Grant Thornton

The Audit Findings (ISA260)
For Merseyside Fire & Rescue Authority

Year ended 31 March 2019

December 2019

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Merseyside Fire & Rescue Authority and the preparation of the financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the entity's financial statements: • give a true and fair view of the financial position of the entity and the entity's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our work on the financial statements is almost complete, subject to the satisfactory completion of outstanding procedures, below. We have identified a number of adjustments to the financial statements that result in changes to the reported financial position but with no impact on the general fund. Management have amended the financial statements for all of the misstatements identified and there are no unadjusted errors. Adjustments made to the draft financial statements are detailed in Appendix A. The draft financial statements presented for audit were of good quality, as were the supporting working papers. Additional work was required during the audit for a number of reasons. The McCloud-Sargeant pensions ruling required additional actuarial work to be carried out in response to the impact on the financial statements. In addition, our initial work to review the valuation of Authority land and buildings identified that there was a potential material error in the carrying value of assets at the Balance Sheet date due to the elapsed period from the date of previous valuation. Following discussion with internal audit quality and technical teams, and subsequent discussion with management, the Authority engaged an independent external valuer to re-value the whole property portfolio of the Authority. This meant that the audit was not completed as planned to the initial timetable of 31 July 2019 and has required significant additional audit time to evaluate and test the new property valuations obtained. In performing additional and enhanced procedures in the areas of pension liability and property valuations, we are responding to the enhanced requirements on auditors to demonstrate professional scepticism in these areas due to the higher risk of material misstatement, the existence of significant estimates, management judgement and complex accounting treatment. The additional procedures have been introduced by the firm and across the audit sector in response to feedback from the FRC on the need to improve audit quality in these areas. Subject to the satisfactory resolution and completion of outstanding matters, we anticipate issuing an unqualified audit opinion following approval of the accounts by the Policy and Resources Committee. The outstanding matters include the following items where we are awaiting information from you as at the date of this report: Our work is subject to the following closing procedures which necessarily take place at the end of the audit: • Receipt of signed management representation letters • Consideration of subsequent events • Final senior quality review and final review of updated financial statements. Should any further matters arise during the completion of our work that we need to report to you, we will do so before we issue our opinion. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unqualified.

Headlines (continued)

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, both entities have 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 your value for money arrangements. There are no issues arising and we therefore anticipate being able to issue an unqualified value for money conclusion.
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 • To certify the closure of the audits.	We have not identified any need to exercise any of our additional statutory powers or duties for either entity. We expect to be able to certify closure of the audit at the same time as the audit report is issued.

Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance provided by management, 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 and will be discussed with Those Charged With Governance prior to their approval of the financial statements.

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

We have not had to alter or change our Audit Plan, as communicated to management in April 2019.

Conclusion

We are completing our audit of your financial statement and, subject to the satisfactory resolution of outstanding matters as set out on page 3, we anticipate issuing an unqualified audit opinion for Merseyside Fire & Rescue Authority.

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.

In performing the financial statements audit, we have updated our determination of materiality. The updated materiality based on the draft financial statements presented for audit was £1.654m (£1.494m per Audit Plan). We detail in the table below our determination of materiality for Merseyside Fire & Rescue Authority.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	£1.654m	• This equates to 2% of your gross operating expenditure for the year within the draft financial statements. It is considered to be the level above which, users of the financial statements would wish to be aware in the context of overall expenditure.
Performance materiality	£1.234	• Based on a percentage of materiality derived from the risk of misstatement
Trivial matters	£0.082m	• Based on a percentage of materiality

