Grant Thornton

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated DD MMM YYYY

External Audit Plan

Year ending 31 March 2019

Merseyside Fire and Rescue Authority

April 2019

Contents

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Introduction & headlines

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Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Merseyside Fire & Rescue Authority ('you' or 'the Authority') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Authority. We draw your attention to these documents on the [PSAA website].

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on:

- your financial statements that have been prepared by management with the oversight of those charged with governance; and
- your Value for Money arrangements in place for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. We have considered how you are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of your business and is risk based.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Income – Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to improper recognition of revenue. We have rebutted this risk. • Management Override of controls - Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. • The risk that the valuation of property, plant & equipment in your accounts is materially misstated. • The risk that your PFI disclosures are materially misstated. • The risk that the valuation of your pension fund net liability is materially misstated. We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £1.494m (PY £1.494m) for the Authority, which equates to 2% of prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £75k (PY £75k).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risk: • Arrangements to secure medium and long term financial sustainability, including delivery of the reserves and estates strategies.
Audit logistics	Our interim visit took place in February 2019 and our final visit will take place in June 2019. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £24,966 (PY: £32,424) for the Authority, subject to the Authority meeting our requirements set out on page 11.
Independence	We have complied with 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..

Key matters impacting our audit

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Factors

The wider economy and service transformation plans

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. Your financial position in 2018/19 remains in line with plan and reserves levels are being maintained. You have longer term plans for the use of reserves which are in line with financial prudence and responsible financial planning. Nevertheless, significant funding uncertainty remains over the medium term, including risks from the fair funding review.

For 2019/20 you have plans to invest in resilience and response with the recruitment of additional fire officers and the deployment of four new engines. This will require £1m of additional investment over the next two years which will be obtained through the early repayment of debt using revenue underspends in the current year and the expected reduction in the pensions deficit.

The government is continuing to push forward with its Fire reform agenda. A number of Fire & Rescue Authorities across the country are undergoing service transformations of varying degrees. In addition, there are a number of ongoing enquiries into the Grenfell Tower fire that could lead to changes in practices and working arrangements.

You have clearly developed plans to restructure the estate, maximise the number of available appliances and recruit the right level of staff. You have a significant capital programme over five years. You are working wit the Police as part of a Joint Collaboration Board to improve public safety and community resilience.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

We do not anticipate that the above will have a significant impact on your accounts.

HMICFRS

Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services independently assesses the effectiveness and efficiency of police forces and fire and rescue services

Fire and rescue service assessments are an annual inspection programme of services. This assesses services on effectiveness, efficiency and how well they look after people.

The inspection at the Authority ended in December 2018. Detailed feedback is expected this month before the final report is issued in June 2019.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.

Significant risks identified

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Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. 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 & Rescue Authority, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for the Authority.	
Management over-ride 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. You face external scrutiny of your spending and use of reserves, and this could place management under pressures in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business, as a significant risk of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

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Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	You revalue your land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • test revaluations made during the year to see if they had been input correctly into your asset register • evaluate 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 at year end.
Accounting for the PFI The risk of material error in the accuracy and presentation of the Private Finance Initiative (PFI) liability and associated disclosures	You lead a North West PFI project to replace 16 fire stations across Merseyside, Lancashire and Cumbria. Mersey Fire and Rescue Service built 7 new PFI stations, the last station opening in 2013. The net book value of the PFI assets stood at £17.4m at 31 March 2018, and the long term creditor relating to the PFI contract stood at £18.5m. Under IFRS13 the long term liability in relation to the PFI contract should have been included at fair value in the 2017/18 financial statements. This was not completed. We therefore identified the risk of material error in the accuracy and presentation of the Private Finance Initiative (PFI) liability and associated disclosures as a significant risk.	We will: • evaluate your accounting policy for the PFI contract and whether the accounting treatment adopted in the financial statements is consistent with the accounting policy; • assess how management have accounted for the transactions, assessing whether the accounting treatment is in line with IFRS requirements; • evaluate the disclosure of the transactions in the financial statements to confirm that they accurately represent the arrangements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Significant risks identified

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Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of Merseyside Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

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Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Leigh Day

In early 2019 the courts ruled in favour of the claimants (Firefighters) and confirmed that the 2015 reformed pension scheme did discriminate based on age. Whilst this is likely to be appealed, due consideration will need to be given to how this is reflected in the Authority's financial statements. We will consider the appropriateness of the treatment of this issue during our audit of the financial statements.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Authority's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

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The concept of 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. 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.

