

Annual Audit Letter

Merseyside Fire and Rescue Authority

Audit 2010/11



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Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- the audit of your financial statements; and
- my assessment of your arrangements to achieve value for money in your use of resources.

Key audit risk	Findings
Unqualified audit opinion	✓
Proper arrangements to secure value for money	✓

Audit opinion and financial statements

- I issued an unqualified opinion on the Authority's financial statements on 28 September 2011. The 2010/11 accounts were the first to be prepared using new International Financial Reporting Standards. The Authority dealt effectively with the demands of the new requirements.

Value for money

- I issued an unqualified value for money conclusion confirming that the Authority continues to have appropriate arrangements to secure economy, efficiency and effectiveness in its use of resources. The

Authority continues to have strong financial planning arrangements and well established budget monitoring procedures.

Future challenges

Looking ahead the Authority faces a number of challenges including;

- The Government's comprehensive spending review has reduced the grant funding allocation for fire and rescue services. The latest indication is that the Authority is making progress in achieving the required savings for 2011/12. The delivery of the savings required for 2012/13 onwards is likely to represent a significant challenge.
- The North West Fire and Rescue PFI project will provide seven new fire stations on Merseyside. The Authority is working closely with its partners to develop the payment arrangements and is likely to face a number of technical accounting issues that will need to be reflected in the accounts from 2011/12.

Current and future challenges

As Members will be aware, the effect of the economic situation and the Government's comprehensive spending review are likely to present a significant challenge for all public bodies. The Authority has a good track record of delivering efficiencies but it is likely that it will need to make further reductions in costs over the next few years. Members should continue to provide strong leadership and monitor service performance and the financial position through this challenging period.

Economic downturn and pressure on the public sector

Along with all publicly funded bodies, Merseyside Fire and Rescue Authority is responding to the need to make major savings to deliver balanced budgets in 2011/12 and over the medium-term. In its spending review the Government confirmed there will be a 25 per cent decrease in fire funding over the next four years. The Authority is aware of the future financial challenge and has established a strategy for dealing with the situation. One element of the strategy involves maximising savings in order to increase reserves to assist in delivering the budget saving target. The Authority's strong financial performance has continued in 2011/12. So far the early signs are that the Authority is well placed to deliver its savings plans in 2011/12.

For 2012/13 to 2014/15 the scale of the savings required is likely to be significant and there could be consequences for the number of fire engines and firefighters. While the Authority has a good track record of delivering efficiency savings and introducing new ways of working, the scale of the likely spending reductions will present a major challenge.

PFI

The Authority is leading a joint project that will provide 16 new, purpose-built fire stations for Merseyside, Lancashire and Cumbria. The total capital value of the scheme is £60m of which £25m relates to Merseyside. The Government has confirmed ministerial approval of the project and financial close was achieved on 23 February 2011. Work has now started on site in the three local authority areas.

As the lead Authority the challenge will be to confirm that appropriate procedures are in place in Cumbria and Lancashire before payments are made by Merseyside on behalf of all three Authorities. The Authority also needs to work with its partners to ensure that the accounting arrangements are properly understood and provide the information required for the 2011/12 accounts.

Control Room

Following the termination of the nationally run FiReControl project in December 2010, and the report by the Public Accounts Committee on the failure of the project in July 2011, the Authority needed to decide the best way forward for Merseyside's control room. The Authority has invested in a modern control system with the latest technology. After considering a number of options the Authority has decided to pursue a Merseyside joint control facility

with the Police and Ambulance services. The Authority recognises that a fuller business plan for this option will need to be developed and assessed over the next few months.

Leadership changes

Following the retirement of the Chief Fire Officer and Deputy Chief Fire Officer in August 2011 the Authority has introduced a revised, smaller leadership structure that will deliver full years savings of more than £300k. The new arrangements were introduced on an interim basis and there are currently some senior temporary appointments. Given the scale of the challenges facing the service it is important that the Authority takes a view about the effectiveness of the new arrangements and takes steps to secure a new permanent leadership team. In making a decision about how to move to a new leadership structure it is important that the Authority considers the benefits and risks associated with its planned approach.

Financial statements and annual governance statement

The Authority's financial statements and annual governance statement are an important means by which it accounts for its stewardship of public funds. I gave an unqualified opinion on the Authority's 2010/11 financial statements within the statutory target date.

