

# Annual governance report

Merseyside Fire and Rescue Authority

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes messages arising from my audit of the financial statements and results of the work to assess arrangements to secure value for money in your use of resources.**

## Financial statements

My audit of your financial statements is substantially complete. Subject to a small number of issues that need to be resolved and my final review procedures, I intend to issue an unqualified opinion on your financial statements.

The Authority submitted its draft financial statements for audit by the deadline of 30 June 2012. Management have adjusted the draft financial statements for an agreed amendment in the classification of investment balances identified during the audit. The accounts also included a small number of minor disclosure errors that have now been corrected. I have provided details of these amendments in Appendix 2 of this report.

My audit also identified two non-material errors that are detailed in Appendix 3 that have not been corrected. The Deputy Chief Executive has indicated that he does not intend to amend the accounts for these items on the grounds that they are not material. In the Letter of Representation, attached at Appendix 4, we ask Members to confirm their agreement to the suggested approach.

The draft accounts were prepared to a high standard and were supported by clear working papers. Finance staff have coped well with the challenge of maintaining the quality of the Authority's financial statements despite the reduction in staffing levels. We received good cooperation from officers and I would like to offer my thanks for their professional approach to the audit and to our requests for additional evidence.

## Value for money (VFM)

My work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete. I am satisfied that in all significant respects the Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012. I therefore intend to issue an unqualified value for money conclusion. My draft conclusion is set out at Appendix 1.

The Authority faces increasing pressure to deliver its financial plan during a period of reduced funding while still meeting operational demands for the service. In 2011/12 the Authority delivered its savings target and plans are in place to deliver savings of £9.2m by 2013/14. The Authority's view is that it is likely that there will be an impact on front line services because of the removal of five appliances into the dynamic reserve. The Authority is well aware that the Government grant funding settlement for 2013/14 to 2014/15 is likely to require further savings and intends to increase reserves to

provide a short-term buffer to balance future budgets. It is important the Authority continues to monitor the overall affordability of its capital investment programme.

I have set out the key findings from my work on pages 12 and 13 below.

## **Certificate**

Once I have completed my work on the Whole of Government Accounts, I plan to issue my certificate by 28 September 2012.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I confirm I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Authority during 2011/12.

## **I ask the Authority to:**

- note the adjustments to the financial statements included in this report (Appendix 2);
- confirm your agreement not to amend the accounts for immaterial uncorrected errors (Appendix 3) and
- approve the letter of representation (Appendix 4) on behalf of the Authority before I issue my opinion and conclusion.

# Financial statements

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**The Authority's financial statements and annual governance statement are important means for it to account for its stewardship of public funds. As members, you have final responsibility for these statements and it is important you consider my findings before adopting them.**

## Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.

The issues outstanding are:

- receiving the response from the financial institution to my request for confirmation of the Authority's short term investments balance;
- receiving the signed Letter of Representation following Authority consideration; and
- final review of the amended accounts.

Appendix 1 contains a copy of my draft audit report.

## Errors in the financial statements

Following discussions during the audit the Deputy Chief Executive decided to reclassify an element of the short-term investments balance. The cash and cash equivalents balance at 31 March 2012 has increased by £3.1m to £10.982m while the short-term investment balance has reduced by £3.1m to £6.019m. The amendment reflects the change in classification of investments that matured on the 1 April 2012. This amendment is necessary to comply with the Code of Practice on Local Authority Accounting and the Authority's accounting policy.

I am required to report all non-trivial errors and uncertainties identified during the audit. The draft accounts were of good quality but they did contain a small number of disclosure and presentational errors. The Deputy Chief Executive has agreed to adjust the notes to the financial statements for the amendments shown in Appendix 2. These amendments do not affect the Authority's reported financial performance or reserves position.

## Audit risks and my findings

I reported to the Audit and Value for Money Panel the risks in my audit plan that I identified as relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks shown in my Audit Plan.

