Authority ensures that the carrying value at the balance sheet date is not materially different from the current value. Management have undertaken a desktop valuation of those assets not revalued in the year.</p> <p>This represents a significant estimate by management in the financial statements.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• Confirmed the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• Tested a sample of revaluations made during the year to ensure they were input correctly into the Authority's asset register</li> <li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves these were not materially different to current value.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p><b>Valuation of pension net liability</b>            The Authority's pension net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and were sufficient to mitigate the risk of material misstatement.</li> <li>• Reviewed the competence, expertise and objectivity of the actuary who carried out the pension valuation.</li> <li>• Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

# Audit of the accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Employee remuneration</b> Payroll expenditure represents a significant percentage of the Authority's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Employee remuneration accruals understated (Remuneration expenses not correct)</li> </ul>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken a walkthrough of the key controls to assess whether those controls were operating in line with our documented understanding</li> <li>undertaken a trend analysis and risk identification for monthly payroll costs to confirm no unusual transactions</li> <li>reviewed the reconciliation of payroll expenditure recorded in the general ledger to the subsidiary systems and interfaces</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p><b>Operating expenditure</b> Non-pay expenditure represents a significant percentage of the Authority's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess the whether those controls were operating in line with our documented understanding</li> <li>Reviewed managements processes to raise accruals and to ensure the accruals recognised are materially complete</li> <li>Tested a sample of creditor balances and accruals recognised in the year end balance sheet</li> <li>Tested cash payments made after the year end to identify potential unrecorded liabilities and gain assurance over the completeness of the payables balance in the accounts</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>

# Audit of the accounts

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Fire Pensions Benefits Payable</b></p> <p>Benefits improperly computed / Claims liability understated</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• compared the total pensioner payroll with comparative figures and rationalised by reference to the changes to the expected value (e.g. pension increases, new pensioners, deaths).</li> <li>• Substantively tested a sample of pension benefit payments made in the year.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>
<p><b>Changes to the presentation of local authority financial statements</b></p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li> <li>• reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure</li> <li>• reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>• tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>• tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>• tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>• reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p>



# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Authority's accounts on 28 September 2017, in advance of the 30 September 2017 national deadline.

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

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Authority to the Authority's Audit Committee on 28 September 2017.

## **Annual Governance Statement and Narrative Report**

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

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

# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 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. This identified no significant risks for us to concentrate our work. We updated our review of your arrangements to ensure that there were no additional risks identified.

## **Overall VfM conclusion**

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

# Appendix A: Reports issued and fees

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

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Authority	30,739	30,739	30,739
<b>Total fees (excluding VAT)</b>	<b>30,739</b>	<b>30,739</b>	<b>30,739</b>

## Non- audit services

- no non-audit or audited related services have been undertaken for the Authority

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

## Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	September 2017
Annual Audit Letter	October 2017



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