

# The Audit Findings for Merseyside Fire and Rescue Authority

Year ended 31 March 2017

19 July 2017

**Mike Thomas**

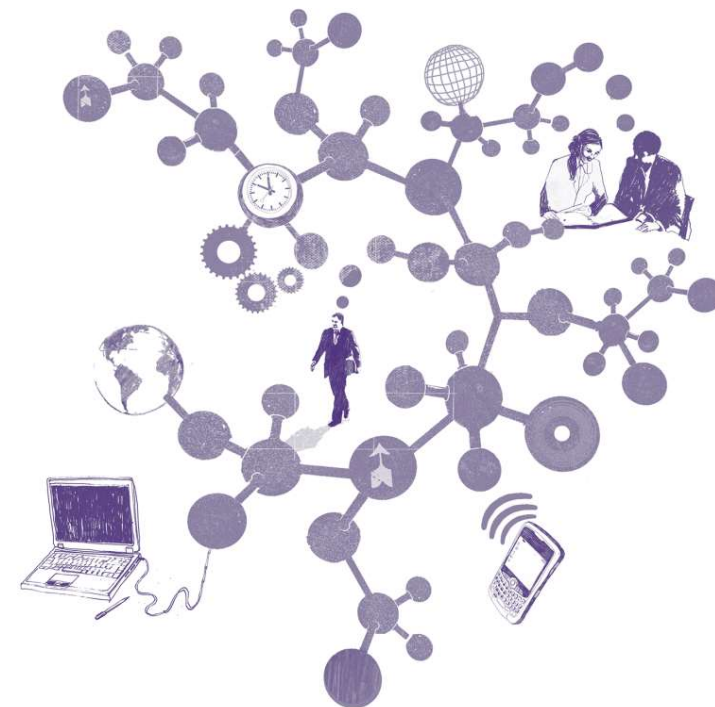
Director  
T 0161 214 6368  
E [mike.thomas@uk.gt.com](mailto:mike.thomas@uk.gt.com)

**Perminder Sethi**

Senior Manager  
T 0113 200 2547  
E [Perminder.sethi@uk.gt.com](mailto:Perminder.sethi@uk.gt.com)

**John Padfield**

Executive  
T 0161 214 6378  
E [john.padfield@uk.gt.com](mailto:john.padfield@uk.gt.com)



Merseyside Fire and Rescue Authority  
Policy and Resources Committee  
Fire Service HQ,  
Bridle Road  
Bootle  
Merseyside L30 4YD

Grant Thornton UK LLP  
4<sup>th</sup> Floor  
Royal Liver Buildings  
Liverpool  
L3 1PS

T 0161 214 6368  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

19 July 2017

Dear Members of the Policy and Resources Committee

**Audit Findings for Merseyside Fire and Rescue Authority for the year ending 31 March 2017**

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Merseyside Fire and Rescue Authority, the Policy and Resources Committee), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Mike Thomas

Engagement lead

**Chartered Accountants**

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## **Appendices**

A Draft Audit Opinion

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# Section 1: Executive summary

**01. Executive summary**

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04. Fees, non audit services and independence

05. Communication of audit matters

## Purpose of this report

This report highlights the key issues affecting the results of Merseyside Fire and Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Authority acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Authority or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Authority and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 30 March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- property, plant and equipment
- pensions
- investment confirmations
- review of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts.

We received the draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## **Key audit and financial reporting issues**

### **Financial statements opinion**

We have identified no adjustments affecting the Authority's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded total comprehensive income and expenditure of £182,876k. Our audit work on the financial statements has not altered this position. We have recommended a number of minor adjustments to improve the presentation and disclosure of the financial statements.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### **Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Authority's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

## **Controls**

### **Roles and responsibilities**

The Authority's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Authority.

### **Findings**

Our audit work identified a control issue in relation to the calculation of National Insurance Contributions by the payroll system. Our audit testing identified that in specific circumstances, the payroll system will understate both employer's and employees' NI contributions payable. This is a software weakness and Officers are working with the system provider to resolve this issue.

The Authority has completed a review of all payments where an understatement was possible and confirmed the additional liability to be some £31,000, Officers do not consider this to be significant from the perspective of the financial statements. Accordingly, this has been recorded as an unadjusted error.

Further details are provided within section two of this report.

## **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

## **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act. We have not had to issue a Public interest report; make any written recommendations; apply to the court for a declaration that an item of account is contrary to law; issue an advisory notice or make an application for judicial review.

