



Audit Committee Update for Merseyside Fire and Rescue Authority

Year ended 31 March 2015

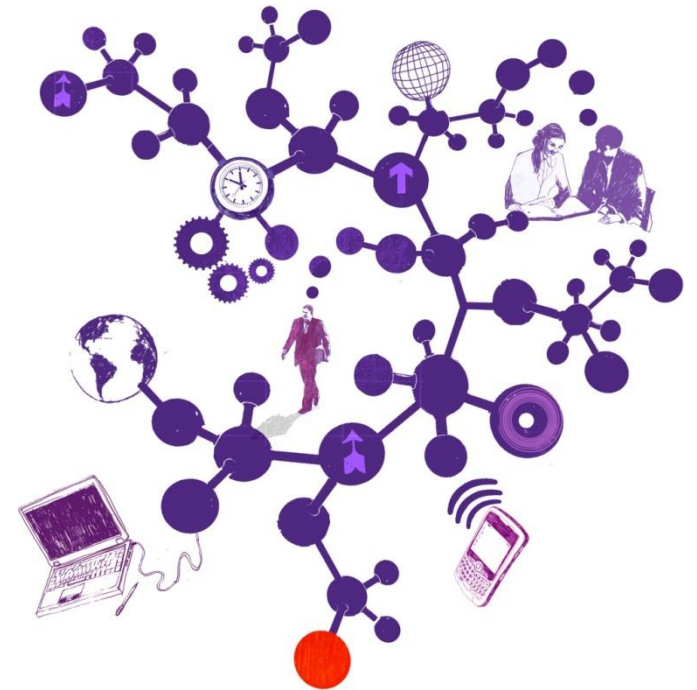
26 May 2015

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Progress at May 2015

Work	Planned date	Complete?	Comments
<p>2014-15 Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Authority setting out our proposed approach in order to give an opinion on the 2014-15 financial statements.</p>	April 2015	Complete	We issued the 'Planned fee letters for 2014/15' to the Authority on 31 March 2014. This included: notification of the total combined scale fee for both bodies of £43,232 as set by the Audit Commission; the scope of the audit; and an outline audit timetable. The Audit Plan is being presented to the May 2015 Audit Committee.
<p>Interim accounts audit</p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	February to April 2015	Complete	We have held meetings with finance officers to discuss our audit approach for the forthcoming audit. We had meetings arranged with the CFO, Deputy Chief Executive and Director of Finance as part of our planning process. The joint Audit Plan to be presented to the May 2015 Audit Committee will include initial findings from our interim work where appropriate.
<p>2014-15 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the accounts • proposed Value for Money conclusion. 	July to September 2015	On track	<p>We will prepare a joint Audit Findings Report summarising our findings from the audit of both bodies.</p> <p>We will present this to the Authority as 'Those Charged with Governance'.</p>

Progress at May 2015

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2014/15 VfM conclusion will consider the arrangements in place at the Authority for securing financial resilience and for challenging how the Authority secures economy, efficiency and effectiveness.</p> <ul style="list-style-type: none"> • The organisation has proper arrangements in place for securing financial resilience. The focus will be on whether the Authority has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables them to continue to operate for the foreseeable future. • The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The focus will be on how the Authority is prioritising resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. 	<p>January to September 2015</p>	<p>On Track</p>	<p>We have scheduled an initial VfM planning meeting with officers to inform our initial risk assessment and detailed approach.</p> <p>We will carry out an initial risk assessment to determine our approach and report this in our joint Audit Plan.</p> <p>We will review key documents and meet with key officers to inform our overall understanding of the Authority and capture evidence of how the Authority is securing value for money in all areas of service delivery.</p> <p>There will also be a strong focus on financial resilience and how the Authority is preparing itself for future years.</p> <p>We will report our detailed findings within our Audit Findings Report in September 2015.</p>

Crews control: making better use of people and equipment

Grant Thornton

Our third UK fire summit focuses on how the fire service can make better use of people and equipment. It is available for download at <http://www.grant-thornton.co.uk/Global/GT.1146%20Fire%20and%20Rescue%20-%202015%20FINAL.pdf>

The nature of the fire service is changing, fire safety initiatives, improved building construction and furniture design mean that fire services can now spend as much time responding to road traffic accidents as they do dealing with fires. Fire services also face an unprecedented financial challenge. The typical fire service has seen its funding reduced by more than a quarter, with the likelihood of more reductions to come.