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** The revenue cycle includes fraudulent transactions: Income from room hire, Princes Trust, other miscellaneous sources including colleges 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** As noted in the Audit Plan, we do not consider this to be a significant risk to the Authority and have rebutted the presumed risk that revenue may be misstated due to improper recognition of revenue. This is on the basis that, in consideration of the factors set out in ISA 240 and the nature of the Authority's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted because: • there is little incentive to manipulate revenue; • opportunities to manipulate revenue are very limited; and • the culture and ethical frameworks of local authorities, including Merseyside Fire & Rescue Authority, mean that all forms of fraud are seen as unacceptable. **Audit Findings** Revenue has been subject to audit procedures on the basis that it is material to the financial statements. Based on work performed, there are no matters to report to you.
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 spending and use of reserves and this could potentially place management under undue pressure 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.	**Auditor commentary** We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Audit Findings** Based on procedures completed, we have not identified any material issues in relation to this risk and have no matters to report.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
3 **Valuation of land and buildings** The Authority values 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 the estimate to changes in key assumptions. Additionally, management 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.	**Auditor commentary** We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the asset register • 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 at year-end. **Audit Findings** As part of our initial procedures to consider whether the carrying value of land and buildings was not materially different to current value, we identified a potential material misstatement due to the fact that substantially all of the Authority's asset base had not been valued since 2015. This potential material error was identified following application of typical land and building valuation movements from 2015 to 2019 using indices provided to us by our own auditor expert. Following consultation internally with audit quality and technical colleagues and discussion with the Authority regarding the potential impact of this on our audit report on the financial statements, management decided to engage an independent external valuer to value the whole property portfolio of the Authority. This work was completed in September 2019 and has resulted in valuation adjustments of £17m within the financial statements as adjusted. Detail of these adjustments can be seen in Appendix A. Following receipt of the updated valuation, we have carried out procedures to review and challenge the underlying assumptions and to understand the approach taken by the valuer, referencing information provided by the independent valuer commissioned by PSAA to support local government audit teams. We have completed the procedures as set out above and have gained assurance that Authority land and buildings are fairly stated. We will engage with management and their independent valuer going forward into 2019-20 in order to establish the future approach to asset valuation and to agree form and nature of supporting evidence we require from the independent valuer in supporting our audit procedures. We have no further matters to report to you.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
4 **Valuation of pension fund net liability** The Authority's net pension fund liability, as reflected in its balance sheet as the net defined benefit pension liability, represents a significant estimate in the core 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 net pension fund liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have undertaken the following work in relation to this risk: • updated 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; • evaluated the instructions issued by management to their management expert (the actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested 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; • confirmed 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 • obtained assurances from the auditor of the 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. **Audit Findings** Performance of the procedures set out above has not identified any significant matters to report to you other than in relation to material changes to the liability following the outcome of a legal case relating to pensions. Impact of the McCloud transitional protection pensions ruling Following publication of the draft financial statements, management responded to the outcome of legal proceedings relating to the McCloud case by obtaining revised IAS 19 valuations from pension scheme actuaries. As a result of the current legal position, the Authority's gross pension liability has increased by £46m. .

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability *continued.....*	In conjunction with auditor's experts, we have reviewed the analysis performed by the actuaries for both the Firefighter Pension Scheme and the Local Government Pension Scheme, and consider that the approach that has been taken to arrive at these estimates is reasonable. Amendments were required to the Comprehensive Income and Expenditure statements, Balance Sheets and Movement in Reserve Statements, as well las a number of the notes to the financial statements including the Expenditure and Funding Analysis and explanatory note, Adjustments between Accounting Basis and Funding Basis under Regulation, Unusable Reserves and Defined Benefit Pension Schemes. Management have adjusted the financial statements with regard to these findings and the impacts have been included in Appendix A. <u>Impact of Guaranteed Minimum Pension (GMP) equalisation ruling</u> The High Court has ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements had had on members' benefits. The Government has announced an "interim solution" for members in public service schemes, including the Firefighter Pension Scheme and the Local Government Pension Scheme. We performed specific work to ensure that the impact had been sufficiently included within the Authority's pensions liability calculations. We are satisfied that all material liabilities arising from the GMP ruling have been included for both schemes in the Authority Balance Sheet, having already been considered in the original actuarial valuations obtained for the draft financial statements, or otherwise having an immaterial impact. No amendment to the financial statements has been required as a result of this issue. <u>Conclusion</u> Based on the procedures performed, we have identified no further material issues to report to you in respect of this risk.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
5 **Accounting for 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.	**Auditor commentary** We have: • Evaluated your accounting policy for the PFI contract and whether the accounting treatment adopted in the financial statements is consistent with the accounting policy: • Assessed how management have accounted for the transactions, assessing whether the accounting treatment is in line with IFRS requirements: • Evaluated the disclosure of the transactions in the financial statements to confirm that they accurately represent the arrangements. **Audit Findings** Based on procedures completed, we gained assurance that the PFI has been accounted for in line with IFRS and Code guidance and that supporting disclosures are appropriate. The draft financial statements did not include required disclosure of the fair value of the PFI liability within the financial instruments note. Management have subsequently calculated the fair value in line with requirements and disclosed this within the revised financial statements. We have reviewed the disclosure and underlying calculations and have no further matters to report to you.