## **The way forward**

Matters arising from the financial statements audit and our review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Treasurer, and recommendations discussed and agreed with the Treasurer and the finance team

## **Acknowledgement**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**19 July 2017**

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## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,497k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £75k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made (errors will also be assessed individually with due regard given to the nature of the error).	£5k
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made. (misstatements will also be evaluated by reference to how material they are to the other party).	£20k (Individual misstatements will also be evaluated with reference to how material they are to the other party).

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

# Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the audit plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Merseyside Fire and Rescue Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Merseyside Fire and rescue Authority, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for the Authority.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Review of journal entry process, including a walkthrough of controls</li> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Selection of unusual journal entries for testing back to supporting documentation</li> <li>• Review of unusual significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

## Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the Authority. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of property, plant and equipment</b></p> <p>The Authority revalues its property assets every 5 years, the last revaluation being in 2014/15 The Code requires that the Authority ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• Discussed with the valuer the basis on which the valuation is carried out and challenged key assumptions.</li> <li>• Reviewed and tested any significant ad-hoc revaluations made during the year, including, where relevant, review of the competence, expertise and objectivity of any management experts used</li> <li>• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>	<p>Work on property plant and equipment conducted to date has not highlighted any issues that we would wish to bring to your attention.</p>

# Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p><b>Valuation of pension fund net liability</b></p> <p>The Authority's pension fund asset and liability as reflected in its balance sheet represents a significant estimate in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. Assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. Gained an understanding of the basis on which the valuation is carried out</li> <li>Procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>Reviewed the consistency of the pension fund asset and liability and disclosures in the notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work to date has not identified any significant issues in relation to the risk identified.</p> <p>For LGPS and the two firefighter pension schemes we undertook a review of the relevant actuary's (Mercer for LGPS and GAD for firefighter schemes) work to satisfy ourselves that the pension liabilities are fairly stated in the financial statements. In doing so we engaged our own independent actuary to assess the methodology and assumptions used by the schemes actuary.</p> <p>For LGPS we have confirmed with the LGPS external auditor that the controls over membership data were operating as intended. For the two firefighter schemes we have reviewed the information sent to the actuary ourselves and confirmed it was consistent with our expectations.</p> <p>For both LGPS and the firefighter pension schemes we have reviewed the assumptions used for each of these variables. Our own independent actuary has also confirmed that they are comfortable that the assumptions used by both Mercer and GAD are reasonable for the purpose of valuing the pension fund liabilities as at 31 March 2017.</p>

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Risks identified in our plan	Work completed	Assurance gained & issues arising
<p><b>Operating Expenses</b></p> <p>Non-pay expenditure represents a significant percentage of the Authority's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the risk requiring particular audit attention as:</p> <p>Year end creditors and accruals are understated or not recorded in the correct period.</p> <ul style="list-style-type: none"> <li>• Completeness – Operating expenses are understated or not recorded in the correct period.</li> <li>• Completeness – Creditors (payables) understated or not recorded in the correct period</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of processes and controls</li> <li>• Evaluation and walkthrough of controls</li> <li>• Tested a sample of expenditure transactions for the year</li> <li>• Tested the year-end reconciliation of the accounts payable system to the general ledger</li> <li>• Reviewed post year end payments to identify any unrecorded liabilities</li> <li>• Reviewed management's process for identifying and processing accruals</li> <li>• Tested a sample of year end creditors and accruals</li> <li>• Reviewed in year and post year end payments to identify whether the transactions have been recorded in the correct financial year.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Employee remuneration</b></p> <p>Payroll expenditure represents a significant percentage of the Authority's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> <li>• Employee remuneration accruals understated (Remuneration expenses not correct)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documentation of the system and identification of controls and walkthrough test of the payroll system</li> <li>• Tested a sample of payroll transactions for the year</li> <li>• Substantive testing of significant year end payroll accruals</li> <li>• A trend analysis of pay by month to confirm there are no unusual fluctuations throughout the year</li> <li>• Testing of the reconciliation between the payroll system and the amounts recorded in the financial statements.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>However, our detailed testing of payroll transactions identified the presence of a systematic error in the calculation of employer's and employees' National Insurance, affecting a small element of the population. This is considered in further detail in the 'Internal Controls' section. Officers are working with the software supplier to resolve this issue.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

