Audit Findings

Year ending 31 March 2018

Merseyside Fire & Rescue Authority

17 July 2018

Contents

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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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Headlines

Introduction

This table summarises the key issues arising from the statutory audit of Merseyside Fire and Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	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 have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting; • other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), are consistent with the financial statements	Our audit work was completed on site during June an July. Our findings are summarised on pages 5 to 12. We have identified no adjustments to the financial statements that have changed the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix B. We have identified one aspect of the accounting polices that does not align fully with the Code however this does not result in a material error and no change is required to the financial statements. We have identified one omission from the disclosure requirements in respect of P F I contracts. We have raised recommendations for management as a result of our audit work in Appendix A. Subject to outstanding matters being resolved, we anticipate issuing an unqualified audit opinion following the Policy and Resources Committee meeting on 25 July 2018, as detailed in Appendix D . These outstanding items include: - completing work in progress at the time of drafting this report - receipt of management representation letter; and - review of the final set of financial statements. We have concluded that the other information published with the financial statements, which includes the Annual Governance Statement and Narrative Report are consistent our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We have completed our risk based review of the Authority's value for money arrangements. We have concluded that Merseyside Fire and Rescue Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 13-15.

Headlines

Introduction

This table summarises the key issues arising from the statutory audit of Merseyside Fire and Rescue Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2018 for those charged with governance.

Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- An evaluation of the Authority's internal controls environment including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Policy and Resources Committee meeting on 25 July 2018, as detailed in Appendix D . These outstanding items include:

- receipt of management representation letter; and
- review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for Merseyside Fire and Rescue Authority.

	Authority Amount (£)	Qualitative factors considered
Materiality for the financial statements	Planned £1.35m Final £1.49m	Planned material was based on the previous financial performance of the Authority. We have updated this to reflect the increase in expenditure, in part reflecting a full year of managing the UK National Resilience (NR), International Search and Rescue projects on behalf of Central Government.
Performance materiality	Planned £1.01m Final £1.12m	Previous quality of the working papers and response to audit process. Quality of financial systems and processes and the nature of the Authority's expenditure and income streams.
Trivial matters	£0.056m	A minimum level at which items need to be reported to the Policy and Resources Committee
Materiality for specific transactions, balances or disclosures	£20k or 5% of value the of individual transaction totals.	We design our procedures to detect errors in specific accounts at a lower level of precision - for Senior Officer Remuneration and Related Party transactions our level of materiality will be £20k. Although we consider the materiality of the transactions reviewed to each party.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Merseyside Fire and Rescue Authority, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Merseyside Fire and Rescue Authority.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. .The Authority faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** **Our work covered;** – reviewing accounting estimates, judgements and decisions made by management – testing of journal entries – reviewing unusual significant transactions – reviewing significant related party transactions outside the normal course of business. Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** The Authority revalues its land and buildings on an quinqennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**Auditor commentary** Our work included: • Reviewing management's processes and assumptions for the calculation of the estimate. • Reviewing the competence, expertise and objectivity of any management experts used. • Reviewing the instructions issued to valuation experts and the scope of their work • Discussions with the Authority's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • Reviewing and challenging the information used by the valuer to ensure it was robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they were input correctly into the Authority's asset register • Evaluating the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. • Substantively tested 19 transactions classified as additions in the year to source documentanion. **Our audit work has not identified any issues in respect of valuation of property, plant and equipment.**
4	**Valuation of pension fund net liability** The Authority's LGPS pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. The Firefighters pension fund liability as reflected in its balance sheet represent a significant estimate in the financial statements. These estimates by their nature are subject to significant estimation uncertainty, being sensitive to small adjustments in the assumptions used. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Auditor commentary** Our work included • Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. • Reviewing the competence, expertise and objectivity of the actuary who carried out the Authority's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Reviewing the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. **Our audit work has not identified any issues in respect of the valuation of the LGPS pension fund net liability**.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
6	**Employee remuneration** Payroll expenditure represents a significant percentage 73% of the Authority's operating expenses. As the payroll expenditure comes from a number of individual transactions and an interface with a number of different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	**Auditor commentary** We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • obtained payroll reconciliations and agree to the ledger and payroll reports, and investigate any significant adjustments. • agreed year end payroll accruals to supporting documentation • performed substantive analytical review disaggregated by month. **Our audit work has not identified any issues in respect of employee remuneration.**
7	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage 27% of the Authority's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**Auditor commentary** We have undertaken the following work in relation to this risk: • evaluated the Authority's accounting policy for recognition of non-pay expenditure for appropriateness; • gained an understanding of the Authority's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • Obtained a listing of non-pay expenditure and removed costs relating to depreciation, impairments and audit fees and agreed large and unusual items to supporting documentation. • Substantively tested a sample of 68 transactions to source documentation **Our audit work has not identified any issues in respect of employee remuneration.**
8	**Firefighters pension scheme** The Authority administers the firefighters pension schemes, with the Firefighters Pension Fund Account being included in the financial statements. We identified completeness and accuracy of pension benefits payable as a risk requiring particular audit attention.	**Auditor commentary** We have undertaken the following work in relation to this risk: • gained an understanding of the Authority's systems for calculating, accounting for and monitoring pension benefit payments and evaluated the design of the associated controls; and • Substantively tested a samples of 25 transactions for contributions and commutation calculation. **Our audit work has not identified any issues in respect of the firefighters pension scheme**