Materiality for planning purposes

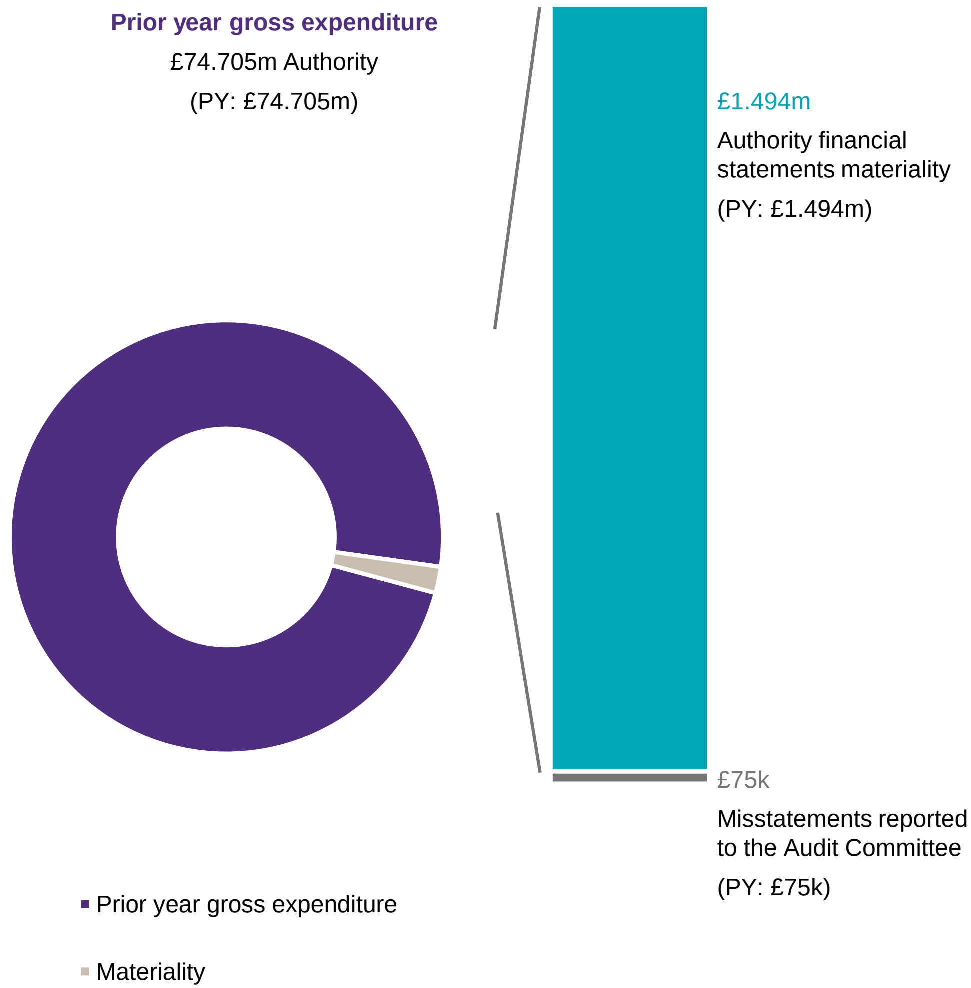
We have determined financial statement materiality based on a proportion of the gross expenditure of the Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.494m (PY £1.494m), which equates to 2.00% of your prior year gross expenditure for the year.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £75.000 (PY £75.000).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