Overall conclusion from the audit

I issued my audit report on 28 September 2011 giving an unqualified opinion on the financial statements and I also issued an unqualified opinion on the Authority's Whole of Government Accounts. I am pleased to report that the quality of working papers provided by the Authority to support the draft accounts was good. I also received good co-operation and responses to queries throughout the audit.

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 Authority on 27 September 2011. My audit identified some minor errors in the Authority's accounts as a result of changes in the Code of Practice on Local Authority Accounting. 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.

In 2010/11 the Authority was required to prepare its financial statements using International Financial Reporting Standards (IFRS) for the first time. The introduction of IFRS in the public sector raises significant challenges for all authorities because disclosure requirements are much greater under the IFRS Code than under UK GAAP. The finance team managed the transition well and implemented the new disclosures in line with the project plan. My audit included a review of the restated balances, operating costs and notes to confirm the accounts had been prepared in accordance with the IFRS Code. I did not identify any material errors in the accounts but I did identify a minor error in calculating the employee benefit accrual. The error understated the accrual by £0.1m. After considering the error the Authority chose not to amend this accrual. The Authority has confirmed the error in the employee benefit accrual will be corrected in the 2011/12 financial statements.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

IT Risk Assessment

My audit of the Authority's main financial systems was informed by a local review of the Authority's arrangements for identifying and managing IT risks. The risk assessment highlights areas where the Authority can improve procedures or raise staff awareness, for example by encouraging computer users to formally sign up to changes in the Authority's IT Policies. An action plan is being agreed with officers to address this and the other issues arising from the risk assessment.

National Fraud Initiative (NFI)

The Audit Commission's NFI compares data across different organisations and identifies matches that could point to fraudulent activity. The Authority has sound arrangements for responding to potential risks identified through the NFI data-matching exercise. Officers have examined and cleared all the data matches identified by the exercise.

Value for money

I considered whether the Authority is managing and using its money, time and people 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.

My overall conclusion is that the Authority has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources. The Authority delivered significant efficiency savings in 2010/11, achieved its budget and recorded an additional increase in the general fund balance. Challenges remain for 2011/12. The Authority faces a tough period as it makes reductions in its budget. Meeting the challenges will require effective leadership and continued close control of costs. The Authority needs to continue to ensure that budget monitoring arrangements remain effective to ensure the savings targets are delivered.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages	Requirements met / not met
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Authority continues to have strong arrangements in place for financial planning.</p> <p>The Authority has amended the Medium Term Financial Plan to take account of changes in assumptions on government grant funding, inflation and capital expenditure.</p> <p>The Authority has developed its strategy to maximise savings to contribute towards a plan of building up reserves to meet the future financial challenge and avoid compulsory redundancies.</p>	<p>Met</p>

Criterion	Key messages	Requirements met / not met
	<p>A balanced and realistic budget has been agreed and the updated medium term financial plan now covers the four-year period, 2011/12 to 2015/16. Work is being undertaken to address the 2011/12 savings target and it is clear that the Authority is monitoring its financial position closely.</p>	
<p>2. Securing economy efficiency and effectiveness</p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Authority has continued to integrate its financial and operational planning processes. The Authority understands the costs it incurs, the main reasons that influence these and how these change over time.</p> <p>Areas of high spending are subject to review and scrutiny, and action is taken to address them. Achieving the savings target in 2010/11 was a result of a well managed focus on finances combined with the delivery of key operational targets.</p>	<p>Met</p>

Closing remarks

I have discussed and agreed this letter with the Chief Fire Officer and the Deputy Chief Executive. I will present this letter at the Authority meeting on the 29 November 2011 and will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Authority during the year.

Report	Date issued
Audit Plan	10 March 2011
Annual Governance Report	27 September 2011
Audit Report on the Accounts	28 September 2011
Annual Audit Letter	29 November 2011

Merseyside Fire and Rescue Authority has taken a positive and constructive approach to my audit. I wish to thank the Authority's staff for their support and cooperation during the audit.

Robin Baker
Engagement Lead

November 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Audit fee	78,320	78,320	Nil
Non-audit work	Nil	Nil	Nil
Total	78,320	78,320	Nil

The Audit Commission has paid a rebate of £6,163 in 2010/11 to you to subsidise the 'one-off' element of the cost of transition to International Financial Reporting Standards, and to reflect the abolition of Comprehensive Area Assessment in May 2010.

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 Council 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 financial statements, I must give my 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.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

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 resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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