Table 1: Risks and findings

Risk	Finding
<p><b>PFI</b></p> <p>The Authority is leading a major PFI scheme with Lancashire Combined Fire Authority and Cumbria Fire and Rescue Service. The Authorities have entered into a project agreement with Balfour Beatty Fire and Rescue NW Limited to design, build, finance and operate 16 new community fire stations.</p> <p>For Merseyside the first of the new fire stations becomes operational in 2012/13. In 2011/12 the Authority is required to disclose in its financial statements the payments it is contractually committed to make under the contract.</p>	<p>In my Audit Plan I highlighted the changes to the Authority's accounts for 2011/12 that had to be made to reflect the PFI scheme. I have considered the appropriateness of the disclosures in the Authority's accounts and I am satisfied there are no matters that I need to raise with you. I have discussed the accounting treatment with finance staff and audited the disclosure notes. The PFI disclosures in the accounts are consistent with the accounting model. Details of the financial commitments have been disclosed in the accounts to reflect the Authority's contractual obligation to make the unitary charge payments to the operator.</p> <p>In future years the Authority will need to review the appropriateness of the depreciation policy and the capitalisation of lifecycle costs.</p> <p>At the 31 March 2012 the building work on the new fire stations was still in progress. Since the balance sheet date four of the seven fire stations have been completed and handed over to the Authority for operational use. Following discussions the Deputy Chief Executive agreed to include a post-balance sheet event disclosing that the scheme has become operational.</p>
<p><b>Valuation of property, plant and equipment (PPE)</b></p> <p>In addition to the PFI scheme the Authority has a major 5 year capital programme which contains a number of investment projects. The valuation and recognition of PPE can be challenging.</p>	<p>I have reviewed the Authority's arrangements for establishing the valuation of its PPE and I have considered the appropriateness of the disclosures in the accounts. I have used the Audit Commission's trend analysis to enable me to evaluate the property valuation and I am happy that there are no matters that I need to raise with you.</p>

## Internal control

It is the Authority's responsibility to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Authority only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I have not identified any significant weaknesses in internal control that I need to report to you.

## Other matters

I am required to communicate significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including:

- Qualitative aspects of your accounting practices;
- Matters specifically required by other auditing standards to be communicated, for example issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and
- Other audit matters of governance interest.

The matters that I wish to draw to your attention are set out in the table below.

**Table 2 Other matters**

Description of issue	Potential impact	Management action
<p><b>Pensions Top-Up Grant</b></p> <p>The Department for Communities and Local Government (DCLG) pays top-up grant to the Firefighters' pension fund account to meet any shortfall between the total of employer and employee contributions on the one hand and benefits payable on the other. CIPFA has issued guidance on how to account for top-up grant in its Code Guidance Notes. However the guidance is inconsistent with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.</p>	<p>Primary legislation specifies that fire top-up grant is payable to the Firefighters' pension fund. The top-up grant should be credited directly to the Pension Fund and not to the Fire Authority.</p>	<p>My work confirmed that the top-up grant receivable was properly reported in the Firefighters' Pension Fund Account and was adequately disclosed. I confirmed that the balance on the Pension Liability and Pension Reserve, current service costs and interest charges agreed with the amounts reported by the actuary. Therefore I am satisfied that the Authority has followed a reasonable approach in accounting for its top up grant and pension liability.</p>



Description of issue	Potential impact	Management action
<p><b>IT issues</b></p> <p>My work on the IT risk assessment highlighted some weaker areas in the Authority's arrangements for IT, including data back-up and IT security policy.</p>	<p>Although not an issue for my opinion on the financial statements, I identified some areas where IT controls and governance arrangements could be improved.</p>	<p>It is important the Authority uses the opportunity afforded by the replacement of the financial systems to improve the system security in light of improving technology. In particular:</p> <ul style="list-style-type: none"> <li>- The Authority should liaise with the provider of the outsourced GL to obtain sufficient evidence that there is an appropriate backup strategy in place, backups are regularly taken and that restoration of backup files are tested periodically to ensure the backup process is robust.</li> <li>- The current finance application is approximately 5 years old and the security module within it does not allow for the complex password matrices found in newer applications. The Authority should ensure that best practice for the use of passwords is adopted when the new financial system is implemented.</li> </ul>
<p><b>Fully Depreciated Assets</b></p> <p>The Authority has continued its accounting practice of writing out all fully depreciated assets which have a zero net book value as at the start of the financial year. In 2011/12 fully depreciated assets totalling £243k have been written out. These assets include 9 fire engines remaining on operational duty. The approach is inconsistent with IAS 16 which requires annual review of values / remaining useful lives, with adjustments as necessary.</p>	<p>Accounting standards require the operational live of these vehicles to be re-assessed and the annual depreciation charge re-calculated.</p>	<p>My estimate is that by increasing the vehicle life by 2 years the depreciation charge shown in the accounts would reduce by £10k. Therefore I am satisfied that the Authority has followed a reasonable approach in accounting for its fully depreciated assets and any change would not result in a material amendment to the accounts.</p>