Significant findings – other matters identified

Issue	Commentary
Prior Period Adjustments (PPA's) The financial statements presented for approval include three prior period adjustments that result in material adjustments to prior-year comparative amounts. One of the PPA's was identified by management and included in the draft financial statements and two were identified during completion of audit procedures.	**Auditor commentary** The draft financial statements included a prior period adjustment to reflect an error in the IAS 19 pension valuation provided to the Authority by the Local Government Pension Fund actuary. During 2017-18, the Authority paid in full £2.87m of pension deficit contributions and informed the Pension Fund of the need to inform the actuary of this. The fund actuary was not made aware of the payment and therefore only included £0.96m of the amount within the IAS 19 valuation. This resulted in the Local Government Pension Scheme net liability as at 31 March 2018 being overstated by £1.9m. The error was identified by the Authority during preparation of the financial statements for the year-ended 31 March 2019 and corrected via a prior period adjustment following receipt of a revised IAS 19 pension valuation from the actuary. A further two prior period adjustments were identified during completion of audit procedures to review the Authority's pension liability and associated disclosures within the financial statements. The first of these PPAs relates to a reclassification issue whereby the year-end balances between the Authority and the Firefighters Pension Fund Account, which had previously been accounted for as cash amounts, were reclassified to debtors in the Authority Balance Sheet and Creditors in the Pension Fund Account. The net adjustment to cash in the prior year was £6.6m. This error was identified as part of review of the current year balances between the Pension Fund and the Authority and the 2018-19 balances have been adjusted to reduce Authority cash by £10.6m, with corresponding adjustments to Debtors and Creditors. The final PPA was in relation to how the Authority has accounted for Top up Grant received in respect of the firefighter pension scheme. CIPFA code guidance sets out that the Top up Grant should be credited to 'Other operating income' within the CIES. This accounting treatment had not been applied, with the grant amount being netted off against the 'Remeasurement of the net defined benefit liability' line in the CIES. An adjustment has been made to recognise £26.4m of Top up grant income in 2017-18 and to correct for the same matter in 2018-19, with an adjustment of £31.2m Management have adjusted the financial statements for each of these issues and the detailed movements are included in Appendix A. **Conclusion** We have considered each of the prior period adjustments in detail and confirm that they meet the requirements of being recognised as such. We have reviewed the adjustments made and the supporting disclosures in note 1v to the financial statements. This work has confirmed that the adjustments are fairly stated and presented in line with accounting standards. None of the adjustments impact on the Authority's General Fund balance.