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Fees, charges and rents due from customers are accounted for as income at the date the relevant goods or services are provided Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due when there is reasonable assurance of: - compliance with the conditions attached to the payments, and - the grants or contributions will be received. Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied	We are satisfied from our testing of revenue recognition policies that: - The policies are appropriate under the relevant accounting framework; - The Authority has adequate controls in place and has applied reasonable judgements to ensure revenue is appropriately recorded The policies are adequately disclosed in the financial statements 17 transactions were substantively tested to source documentation and the accounting was consistent with the stated policy.	●
Judgements and estimates	Key judgements and estimates are set out in the to the accounts and include: • Provisions • Pensions liability valuations; and • PPE valuations.	We have reviewed the judgements and estimates against the requirements of the CIPFA Code of Practice. Where the Authority has made judgements or estimates these have been supported with robust and clear explanation of the assumptions applied. PPE valuations and pension liability valuations are consistent with previous years. Our work includes review of the work undertaken by external experts. There are no issues in relation to the judgements and estimates made that we need to bring to your attention. The estimates and judgements disclosed are consistent with other Fire and Rescue Bodies.	●

Assessment
- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Other critical policies	We have reviewed the Authority's policies against the requirements of the CIPFA Code of Practice.	Note 1- xvi depreciation, states that no depreciation is accounted for in the year of acquisition but is accounted for in the year of disposal. Code paragraphs 4.1.2.41 and 4.1.2.42, require assets to be depreciated from when they become available for use and to be depreciated when in use except when its residual value is greater than its carrying value. The current policy is not compliant with the Code. Based on depreciable additions in the year of £3.81m and taking the average useful lives of depreciable assets there is a potential understatement of the depreciation charge of £263k. This is not material but is above our triviality level. A material error in the depreciation charge because it would require the recognition of assets on 1 April with a value that is many times materiality. Management has confirmed that from 2018/19 depreciation will apply to all new asset purchases from when first brought into use and until taken out of use by transfer to another category or disposal. We noted a small number of minor typographical and drafting errors which management has corrected and we identified a number of surplus disclosures that management may omit to streamline the financial statements. In all other respects, the Authority's accounting policies are appropriate and consistent with previous years.	●

Assessment
- Marginal accounting policy which could potentially be open to challenge by 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	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Policy and Resources Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• 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.
4	**Written representations**	• A standard letter of representation has been requested from the Authority which is included in the Policy and Resources Committee papers.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to thirteen banks and deposit takers. This permission was granted and the requests were sent. At the time this report was drafted two requests were returned with positive confirmation therefore we adopted alternative audit procedures including agreeing statements contemporaneous to the year-end and confirmation from Liverpool City Council in its role as Treasury manager.
6	**Disclosures**	• The Authority has not included a fair value for its PFI liability. This is on the basis that the actual borrowing lies with the PFI provider and not the Authority. An alternative view is that a fair value could be derived by considering the amount that could be could borrowed based on the committed cash flow over the remaining life of the arrangement. As an example, based on the PLWB new loan rates for loans of a similar duration and payment profile, the fair value could be in the region of £33 million.