With employment costs typically representing three-quarters of revenue expenditure it is critical that firefighters' are deployed in an efficient and effective manner. Significant changes are vital in order for the service to survive. Put simply the fire service needs to make better use of firefighters time and have appliances that are more flexible and suited to the risks faced.

Making these changes is not easy. There are significant barriers to changing historic crewing arrangements and the introduction of new appliance types cannot be implemented overnight. However, the pace of change is slow and uncertainty remains as to whether the changes needed can be actioned at the speed required.

Key messages from the report

- Doing nothing with current firefighter crewing arrangements is not an option.
- The changing nature of incident response requires a different mix of appliance type.
- There is not a one size that fits all solution, but fire services need to understand and analyse their local risks and ensure firefighter crewing and equipment (including appliances) appropriately reflect these risks.
- There are significant barriers to changing crewing working practices but there are signs across the country that these barriers are being overcome.
- Alternatives to the traditional fire appliance in the form of light rescue pumps, rapid intervention vehicles and even motorbikes with panniers are examples of changes that will enable a more effective response to incidents going forward.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Emergency Services Collaboration 2014

Fire Sector issues

Sir Ken Knight's [Facing the future review](#), published in 2013, set out a compelling argument for fast and radical transformation in the delivery of fire and rescue services. Sir Ken was clear about the potential he saw for greater collaboration with the other blue lights services.

In July 2014, the Secretary of State set out the government's approach to meeting the opportunities and challenges highlighted by Sir Ken. A key priority was to encourage and support greater collaboration between fire and local authorities, and between fire, police and ambulance services to deliver better outcomes for the public.

The Emergency Services Collaboration Working Group was formed in September 2014. By providing strategic leadership, coordination and an overview across England and Wales, the group aims to improve emergency service collaboration. They reported to the Blue Light Innovation Conference in November 2014.

What Makes Collaboration Successful?

- From speaking with strategic leads and programme managers across the country, it was determined that the following characteristics feature in successful collaboration projects:
- 'We can pick up the phone': strong, open and honest relationships between the services' chief officers.
- 'Clarity together from the outset': agreement of a strategic vision that aligns tightly with all the collaborating services' strategic goals.
- 'We've got our best person': highly skilled and motivated programme manager from each service, with a balance of skills relevant to change management across the working group.
- 'Tell them how it is': open, consistent communication and consultation with staff from the very earliest opportunity.
- 'Fail fast': willingness to abandon opportunities if politics or operational interests do not align, to avoid losing momentum or jeopardising relationships.
- 'Give not take': an agreement that all parties will not seek to profit from one another; every service cannot benefit in every instance; if collaborative relationships are strong and improved public service remains the priority, savings will follow.

Challenge question

Do members understand how collaboration is being driven through the strategic plan and how funding for initiatives can be secured?

All Aboard? - Local Government Governance Review 2015

Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

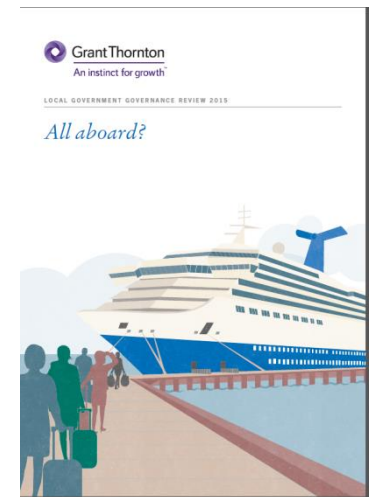
Governance of the organisation – the main area of concern highlighted in this year's governance survey is the level of dissatisfaction with the scrutiny process.

Governance in working with others – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

Governance of stakeholder relations – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through Many other agencies . This implies a greater role for scrutiny and a need to make sure local public sector Bodies' arrangements are as transparent as possible for stakeholders.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Independent Commission into Local Government Finance

Local government finance issues

The Independent Commission on Local Government Finance was established in 2014 to examine the system of funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace. Reforms advocated for all authorities include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' authorities would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the placed-base budget.

Inspection into the governance of Rotherham Council

Governance issues

On 4 February 2015 the Secretary of State for Communities and Local Government, Eric Pickles announced the publication of [Louise Casey's report](#) . Her inspection of the exercise of functions on governance, children and young people and taxi and private hire licensing states:

"Rotherham Metropolitan Borough Council is not fit for purpose. It is failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions. In particular, it is failing in its duties to protect vulnerable children and young people from harm."