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – £70m	Land and buildings comprises specialised assets such as fire stations, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. Other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Authority engaged Hardie Brack Chartered Surveyors to complete the valuation of land and buildings as at 31 March 2019 as part of the five year cyclical approach. Following auditor challenge of the approach to valuation, as discussed on page 7, the Authority engaged Hardie Brack to conduct a further full revaluation of land and buildings. This resulted in a £17.3m increase over the value included in the draft financial statements.	We have reviewed and assessed the details supporting the estimates and judgements in this area, considering: • the assessment of management's expert, your external valuer; • the completeness and accuracy of the underlying information used to determine the estimate; • the reasonableness of the overall increase in valuation as a result of the estimate; and • the adequacy of the disclosure of the estimate in the financial statements. Based on the procedures performed, we have no concerns over the competence, capabilities and objectivity of your valuation expert. We identified no issues with the completeness and accuracy of the underlying information used to determine the estimate. Disclosures within the financial statements are sufficient and appropriate and we have gained assurance that asset values are materially correct.	**Green**

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £1,188m	The total net pension liability at 31 March 2019 in the draft accounts was £1,142m (PY £1,109m) and comprises the firefighters and LGPS pension schemes. Actuarial valuations of your assets and liabilities derived from the pension schemes are provided by Mercers and GAD. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. The valuation has now been received and this has increased the net pension liability by £46m to £1,188m.	• We have no material concerns over the competence, capabilities and objectivity of the actuary used by the Authority. • We have used the work of PwC, as our auditors' expert, to assess your actuary, and assumptions made by your actuary. See below for consideration of key assumptions in your pension fund valuation:	● **Green**

Assumption	Actuary Value	PwC range	Assessment
Discount rate	GAD: 2.45% Mercers: 2.4%	2.4% to 2.5%	●
Pension increase rate	GAD: 2.35% Mercers: 2.2%	2.2% to 2.35%	●
Salary growth	GAD: 4.35% Mercers: 3.6%	3.1% to 4.35%	●
Life expectancy – Males currently aged 45 / 65	GAD (45) : 23.9 GAD (65): 22 Mercers (45): 25 Mercers (65): 22	GAD (45): 22.6 –24.6 GAD (65): 20.7 – 22.7 Mercers (45):24.8 – 26.3 Mercers (65): 22.2 – 23.7	● ● ● ●
Life expectancy – Females currently aged 45 / 65	GAD (45): 23.9 GAD (65): 22 Mercers (45): 27.9 Mercers (65): 25	GAD (45): 22.6 – 26.2 GAD (60): 20 – 24.3 Mercers (45): 27.9 – 29 Mercers (65): 25 – 26.4	● ● ● ●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process and key assumptions to be reasonable

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Other accruals and estimates	You continue to apply estimates and judgements in a number of areas, including: • accruals of income and expenditure; and • depreciation	• The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting. • Disclosure of the estimates in the financial statements is considered adequate. • As part of our testing, we have reviewed the judgements applied by the Authority relating to these items, and significant balances within these have been discussed with management in detail. • We have found no material misstatements in the financial statements relating to these balances from procedures performed during the audit.	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	
McCloud pensions ruling A legal ruling on age discrimination within Pension Schemes (specifically the Firefighters new 2015 transitional schemes: McCloud) has implications for other public service schemes where they have implemented transitional arrangements on changing benefits. The impact of this has meant that there is a 'present legal obligation due' and employer bodies (i.e. the Authority) are expected to: • recognise the assessed impact as an IAS19 past service cost (and current service cost for any in year impact) and an increase to the IAS19 gross pension liability • make additional disclosures within the pensions note including the past service cost and increase to the gross pension liability resulting from the legal judgement. This is a national issue which only crystallised in June 2019 when a further appeal court hearing was rejected.	Management requested an updated estimate from the actuaries of the potential impact of the McCloud ruling. This has now been received from both Mercers (LGPS) and GAD (Firefighters). This indicates an increase in past service costs and therefore an increased in net liability of £1.77m and £44.27m respectively. The impact of this is to: Increase in past service costs + £46m Increase in net pension liability +£46m The accounts have been amended to reflect the revised valuations.	**Auditor view** • Management have adjusted for the assessed impact of the legal ruling. The adjustments are included in the summary of audit adjustments in Appendix B. We concur with managements decision to adjust for this impact subject to review of assumptions underpinning the estimate. • The assumptions used by GAD and Mercer as the pension scheme actuaries have been subject to review by the PSAA consulting actuary along with Grant Thornton experts. The audit team have performed a number of follow up procedures based on the output of these reviews, confirming approach and assumptions are in line with expectations and are reasonable.

