Annual Audit Letter

Year ending 31 March 2018

Merseyside Fire and Rescue Authority

22 August 2018

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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 Merseyside Fire and Rescue Authority (the Authority) for the year ended 31 March 2018.

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 Policy and Resources Committee as those charged with governance in our Audit Findings Report on 26th July 2018.

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 £1,490,000, which is 2**%** of the Authority's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Authority's financial statements on 26th July 2018.
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.

Executive Summary

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 26th July 2018.
Certificate	We certify that we have completed the audit of the accounts of Merseyside Fire and Rescue Authority in accordance with the requirements of the Code of Audit Practice.

Working with the Authority

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July, delivering the accounts 6 days before the deadline.
- Providing training – we provided your teams with training on financial accounts and annual reporting

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
22 August 2018

Audit of the Accounts

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 accounts to be £1,490,000, which is 2**%** of the Authority's gross revenue 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 level of specific materiality for areas that are sensitive by their very nature. We set a specific materiality of £20,000 for Senior Officer Remuneration and the lower of £20,000 or 5% of total value of transactions with any one individual, for related party transactions.

We set a general threshold of £56,000 above which we reported errors to the Policy and Resources Committee.

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 and the narrative report and the annual governance statement published alongside the Statement of Accounts to check they are 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 is 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

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
Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	We considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Merseyside Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable.	We did not consider this to be a significant risk for Merseyside Fire and Rescue Authority.
Management override of 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 Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.	As part of our audit work we have: • reviewed accounting estimates, judgements and decisions made by management • tested of journal entries • reviewed unusual significant transactions • reviewed significant related party transactions outside the normal course of business.	Our audit work did not identify any issues in respect of management override of controls.

Audit of the Accounts

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
Valuation of property, plant and equipment The Authority revalues its land and buildings on an quinqennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	As part of our audit work we have: • Reviewed management's processes and assumptions for the calculation of the estimate. • Reviewed the competence, expertise and objectivity of any management experts used. • Reviewed the instructions issued to valuation experts and the scope of their work • Discussed with the Authority's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • Tested of revaluations made during the year to ensure they were 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 satisfied themselves that these were not materially different to current value. • Substantively tested 19 transactions classified as additions in the year to source documentation.	Our audit work has not identified any issues in respect of valuation of property, plant and equipment.

Audit of the Accounts

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
Valuation of pension fund net liability The Authority's LGPS pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. The Firefighters pension fund liability as reflected in its balance sheet represent a significant estimate in the financial statements. These estimates by their nature are subject to significant estimation uncertainty, being sensitive to small adjustments in the assumptions used. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	As part of our audit work we have: • 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 whether they were sufficient to mitigate the risk of material misstatement. • Reviewed the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation. • 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. • Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	Our audit work has not identified any issues in respect of the valuation of the LGPS pension fund net liability.

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 26th July 2018, in advance of the national deadline.

Preparation of the accounts

The Authority presented us with draft accounts in accordance with the national deadline, 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 accounts

We reported the key issues from our audit to the Authority's Policy and Resources Committee on 26th July 2018.
In addition to the key audit risks reported above, we identified the following issues through our audit.

- Note 1- Accounting Policies- depreciation, stated that no depreciation is accounted for of property plant and equipment in the year of acquisition. This was not strictly in accordance with the CIPFA Code but did not result in a material error. Management has confirmed that from 2018/19 depreciation will apply to all new asset purchases from the date they are first brought into use.
- The Authority did not include a fair value disclosure for its PFI liability, on the basis that the actual borrowing lies with the PFI provider and not the Authority. An alternative view is that a fair value could be derived by considering the amount that could be could borrowed based on the committed cash flow over the remaining life of the arrangement. Management has agreed to provide such an illustration in the 2018/19 financial statements.

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 in the Statement of Accounts in line with the national deadlines.

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 on the Authority's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Authority was below the audit threshold on 26th July 2018.

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.

We did not have any cause to exercise our additional powers.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Merseyside Fire and Rescue Authority in accordance with the requirements of the Code of Audit Practice.

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 November 2017 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 and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

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 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability and estates strategy The Authority is operating against a background of • Funding reductions • Changes in the legislative and policy requirements • Changes to the regulatory bodies and frameworks The Authority has a significant capital programme, £43m over five years, which is fully funded from internal resources and is key to planned service development. As pressures on revenue budgets continue it will be important for the Authority to protect and manage this programme.	As part of our work we have: • We updated our understanding of the Authority's arrangements for managing and reporting to Members the risks associated with and progress of the capital programme. • We reviewed budgeting and financial monitoring as reported to members through out the year. • We compared actual performance to budgeted and examined the explanations provided. We cross checked in-year activity with strategic plans such as the IRMP and reviewed significant events and decisions. We looked at the planning process for 2018/19, reviewed the assumptions used, compared them to previous assumptions. • We found that overall the capital programme for 2017/18 had increased slightly during the year but with no extra borrowing. This has been achieved in part by revenue contributions from savings achieved, in part from specific additional resources, and use of the earmarked reserves to support specific elements of the capital programme. • Some building projects were re-phased but despite the Authority was able to press ahead with ICT, Operational Equipment and Vehicle Replacement programmes. These compliment the station renewal program and are reflected in the IRMP and MTFP.	The authority revenue budget was set at £59.49m and the out-turn figures was £57.087m. An additional £442k was transferred to earmarked reserves at the year-end, leaving a positive budget variance of £1.961m. The Authority has an approved reserves strategy that revenue savings to be used build up reserves to fund future capital investments, firefighter recruitment in advance of expected retirements, one-off projects, and to cover identified risks. The Authority's reserve strategy confirms it understands that reserves are a one-off resource that cannot be used to fund additional revenue expenditure. This positive result for the year, and the continued progress of the capital programme, demonstrate the Authority has adequate arrangements in place. We concluded that the Authority has proper arrangements to address the risks to financial sustainability and its estates strategy.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2018
Audit Findings Report	July 2018
Annual Audit Letter	August 2018

Fees for non-audit services

Service	Fees £
Audit related services - None	Nil
Non-Audit related services - None	Nil

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Authority audit	32,424	32,424	32,424
Total fees	**32,424**	**32,424**	**32,424**

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

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams that may provide services to the Authority; no other services were provided.

B. Recommendations

We have identified 1 recommendation 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 2018/19 audit.

Issue and risk	Recommendations
No fair value disclosed for the PFI liability.	• Consider whether alternative values for the PFI liability can be included to improve the understanding of stakeholders. **Management response** • For 2018/19 and future Statement of Accounts the Authority will reflect the fair value of the liability by reference to the capital sum of the loan that could be obtained for the same cash flow, on similar terms, over the remaining life of the agreement.

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