# Audit findings against other risks continued

Risks identified in our plan	Work completed	Assurance gained & issues arising
<p><b>Fire Pensions Benefits Payable</b></p> <p>Benefits improperly computed / Claims liability understated.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented the processes and controls in place in the pensions benefits system</li> <li>• Walkthrough testing to confirm the operation of controls is in line with our understanding</li> <li>• Scanned and identified unusual items or unusual variations in the payments made</li> <li>• Compared the total pensioner payroll with comparative figures and rationalised by reference to the changes to the expected value (e.g. pension increases, new pensioners, deaths).</li> <li>• Substantive testing of pension benefit payments made in the year.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Changes to the presentation of local authority financial statements</b></p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• Documented and evaluated the process for recording the required financial reporting changes to the 2016/17 financial statements</li> <li>• Reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure</li> <li>• Reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>• Tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>• Tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>• Tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>• Reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our audit work has identified that the required presentational changes have generally been appropriately made.</p> <p>For fullest compliance with the Code, we requested that the new Expenditure and Funding Analysis be presented as a note to the accounts, rather than as a primary statement.</p>

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Authority's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>Government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that the Authority will comply with the conditions attached to the payments, and the grants or contributions will be received.</li> <li>Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</li> <li>Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</li> </ul>	<ul style="list-style-type: none"> <li>The Authority's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting 2016-17</li> <li>A significant amount of the Authority's revenue is predictable meaning that there is minimal judgement involved in identifying when to recognise income</li> <li>We are satisfied that the Authority has recognised income in accordance with its accounting policies</li> <li>Revenue recognition policies are appropriately disclosed.</li> </ul>	<p style="text-align: center;">● Green</p>
<p><b>Going concern</b></p>	<p>The Treasurer has a reasonable expectation that the services provided by the Authority will continue for the foreseeable future. Members concur with this view. For this reason, the Authority continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Authority's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p>	<p style="text-align: center;">● Green</p>

**Assessment**



● Marginal accounting policy which could potentially attract attention from regulators

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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates</b>	Key estimates and judgements include: <ul style="list-style-type: none"> <li>• Pension fund valuations and settlements</li> <li>• Asset revaluations, depreciation and impairments</li> <li>• Provisions and accruals, including business rate appeals and bad debt provisions</li> <li>• Fair value of financial instruments.</li> </ul>	<ul style="list-style-type: none"> <li>• The Authority's policies on estimates and judgements are reasonable and appropriately disclosed.</li> <li>• The Authority has appropriately relied on the work of experts for asset revaluations, pension fund valuations, insurance provisions, and financial instrument fair values.</li> </ul>	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice.	The Authority's accounting policies are appropriate and consistent with previous years.	 <b>Green</b>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient



## Other communication requirements


We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Policy and Resources Committee and the work to address this. We have not been made aware of any incidents of fraud in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Authority which is included in the Policy and Resources Committee papers.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests for bank balances, loans and investments. This permission was granted and the requests were sent to a number of institutions. We have now received all confirmations except in relation to investments from Newcastle Building Society (£1m), and Goldman Sachs (two amounts of £1m each) which are still awaited.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements. For fullest compliance with the Code of Practice, we requested that the new Expenditure and Funding Analysis be presented as a note to the accounts, rather than as a primary statement.</li> </ul>


## Other communication requirements continued

	Issue	Commentary
7.	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>• We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas:</li> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Authority acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> <li>• Note – this work is not required as the Authority does not exceed the threshold.</li> </ul>

# Internal controls

	Assessment	Issue and risk	Recommendations
1.		<p>Our payroll testing identified that, under specific circumstances, the payroll system will allocate double the lower earnings limit in its National Insurance calculations resulting in underpayment of both employer's and employees' NI. Officers have ascertained, through system interrogation that the total underpayment of NI resulting in 2016/17 is £30,960 (none in previous years) and have contacted the system provider to resolve the issue.</p> <p>Given the amount involved is not significant, officers are not proposing to amend the financial statements.</p>	Continue to work with the system provider to resolve this system issue, with a view to preventing miscalculation in future periods.

**Assessment**

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

## Adjusted misstatements

There have been no adjustments made to the draft accounts.

## Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Policy and Resources Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 In specific circumstances, the payroll system has understated both employers' and employees' NI contributions payable during 2016/17. This is a software weakness. Officers have ascertained, through system interrogation that the total underpayment of NI resulting in 2016/17 is £30,960 (none in previous years) and have contacted the system provider to resolve this issue.	31	(31)	The amount is not considered material to the Authority's financial statements.
<b>Overall impact</b>	<b>£31</b>	<b>£(31)</b>	

## Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	N/A	Expenditure and Funding Analysis	A presentational change to show the Expenditure and Funding Analysis as a Note to the accounts in accordance with the Code.
2 Disclosure	N/A	N/A	Various minor disclosure changes.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Authority. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Authority has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in April 2017 based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Authority, including work performed in previous years in respect of the VFM conclusion and the opinion on the financial statements
- the findings of other inspectorates and review agencies
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information
- any other evidence which we considered necessary to conclude on your arrangements.

We did not identify any significant risks from our initial risk assessment. We did however recognise that the Authority continues to face significant on-going financial challenges. Our assessment of risk is balanced by the fact that we consider the Authority has effective arrangements in place to manage its finances.

The Authority set a balanced budget for 2016/17 which formed the first year of the Medium Term Financial Strategy (MTFS) for the 4 year period to 2019/20.

The actual 2016/17 outturn position was an underspend of £2,349k against a revised budget of £61,507k, increasing the Authority's usable reserves to £31,858k at the year end. The Authority is keen to use any underspend to increase the firefighter recruitment reserve in light of the expected firefighter retirements over the next decade.

During the year, the Authority also spent £3,652k on capital (non current assets), with the main areas of spend relating to the build of a new fire station in Prescott, installation of smoke alarms, upgrades and replacement of ICT software and the purchase of new appliances and specialist vehicles.

The Authority continues to respond to meeting the challenges of Blue Light Collaboration. Consultants have recently undertaken a review exploring the potential synergies to be gained from a collaborative approach with Merseyside Police on integration of back office and professional services. Further to this, chief officers will now jointly undertake further work to consider practical options for a collaborative approach to the delivery of corporate services functions.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

### **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

In arriving at our conclusion, our main considerations were:

- as in previous years, the Authority delivered an underspend position for 2016/17 with a year end outturn underspend of £2,349k. This was in line with the Authority's expectation for 2016/17 and represents 3.8% of turnover
- for 2017/18, the Authority approved its budget in March 2017. The Authority set a budget of £59,490k. The budget aims to deliver a year end break even position. The budget requires savings of £3,862k above those already delivered in 2016/17 and includes reductions in a number of areas including support service and management (£0.75m) and reductions in front line staffing (£1.0m)
- the Authority's Medium Term Financial Plan covering the period 2016/17 to 2019/20 which incorporates the comprehensive spending review and the future financial challenges faced by the Authority. The Authority needs to deliver some £11,000k in savings between 2016/17 and 2019/20. The Medium Term Financial Plan aims to achieve this through savings in technical and support services of £9,100k, and a further £1,900k from operational savings. Whilst the Authority consider these savings challenging, they believe they are achievable
- the Authority's committee structures which enable a clear focus on the Authority's policies and monitoring of performance. The Authority has an effective strategic and financial planning process which includes rigorous review and challenge by members
- the progress being made by the Authority working with Merseyside Police on Blue Light Collaboration with a view to help integrate back-office and professional services.

### **Overall conclusion**

Based on the work we performed to address the risks identified, we concluded that Merseyside Fire Authority had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

### **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

### **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

### **Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.



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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We confirm below our final fees charged for the audit and provision of other and non-audit services.

### Fees

	Proposed fee £	Final fee £
Authority audit	32,424	32,424
<b>Total audit fees (excluding VAT)</b>	<b>32,424</b>	<b>32,424</b>

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

### Independence and ethics

Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. We can confirm that no non-audit services were identified.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Authority's key risks when reaching our conclusions under the Code.

It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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# Appendices

**A. Draft Audit Opinion**

# A: Draft Audit opinion

**We anticipate we will provide Merseyside Fire and Rescue Authority with an unmodified audit report**

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERSYSIDE FIRE AND RESCUE AUTHORITY**

We have audited the financial statements of Merseyside Fire and Rescue Authority (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in reserves Statement; the Balance Sheet, the Cash Flow Statement and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to [x]. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Treasurer and auditor**

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us 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's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

**Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Respective responsibilities of the Authority and auditor**

The Authority is responsible for putting in place proper arrangements for securing 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.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves 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 2017.

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

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

[Signature]

Michael Thomas  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4TH Floor  
Royal Liver Building  
Liverpool  
L3 1PS

[Date]



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