Significant findings - Going concern

Our responsibility

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 entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Management have prepared the MTFS on the basis that the Authority will continue as a going concern. The MTFS forecasts achievement of the budget as at 31 March 2020 and includes relevant funding assumptions.	• Management have concluded that the use of the going concern basis is appropriate. In addition, management did not identify any material uncertainties related to events or conditions which may cast significant doubt about the going concern assumption. • We are satisfied with the adequacy of management’s processes for the preparation of the 2019/20 MTFS.
Work performed We evaluated management's assessment of the Authority’s ability to continue as a going concern and determine whether or not a material uncertainty exists.	**Auditor commentary** • Based on our review, we concur with management’s assessment of the Authority’s ability to continue as a going concern. We also agree that no material uncertainties related to events or conditions which may cast significant doubt about the going concern assumption exist.
Concluding comments	**Auditor commentary** • We anticipate no modification of our audit report in relation to going concern. • We have not identified in the work completed any events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

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 Those Charged with Governance. 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 letter of representation have been requested from the Authority. We have requested that this include specific representations relating to the floor area of land and buildings used by the valuer in calculating valuations along with management's understanding and agreement with the assumptions and estimates underlying valuation of land and buildings.
5	**Confirmation requests from third parties**	We requested from management permission to send confirmation requests to banking and investment institutions that you had deposits or loans with. This permission was granted and the requests were sent. All of the requests have been received and all were returned with positive confirmation.
6	**Disclosures**	Our review identified a number of changes to disclosures within the financial statements. Management have made the required amendments.
7	**Audit evidence and explanations/significant difficulties**	All information and explanations requested from management were provided.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue unmodified opinions in this respect.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**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. This work is not required as the Authority does not exceed the threshold of £500m
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2018/19 audits of the Authority in the audit opinion, as detailed in Appendix C.

Value for Money

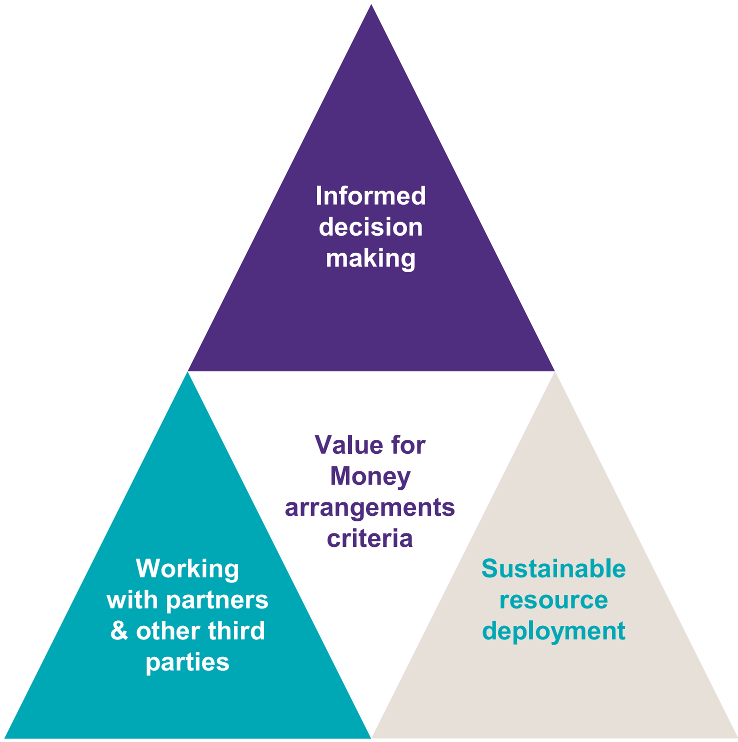
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."

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



Risk assessment

We carried out an initial risk assessment in March 2019 and identified a 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.

