

Annual Audit Letter

Merseyside Fire and Rescue Authority

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises the findings from my 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 5);
and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 8).**

Audit opinion and financial statements

1 I issued an unqualified opinion on the Authority's financial statements on 17 September 2010 before the statutory deadline. The accounts contained some minor errors that did not impact on my opinion. I concluded that the accounts gave a true and fair view of the Authority's financial affairs.

2 Progress has been made with the transition to International Financial Reporting Standards. The Director of Finance has completed the required IFRS restatement in accordance with the recommended timetable. My audit team will work closely with officers to complete a review of the restated balances.

Value for money

3 I issued an unqualified value for money conclusion on the 17 September 2010 confirming that the Authority has adequate arrangements to secure value for money in the use of resources. The Authority has:

- robust financial planning and budget monitoring arrangements;
- strong arrangements for risk mapping and the use of data; and
- well established policies and procedures for corporate governance and internal control.

Current and future challenges

4 As Members will be aware, the economic situation and the Government's comprehensive spending review will present a significant challenge for all public bodies. The Authority has a good track record of delivering savings and improving fire service efficiency. In 2009/10 the Authority met its target of £3.872 million of savings without having an impact on service delivery. However the Authority will need to further amend its medium term financial plan once the grant allocations are announced and it is likely that it will need to make more efficiencies in both operational and management costs.

Audit fees

5 The final fee for the 2009/10 audit is £73,330. More detail on the fee is set out in Appendix 1.

Key actions

6 The main issues for Members to note are:

- the unqualified opinion on the financial statements and the unqualified value for money conclusion;
- the progress that has been made with implementing IFRS; and
- the action being taken to manage the Authority's medium term financial position.

Financial statements and statement of internal control

The Authority's financial statements and the annual governance statement are an important means by which the Authority accounts for its stewardship of public funds.

I gave an unqualified opinion on the Authority's 2009/10 financial statements within the statutory target date.

Overall conclusion from the audit

7 The draft financial statements were approved by the Authority on the 24 June 2010. The financial statements submitted for audit were complete and supported by good quality working papers. I issued an unqualified opinion on the Authority's accounts on 17 September 2010 before the statutory deadline of 30 September 2010. I also issued an unqualified opinion on the Whole of Government Accounts consolidation pack on 17 September 2010.

Opinion

8 I reported the significant issues arising from my audit of the Authority's financial statements in my annual governance report which was presented to the Audit and Value for Money Scrutiny Panel on 2 September 2010. An updated report on the issues that I needed to resolve before I could conclude my audit was discussed with the Assistant Chief Executive and issued to the Chair of the Panel on 14 September 2010.

9 My audit identified some minor errors in the Authority's accounts which resulted in the accounts being changed to correct them. I reported to you in the Annual Governance Report the adjustments made to the accounts following my audit. The amendments to the accounts reflected changes in presentation to provide further clarity in disclosure and did not have an impact on the Authority's reserves and balances.

International Financial Reporting Standards

10 The introduction of International Financial Reporting Standards (IFRS) in the public sector raises significant challenges. Authorities must ensure arrangements are in place if they are to publish timely and accurate IFRS compliant accounts for 2010/11. The Authority has made good progress with the implementation of IFRS in line with its project plan. In particular:

- a restated opening balance sheet position has been produced in line with the guidance;
- lease transactions have been reviewed and re-classified where necessary;
- officers have calculated the opening accrual for employee benefits; and
- the Authority has engaged property consultants to value assets and assess whether assets require breaking down into component parts.

11 Disclosure requirements will be much greater under the IFRS Code than under UK GAAP. The burden will be particularly large in the first year as there is a greater number of disclosures. I plan to complete an early review of the re-stated balances, operating costs and notes to confirm that the accounts have been prepared in accordance with the guidance.

Value for money

I considered whether the Authority put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

VFM conclusion

12 I assessed your arrangements to achieve economy, efficiency and effectiveness against criteria specified by the Audit Commission. The Audit Commission specifies which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

13 I am satisfied that the Authority met all of the relevant criteria for the VFM conclusion as shown below.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of Information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Yes

14 I issued an unqualified value for money conclusion confirming that the Authority had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

Managing finances

15 The Authority manages its finances effectively and has a good track record of operating within its budget while maintaining service performance. The Authority has a good understanding of its costs and understands the factors driving the costs. The Authority introduced, at the outset of the year, a budget and (five year) medium term financial plan setting out efficiency options designed to deliver savings of £3.872 million while maintaining service standards. Most of the savings have been realised through better utilisation of resources.

16 Budget monitoring and forecast information continues to be reliable, relevant and understandable. Member involvement is strong and the Budget Working Party has added another level of scrutiny to the financial management process.

17 Effective financial reporting and monitoring arrangements are in place. There has been a move away from the rigidity of quarterly reporting since it was found that the first quarter often had little to report of any real significance. The financial reports have been upgraded to give a full financial health check on the Authority's finances throughout the year.

Governing the business

18 The Authority has a clear vision of what it wants to achieve for its communities. It has an up to date strategic needs assessment which looks at future as well as current community needs and risks. Priorities are based on good use of data.

19 The Authority has a good understanding of inequality and needs across Merseyside. It makes good use of risk mapping to analyse data about incidents and is trying to improve engagement with under-represented groups.

20 The Authority has a sound system of internal control supported by a well established corporate governance framework. The governance framework includes Codes of Conduct, whistleblowing, complaints handling policies and registers of interests and hospitality.

Managing resources

21 The Authority has a Carbon Management Plan, good records of energy usage and long term targets are in place. However the reduction in CO2 emissions achieved by the Authority in 2009/10 is significantly less than target due to the legacy of its inefficient building construction. The Authority envisages that its building programme, particularly the Private Finance Initiative and the new Kensington Community Fire Station, will help it meet its targets.

Approach to local value for money work from 2010/11

22 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

23 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

24 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Authority in my annual report to those charged with governance and in my annual audit letter.

National Fraud Initiative

25 The Audit Commission's NFI compares data across different organisations and identifies matches that could indicate fraudulent activity. The Authority has sound arrangements for responding to potential risks identified through the NFI data-matching exercise and has made good progress investigating matches.

Current and future challenges

Challenges

26 The Authority is well placed to respond to the impact of the Government's spending review in the short term. The Authority has completed a major reworking of its financial plan resulting in savings which are projected to rise to £4.6 million by 2013/14.

27 However, the medium term financial plan will need to be updated to take account of the outcome of the comprehensive spending review which is likely to reduce grant funding. Once the draft formula grant allocations are announced in December 2010 officers will be able to update the financial plan and work with the Executive Leadership Board on finalising how the Authority will meet the future financial challenge.

Closing remarks

28 I have discussed and agreed this letter with the Chief Fire Office and the Assistant Chief Executive and Treasurer. I will present this letter to the Authority on 29 November 2010 and will provide copies to all members.

29 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Authority during the year.

Report	Date issued
Audit Fee Letter	7 April 2009
Audit Opinion Plan	25 March 2010
Annual Governance Report	2 September 2010
Annual Audit letter	29 November 2010

30 The Authority has taken a positive and helpful approach to my audit. I wish to thank Merseyside Fire Authority staff for their support and cooperation during the audit.

Robin Baker
Engagement Lead

November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	46,390	46,390	0
Value for money	26,940	26,940	0
Total audit fees	73,330	73,330	0
Non-audit work	0	0	0
Total	73,330	73,330	0

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Authority on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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