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
7	**Significant difficulties**	• We did not encounter any significant difficulties with the accounts closedown process or procedures. The Authority produced a good set of account supported by detailed working papers in line with the required timetable.
8	**Work in progress**	At the time of drafting this report the following work was in progress. • Documenting the results of our testing of high risk and high value journal adjustments. • Gathering supporting evidence for payroll accruals • Adding to our files the supporting documents for our work on Grants, Council tax and NNDR • Documenting our work on the pensions liability and completing our sample testing of pension benefits. Our work to date has not identified any issues we wish to report to you or that might have an impact on our opinion; we will confirm completion of this work at the meeting on the 25 July.
9	**Matters on which we report by exception**	• 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 • 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 • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Authority acquired in the course of performing our audit, or otherwise misleading.
10	**Specified procedures for Whole of Government Accounts**	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. • Note that work is not required as the Authority does not exceed the threshold;

Value for Money

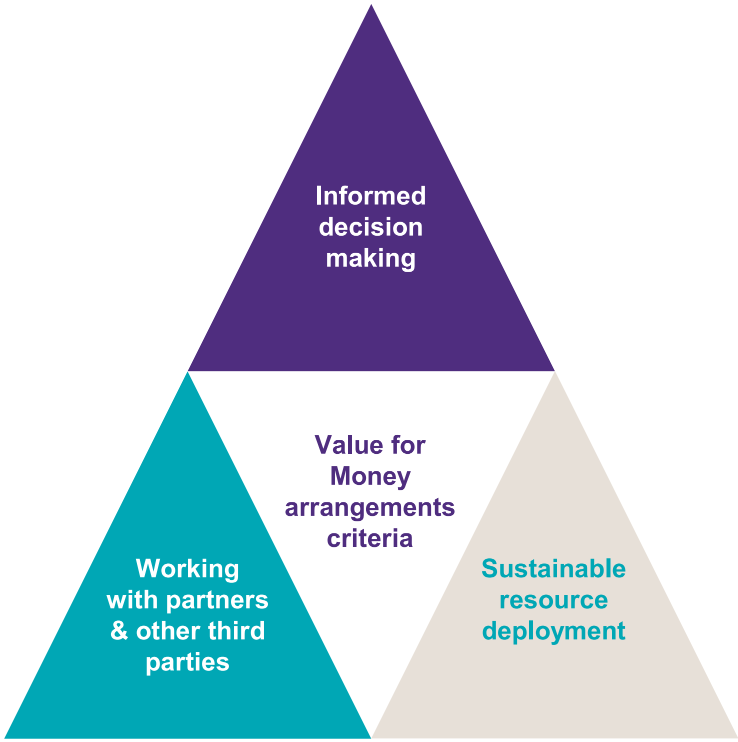
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place.

The guidance 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 25 January 2018.

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.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

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

We have focused our work on the significant risks that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were:

Financial sustainability and estates strategy

The Authority is operating against a background of :

- Funding reductions
- Changes in the legislative and policy requirements
- Changes to the regulatory bodies and frameworks

The Authority has a significant capital programme, £43m over five years, which is fully funded from internal resources and is key to planned service development. As pressures on revenue budgets continue it will be important for the Authority to protect and manage this programme.

We updated our understanding of the Authority's arrangements for managing and reporting to Members the risks associated with and progress of the capital programme.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on page 15

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the 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 D.