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:

- Your outturn position against budget for 2018/19
- Whether your Medium Term Financial Strategy is based up a reasonable assumptions
- The appropriateness of arrangements in place in respect of your estates strategy

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

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
1	**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 have reviewed your arrangements for budgeting, monitoring and reporting financial performance. We have reviewed updates to your medium term financial strategy, estates strategy and capital programme and assess the long term sustainability of your reserves strategy.	**2018/19 outturn** The Authority has a comprehensive approach to its medium term financial planning and budgeting and has delivered a balanced budget in 2018/19 after an additional contribution from earmarked reserves of £0.167m and additional voluntary MRP contributions. The capital outturn for 2018/19 was £9.7m against a budget of £13.6m. A large proportion of this underspend (£2.6m) is in relation to the re-phasing of expenditure on buildings and vehicles into 2019-20. The general fund balance stood £2m at 31 March 2019 which is consistent with the balance at 31 March 2018. The Authority considers this to be the minimum acceptable level of general balances and is forecasting that this is to remain constant over the term of the MTFS. Earmarked reserves have been retained at a healthy level of £23m and in anticipation of their utilisation over the medium term to support the capital programme. **Medium Term Financial Strategy** In February 2019 the Authority updated its Medium Term Financial Plan (MTFP) covering the 5 years 2018/19 to 2022/23 and approved its 2019/20 budget. The Authority agreed the 2019/20 budget on the basis of a 2.99% increase in Council Tax and increased expenditure of £0.581m compared to 18/19, requiring delivery of £1.7m savings. The Authority has set out its detailed budget savings proposals as part of agreeing the budget. The Authority's current MTFP has projected future spend and Government funding up to 2023/24, however detailed savings requirements have not been made for 2020/21 and onwards due to the unpredictability of future Government funding. The Authority's approach to closing potential funding gaps are by continuing to identify areas of efficiency savings and alternative ways of working. It recognises that there are major challenges to balance its budget in the medium term but has a goo d history of effective financial management and control and of delivering a balanced outturn position. A continued focus on delivery of savings plans and close monitoring of expenditure will be required to maintain achievement of planned budgets however. The approved capital programme for 2019/20 to 2023/24 of £36.5m has increased to £40.3m following re-phasing. Just under half of this budget planned to be spent in 2019/20. Expenditure is split across maintaining Fire Stations and other buildings, investing in IT and spending on operational equipment to ensure Firefighter safety. Capital spend is to be financed largely by borrowing of £24m (increased from £21.5m) and £8.4m of funding from earmarked reserves. The level of borrowing represents a significant increase over the existing level of debt but is in line with approved prudential limits and affordable. **Reserves** The MTFS sets out the planned use of reserves over the period to March 24. This shows earmarked reserves reducing from £23m to £16m in 2019/20, and to £5m in 2020/21, after utilisation to support the capital programme, debt repayment and additional pension costs. Reserve usage will then stabilise at approx. £1m per year and will settle at £1.7m at the end of 2023/24. The General Fund balance is expected to remain at a constant £2m. This is anticipated to be a sustainable position given the current known factors however, resilience to additional one off costs and recurrent pressures will be reduced.

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 B.

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

There are no adjusted misstatements impacting on the primary statements.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjustment agreed?
Financial Instruments – Notes 14 and 41	IFR9 9 implementation for 2018-19 required revised disclosures and classifications relating to the financial instruments disclosures. The draft financial statements did not fully reflect the changes following the introduction of this accounting standard.	Financial instruments notes now compliant with IFRS 9 and Code disclosure requirements	✓
Financial Instruments – Note 14 – PFI fair Value	The fair value of PFI liabilities required for disclosure within the financial instruments note was not included in the draft financial statements.	Authority have calculated the fair value of PFI liabilities and included relevant disclosure in the revised note..	✓
General disclosures throughout the accounts	Our review and audit of the draft accounts identified a small number of presentational and disclosure changes to enhance the clarity of the accounts for the reader.	We have shared the areas for presentational changes and these have been reflected in the revised accounts.	✓