It summarises the following serious failings:

- a council in denial about serious and on-going safeguarding failures
- an archaic culture of sexism, bullying and discomfort around race
- failure to address past weaknesses, in particular in Children's Social Care
- weak and ineffective arrangements for taxi licensing which leave the public at risk
- ineffective leadership and management, including political leadership
- no shared vision, a partial management team and ineffective liaisons with partners
- culture of covering up uncomfortable truths, silencing whistle-blowers and
- paying off staff rather than dealing with difficult issues

The report has had widespread press coverage and in a statement in the House of Commons the Secretary of State confirmed that he is considering exercising his powers of intervention in relation to Rotherham.

Have members been briefed on whether there are any lessons to be learned by the body and actions that need to be taken to strengthen its overall arrangements in response to the risk of child sexual abuse, including the robustness of oversight, challenge and scrutiny

Pension Boards in the fire sector

Governance issues

The Public Services Pension Act 2013 (the Act) enshrines many of the reforms of public service pension schemes that were recommended following the independent review of public service pension schemes led by Lord Hutton. The Act contains a section concerned with governance of public sector pension schemes. It includes a requirement for pension regulations to be amended so that a Scheme Manager, Pension Board and Scheme Advisory Board become responsible for the administration of each public service pension. The Firefighters' Pension Scheme (England) Regulations 2014 (the Pension Regulations) will introduce the latest firefighters' pension scheme on 1 April 2015. The Pension Regulations will be amended by The Firefighters Pension Scheme (Amendment) (Governance) Regulations 2015 (the Governance Regulations). The Governance Regulations will also come into force on 1 April 2015. They will set out the governance arrangements for the various firefighters pension schemes.

The fire-fighter schemes, in common with the police and local government pension schemes, will have statutory arrangements in place at national and local level. The chief officer will be the designated scheme manager with the responsibility to administer the pension scheme according to scheme regulations in respect of the service.

All public sector pension funds are required to set up local pension boards so this includes police, fire and teachers pensions as well as the LGPS. The implications are different for the unfunded schemes but there are still governance issues which will be being managed at a local level which a pension board could usefully review. Key elements would be around gaining assurance that the pensions paid and contributions received are correct and that member data is accurate.

Another key aspect of governance would be around communications with members to ensure they understand the scheme and the choices they have, as well as dealing with any complaints from members. The introduction of a career average scheme will significantly increase the importance of communications with members as well as data quality.

Inclusion of overtime in the calculation of holiday pay

Accounting and audit issues

The Employment Appeal Tribunal (EAT) has delivered its judgement on the extent to which overtime pay should be included in the calculation of holiday pay. This case stems from an apparent conflict between UK law and European Law.

The EAT found that non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered), should be included in the calculation of holiday pay. Back-dated claims can only be made if it is less than three months since the last incorrect payment of holiday pay.

It is likely that there will be an Appeal to this decision. However that does not mean that authorities should hold off assessing the impact. Local authorities should be considering their own circumstances and if necessary taking their own legal advice as to the extent they might be affected by the ruling. If an authority is going to be affected they need to assess whether the liability can be reliably measured.

For an authority likely to be affected in a material way, where it is possible to reliably measure that liability, then appropriate provision should be made in the 2014/15 accounts. The fact that the issue might go to Appeal at some uncertain time in the future is not of itself grounds for not including a provision. The chances of any success would need to be taken account of in the legal analysis but, in any case, there are some indications that the key issue on Appeal would be whether to remove the three month cap (if this were done then the provision would increase), rather than dismissing the entire decision to include overtime in the calculation of holiday pay.

Earlier closure and audit of accounts

Accounting and audit issues

Legislation was recently passed to bring forward the deadlines for the preparation and audit of Local Government financial statements from 2017/18 onwards. The timeframes for the preparation of the financial statements and their subsequent audit will be reduced by one month and two months respectively as follows:

- Deadline for preparation of financial statements – 31 May (currently 30 June)
- Deadline for audit completion – 31 July (currently 30 September)

Although July 2018 is over 3 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management.

Accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

Auditors are already working on bringing forward more testing to before the financial statements are prepared and will be discussing further changes with local authorities including greater use of estimates in the accounts which will enable the audits to be brought forward further.

Some local authorities currently produce their financial statements ahead of the current deadline, or have plans to do so in 2014/15, and some audits are completed before 31 July.

We will be assessing how this has been achieved and will share our findings in a national report, expected in early 2016.



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