Description of issue	Potential impact	Management action
<p><b>Heritage Assets</b></p> <p>The CIPFA Code requires heritage assets to be reported on the balance sheet for the first time in 2011/12. These are tangible assets such as vintage fire engines and equipment that are held and maintained principally for their contribution to knowledge and culture. There are no heritage assets recognised in the Authority's accounts.</p>	<p>The Mersey Fire Heritage and Education Centre, a Charitable Trust housed in an outbuilding at the rear of Fire Service HQ, holds a number of items that would appear to be Heritage Assets. The Authority owns the building which the Trust occupies rent free. I understand the Charitable Trust is responsible for the assets and other items held in the collection. There are limited records available that provide clear evidence that the assets are owned by the Charitable Trust.</p>	<p>I have discussed this matter with management. I understand that steps are being taken to update the records at the Heritage Centre and to register the charity with HMRC. In the absence of clear records I have asked management to provide a specific representation about the ownership of the assets held within the Heritage Centre.</p>

### Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. As noted above I am seeking a specific representation from you in relation to the assets held within the Heritage Centre. Appendix 4 contains the draft Letter of Representation.

### Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. At the time of drafting this report there are no matters arising from this element of the audit that I need to bring to your attention.

# Value for money

**I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below. I intend to issue an unqualified conclusion confirming that the Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Authority met its financial targets in 2011/12, achieved its budget and recorded an additional increase in the capital investment reserve of £3.251m. The outlook for 2012/13 and 2013/14 remains challenging. While the Authority has approved a savings plan of £9.2m to help it maintain its spending within budget and strengthen reserves, it is important that it continues to monitor the overall affordability of its borrowing in the light of the overall financial challenge.

I have set out the findings of my work on each of the risks.

Table 2: **VFM assessment**

Criteria	Finding	Impact on VFM conclusion
Financial resilience - The Authority has proper arrangements in place to ensure its financial resilience. The Authority demonstrates good financial management, robust systems of corporate governance and internal control, and has a track record of managing within its budget.	<p>The Authority's budget setting process for 2011/12 included a robust scrutiny process. The implementation of the financial plan achieved significant cost reductions and contributed towards increasing the overall level of reserves and balances.</p> <p>The Authority has an effective system of planning for the downturn in government funding, which is expected to be reduced by a further 15% over the next two years. The Authority's processes include detailed projections over the period of the IRMP, up to 2015/16.</p> <p>These plans enable the Authority to match available</p>	Adequate arrangements are in place.

Criteria	Finding	Impact on VFM conclusion
	<p>resources with fire risks in the local communities on Merseyside and are sufficiently flexible to respond to changes in the underlying factors.</p> <p>Overall the Authority has robust arrangements in place to plan its finances over the medium term. The MTFP is realistic and takes into account the likely significant reductions in government support for the Authority.</p> <p>The Authority has a significant capital programme of £35m for the period from 2011/12 to 2015/16, and this will have an impact on the level of charges for capital that need to be borne by the Authority through the revenue account if funded through borrowing. The Authority's MTFP highlights that the 'ratio of financing costs to net revenue stream' will increase markedly over the next few years. It is important the Authority continues to monitor and assess the affordability of its borrowing in the light of the overall financial challenge.</p>	
<p>Securing economy efficiency and effectiveness - The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Comprehensive Spending Review meant the Authority faced a reduction in government funding of £9m over the two year period to 2012/13. The Authority identified £9.2m of revenue savings options in the financial plan and has implemented savings of £6.422m by the end of March 2012. During the year savings of £5.118m were identified above the schedule included in the financial plan which allowed the Authority to increase its contribution to reserves. The balance held in reserves will act as a short term buffer as the Authority re-engineers the service.</p> <p>The identified savings are based on maintaining front line services to the public as far as possible. There has however been a reduction in response times due to the removal of five appliances. The Authority's performance</p>	<p>Adequate arrangements are in place.</p>

**Criteria****Finding****Impact on VFM conclusion**

for the standards of fire cover of 92.2% in 2011/12 exceeded the target of 90% but represented a reduction in performance from 94.3% achieved in 2010/11.

By the end of 2012/13 the Authority's savings plan will reduce the number of firefighters by 97 posts and the number of non-uniform staff by 81 posts.

The Authority recognises that it is highly likely that further savings will be required by 2014/15 when the Government announces specific funding levels. These further savings will present a considerable challenge to frontline services and to maintaining the level of overall performance, quality of training and the number of home fire safety checks.