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

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	Adjustments to reflect the impact of the McCloud judgement on the net pension liability			
	Debit – CIES - Fire Service Operations gross expenditure	46,041		46,041
	(Credit) Liability relating to defined benefit pension liability		(46,041)	
2	Adjustment to reflect the recognition of firefighter pension Top up grant in income			
	Debit – CIES - Remeasurement of the net defined benefit liability	31,229		
	(Credit) – CIES - Other operating expenditure	(31,229)		-
3	Adjustment to reflect the impact of the revised valuation of land and buildings			
	Debit Balance Sheet – PPE		17,359	
	Debit - CIES – OCI – Impairment loss to revaluation reserve	5,257		
	(Credit) – CIES - Surplus on revaluation of assets credited to the revaluation reserve	(17,359)		(17,359)
	(Credit) – CIES – Fire Service Operations	(5,257)		

Audit Adjustments (continued)

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
4	Adjustments to reflect the appropriate classification of year-end balances between the Authority and the Firefighter Pension Fund			
	Debit - Balance Sheet – Debtors		10,943	-
	(Credit) – Balance Sheet – Cash		(10,625)	-
	(Credit) – Balance Sheet – Creditors		(318)	-
	Debit - Pension Fund Net Assets Statement – Cash		10,626	-
	(Credit) – Pension Fund Net Assets Statement - Creditors		(10,626)	-
	Overall impact	**28,682**	**(28,682)**	**28,682**

Audit Adjustments (continued)

As noted on page 11, three prior year adjustments were identified during the audit, requiring re-statement of prior year comparatives. Management have amended the financial statements to correct for the matters identified. The impact of these are set out below.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	Adjustments to correct for the error in the prior year IAS 19 LGPS valuation provided by the actuary, which did not reflect the impact of pension deficit payments being made in full			
	Debit - Balance Sheet – Pension liability		1,912	-
	(Credit) – CIES – Fire Service Operations	(1,912)		(1,912)
2	Adjustments to reflect the appropriate classification of year-end balances between the Authority and the Firefighter Pension Fund			
	Debit - Balance Sheet – Debtors		6,876	-
	(Credit) – Balance Sheet – Cash		(6,574)	-
	(Credit) – Balance Sheet – Creditors		(302)	-
	Debit - Pension Fund Net Assets Statement – Cash		6,876	-
	(Credit) – Pension Fund Net Assets Statement - Creditors		(6,876)	-

Audit Adjustments (continued)

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
3	Adjustment to reflect the recognition of firefighter pension Top up grant in income			
	Debit – CIES - Remeasurement of the net defined benefit liability	26,442		
	(Credit) – CIES - Other operating expenditure	(26,442)		-
	Overall impact	**(1,912)**	**1,912**	**(1,912)**

Fees

We confirm below our final fees charged for the audit.

Audit Fees

	Proposed fee	Final fee	2017-18
Audit	£24,966	TBC	32,424
Total audit fees (excluding VAT)	**£24,966**	**£TBC**	**£32,424**

We will discuss and agree the final fee with management following the completion of our audit. The fee will include any additional costs arising from additional work undertaken in respect of the McCloud judgement and the additional revaluation of land and buildings, audit of amendments to the accounts arising as a result, plus additional work arising from increased regulatory requirements placed upon the audit in respect of pensions and PPE valuations.

Non Audit Fees

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

Draft Audit Opinion

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Merseyside Fire & Rescue Authority (the 'Authority') for the year ended 31 March 2019 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 accounts comprising the Fund Account, the Net Assets Statement and notes to the pension fund account. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 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 2018/19; 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.

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 Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance 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 Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report by the Director of Finance and 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.

Draft Audit Opinion (continued)

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 audit 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, the Narrative Report by the Director of Finance 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Draft Audit Opinion (continued)

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 96, 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 Director of Finance. The Director of Finance 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance 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 Director of Finance 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Policy and Resources Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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 2019.

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.

Draft Audit Opinion (continued)

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 2019.

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 [name of Authority] in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

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.