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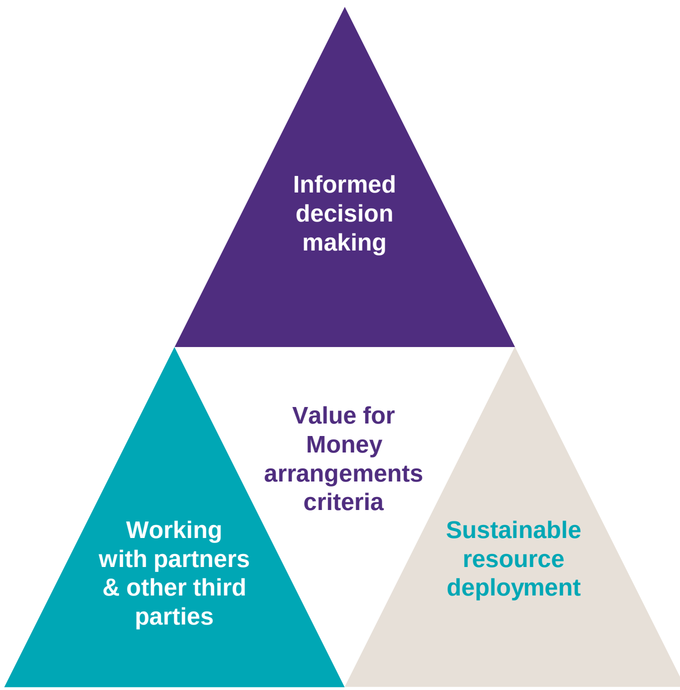
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work 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 to secure value for money.

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:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

Arrangements to secure medium and long term financial sustainability, including delivery of the reserves and estates strategies

You are operating against a backdrop of:

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

At the same time you are investing in new fire vehicles and increasing the number of fire officers over the coming years. You have a significant capital programme, £43m over five years, which is key to your medium and long term financial sustainability. You have longer term plans for the use of reserves which are in line with financial prudence and responsible financial planning. Nevertheless, significant funding uncertainty remains over the medium term, including risks from the fair funding review.

We will review your arrangements for budgeting, monitoring and reporting financial performance. We will review updates to your medium term financial strategy, estates strategy and capital programme and assess the long term sustainability of your reserves strategy.

Audit logistics, team & fees

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Paul Grady, Engagement Lead

Paul leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, meeting the highest professional standards. Paul will be the main point of contact for the Chair, Chief Fire Officer and committee members. He will share his wealth of knowledge and experience across the sector, providing challenge and sharing good practice. Paul will sign our audit opinion.

Jillian Burrows, Senior Audit Manager

Jillian plans, manages and leads the delivery of the audit. She is the key point of contact for your Finance team and is your the first point of contact for discussing any significant issues. Jillian will work with the senior members of the finance team, ensuring early delivery of testing and agreement of accounting issues on a timely basis. Jillian will attend Audit Committees, undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable to all.

Lazaros Pilafas, Audit Incharge

Lazaros is responsible for the delivery of the audit, acting as first port of call for the finance team in light of any technical financial matters. Lazaros monitors the deliverables with your finance team, highlighting any significant issues and adjustments to senior management. Lazaros will ensure the audit is delivered effectively and efficiently, and will supervise and co-ordinate the on-site audit team.

Audit fees

The planned audit fees are £24,966 (PY: £32,424) for the financial statements audit completed under the Code, which are inline with the scale fee published by PSAA. In setting your fee, we have assumed that the scope of the audit, and the Authority and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, you must ensure that:

- all audit queries in our interim and final work are responded to in a timely manner and all required samples provided to enable completion of the interim audit prior to the end of March.
- the draft accounts are provided to us by 31 May and are fully accurate with minimal errors. Supporting schedules to all figures in the accounts and other working papers are provided to us by 31 May and in accordance with the agreed upon information request list. This must include all notes, the narrative report and AGS.
- the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples. All supporting schedules are clearly presented and agree to figures in the accounts.
- key management and accounting staff identified in our information request list are available throughout the duration of our audit visits to help us locate information and to provide explanations.
- all audit queries are resolved promptly and fully and within agreed timescales.

If any of the above requirements are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Independence & non-audit services

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Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

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 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. No other services were identified

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

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