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.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	**Financial sustainability and estates strategy** The Authority is operating against a background of • Funding reductions • Changes in the legislative and policy requirements • Changes to the regulatory bodies and frameworks The Authority has a significant capital programme, £43m over five years, which is fully funded from internal resources and is key to planned service development. As pressures on revenue budgets continue it will be important for the Authority to protect and manage this programme. .	We carried out a programme of work in order to update our understanding of the Authority's arrangements for managing and reporting to Members the risks associated with and progress of the capital programme. We reviewed budgeting and financial monitoring as reported to members through out the year. We compared actual performance to budgeted and examined the explanations provided. We cross checked in-year activity with strategic plans such as the IRMP and reviewed significant events and decisions. We looked at the planning process for 2018/19, reviewed the assumptions used, compared them to previous assumptions. We found that overall the capital programme for 2017/18 had increased slightly during the year but with no extra borrowing. This has been achieved in part by revenue contributions reflecting revenue savings achieved, in part from specific additional resources, for example Home Office grant to update Communications equipment, and use of the Clothing reserves to support specific elements of the capital programme. There has been re-phasing of specific building projects but despite this the Authority has been able to press ahead with ICT, Operatrional Equipment and Vehicle Replacement programmes These compliment the station renewal program and are reflected in the IRMP and MTFP.	**Auditor view** • The authority revenue budget was set at £59.49m and the out-turn figures was £57.087. An additional £442k was transferred to earmarked reserves, leaving a positive budget variance of £1.961m. • This positive result and the continued progress of the capital programme demonstrate the Authority has adequate arrangements in place.

Independence and ethics

Independence and ethics

- 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. We can confirm that we have not undertaken any non-audit services for Merseyside Fire and Rescue Authority during 2017/18.

Action plan

We have identified 1 recommendation for the Authority as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. 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.

	Assessment	Issue and risk	Recommendations
1	● Medium	No fair value has been disclosed for the PFI liability. The purpose of this disclosure is to proved more information to stakeholders to assist them in making judgements about the degree and nature of the financial risks the Authority is managing.	• Consider whether alternative values for the PFI liability can be included to improve the understanding of stakeholders. **Management response** • For 2018/19 and future Statement of Accounts the Authority will reflect the fair value of the liability by reference to the capital sum of the loan that could be obtained for the same cash flow, on similar terms, over the remaining life of the agreement.

Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We confirm that there have been no non-trivial misstatements identified as part of work on the Authority's financial statements.

Impact of unadjusted misstatements

We confirm there are no unadjusted misstatement within the financial statements

Impact of unadjusted disclosure issues

The table below provides details of disclosure identified during the audit which have not been made in the final set of financial statements.

Disclosure issue	Detail	Auditor recommendations
Fair value of the PFI Liability	The authority has not included a fair value for its PFI liability. This is on the basis that the actual borrowing lies with the PFI provider and not the Authority	• A fair value could be derived by considering the amount that could be could borrowed based on the committed cash flow over the remaining life of the arrangement. Management should consider whether alternative values for the PFI liability can be included to improve the understanding of stakeholders. **Management response**

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

INote 31 of the financial statements discloses the cost to the Authority as £28,000. This reflects a distribution of surplus funds from PSAA Ltd unrelated to this year's audit fee.

Audit Fees

	Proposed fee	Final fee
Authority Audit	32,424	32,424
Total audit fees (excluding VAT)	**£32,424**	**£32,424**

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

No non audit or audit related services fees have been undertaken for the Authority.

Audit opinion

We anticipate we will provide the Authority with an unmodified audit report

Independent auditor's report to the members of Merseyside Fire and Rescue Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Merseyside Fire and Rescue Authority (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and notes to the financial statements. 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 2017/18.

In our opinion the financial statements:

•give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;

•have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and

•have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

•the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

•the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 3 to 18, and in the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

•we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 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 Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

•we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Treasurer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 94 the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Treasurer. 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 2017/18, which give a true and fair view, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Policy and Resource Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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

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[Date]

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