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I intend to issue an unqualified VFM conclusion stating there are no matters to report on the Authority's arrangements. I include my draft conclusion in Appendix 1.

# Fees

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## **I reported my planned audit fee in the Audit Plan**

My fee proposals were communicated to you in my Audit Plan for 2011/12. I reported to the Audit and Value for Money Scrutiny Panel on 29 March 2012 that I was satisfied that the audit fee of £72,054 was appropriate and no adjustment was required. At the time of drafting this report I do not yet have the final position on the total audit fees for 2011/12. When the total is available I will confirm the final fee in my Annual Audit Letter.

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF MERSEYSIDE FIRE AND RESCUE AUTHORITY

### Opinion on the Authority and Pension Fund financial statements

I have audited the financial statements and the Firefighters’ pension fund financial statements of Merseyside Fire and Rescue Authority for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The Firefighters’ pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Merseyside Fire and Rescue Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Deputy Chief Executive and Auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Deputy Chief Executive is responsible for the preparation of the Statement of Accounts, which includes the financial statements and the Firefighters’ pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting

policies are appropriate to the Authority and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Deputy Chief Executive; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Foreword by the Deputy Chief Executive to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Merseyside Fire and Rescue Authority as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the Firefighters' pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the Foreword by the Deputy Chief Executive for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects



## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Merseyside Fire and Rescue Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

## **Certificate**

I certify that I have completed the audit of the accounts of Merseyside Fire and Rescue Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Robin Baker  
Engagement Lead

Audit Commission, 3rd floor, Millennium House, 60 Victoria Street, Liverpool, L1 6LD  
28 September 2012

# Appendix 2 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Cash and Cash Equivalents / Short term investments	The amendments to the Balance sheet to classify the short term investments in accordance with the accounting policy.	n/a	n/a	3,102	3,102
Note 25 to the cash flow statement shows the adjustment to the net deficit	Testing of the adjustments found that the year on year decrease in Creditors of £53k, and Debtors £765k had both been understated by £177k.	n/a	n/a	177	177
Note 7 - Adjustments primarily involving the Capital Adjustment Account.	Revaluation losses on Property Plant and Equipment from £0 to £719k. Charges for depreciation and impairment of non-current assets £8,029k to £7,310k.	n/a	n/a	719	719
Note 16 Financial instruments	Following revisions to the financial instruments note, officers identified that the figures should not include debtors; creditors; Wirral residual debt, and the pension liability. Cash and investments were separated.	n/a	n/a	n/a	n/a

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Notes to the accounts	Text amendments made to : <ul style="list-style-type: none"> <li>• accounting policies to include accounting for injury benefits;</li> <li>• Not 6 Post Balance Sheet Events to record the PFI handover of the fire stations;</li> <li>• Note 4 in relation to the pension liability to include an assessment of the effect of a change in the valuation of the pensions liability;</li> <li>• Note 16 Fair Value Disclosure for Short Term Investments;</li> <li>• Note 27 Cash flow investing activities</li> <li>• Note 34, senior officers remuneration; and</li> <li>• Note 44 to show the required comparator.</li> </ul>	n/a	n/a	n/a	n/a

# Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Fully depreciated assets are written out of they accounts. The policy does not account for vehicles that remain on operational use.	Re-assessing the asset life from 10 to 11 years would result in a £10k decrease to the depreciation charge.		10	10	
The expenditure charge to revenue and funded by the DEFRA capital grant has been applied incorrectly.	General fund expenditure overstated by £41k and capital grant unapplied understated by £41k.		41	41	

# Appendix 4 – Draft letter of management representation

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## **Merseyside Fire and Rescue Authority - Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers and members of Merseyside Fire and Rescue Authority, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

### **Supporting records**

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

### **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

### **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Related party transactions**

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

### **Uncorrected misstatements**

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in Annual Governance Report are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Authority and the reason for not correcting these items is one of materiality.

### **Specific Representation**

I confirm to the best of my knowledge that the assets contained within the Merseyside Fire Heritage Museum are not the responsibility of the Fire Authority.

**Signed on behalf of Merseyside Fire and Rescue Authority**

I confirm that this letter has been discussed and agreed by the Authority on 27 September 2012.

Signed

Name

Position

Date



# Appendix 5 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

## **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

## **Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

## **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

## **Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

## **Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

## **Significance**

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Finance and Audit Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

