

Informing the audit risk assessment for Merseyside Fire and Rescue 2022/23

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Merseyside Fire and Rescue Service's external auditors and Merseyside Fire and Rescue Service's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Merseyside Fire and Rescue Service's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?</p>	<p>With regards to new challenges or changes as a result of the 2022/23 CIPFA Code no significant changes to previous years requirements have been identified (IAS16 has been deferred until 2024/25)</p> <p>The Strategic Leadership Team have identified no new Service or Authority events in 2022/23 that were likely to have a material impact on the financial statements.</p> <p>The relevant professional valuer(s) will determine any material level of uncertainty exists in the valuation of property or pension estimates and if necessary highlight any key judgements in the estimates when preparing the accounts. This in turn will bring sharper focus upon the extent to which management can be assured that fair values based on those judgements and estimates are reasonable. The accounts therefore may well need to contain a disclosure about the extent of that uncertainty through some form of limited assurance statement.</p> <p>In terms of those issues that may have a significant impact on the accounts, the main ones would appear to be Property, Plant and Equipment. Most of the Authority's property is based on a DRC valuation, however for property based on market value any volatility in market conditions at the end of March would make the challenge to determine fair value at 31 March 2023 more difficult. However to negate this uncertainty the valuations on a number of properties were carried out over April 2023 and along with other information then used to assess movements in the overall property portfolio. The valuer will consider any guidance issued by RICS to its practitioners.</p>

General Enquiries of Management

Question	Management response
<p>2. Have you considered the appropriateness of the accounting policies adopted by Merseyside Fire and Rescue Service? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Yes, the Finance team review the CIPFA Code and Practitioners guide and consider IF any change in accounting policies are required. No such changes have been identified for 2022/23 compared to those in 2021/22. No new accounting policies have been identified.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>Not within the Authority's direct statements.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No.</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No.
6. Are you aware of any guarantee contracts? If so, please provide further details	No.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Merseyside Fire and Rescue Service during the year. Please indicate where they are working on open litigation or contingencies from prior years?	For any litigated claims under Public Liability and Employers Liability Weightmans Solicitors have acted on behalf of MFRA once they've been issued as approved suppliers on the Authority's insurers solicitors panel. Weightmans have also undertaken work outsourced by the legal department under a framework agreement. Blackhurst Budd have been engaged in regard to criminal law and Mr T Kenward in regard to Employment matters.

General Enquiries of Management

Question	Management response
9. Have any of the Merseyside Fire and Rescue Service's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	N/A
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	No.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Merseyside Fire and Rescue Service's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Merseyside Fire and Rescue Service's management.

Fraud risk assessment

Question	Management response
<p>1. Has Merseyside Fire and Rescue Service assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>In the Annual Fraud Indicator 2013 (AFI) the Audit Commission had identified several areas where local authorities face significant losses due to fraudulent activity, these are summarised below:</p> <ul style="list-style-type: none"> - Housing tenancy - Procurement - Payroll and recruitment - Council tax - Blue Badge Scheme - Grants - Pension fraud <p>Based on the above the potential for fraud is extremely limited within the Authority as the Authority does not have responsibility for Housing Benefit, Council Tax collection, social or disability benefits, and doesn't distribute grant funding.</p> <p>Approximately 70% of the Authority's spend is employee related; 10% related to the servicing of capital debt; and most of the other spend relates to premises (utilities) or firefighter kit. Therefore the potential for fraud is more restricted within MFRA.</p> <p>The Authority has a zero-tolerance approach towards fraud and has a comprehensive counter-fraud culture, policies and procedures in place:</p> <ul style="list-style-type: none"> • A code of corporate governance • Annually updated Financial Regulations, Standing Orders & Scheme of Delegation approved at the AGM. • Anti-Fraud & Corruption Policy & Strategy

Fraud risk assessment

Question	Management response
<p>1. Has Merseyside Fire and Rescue Service assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<ul style="list-style-type: none"> • Fraud Response Plan • Confidential/Whistleblowing Reporting Policy <p>Procurement</p> <ul style="list-style-type: none"> * Procurement Strategy <p>New Recruit Control Checklist</p> <ul style="list-style-type: none"> • New Recruit Probationary review procedure • Code of Conduct for staff (includes emphasis on fraud) • Fraud awareness notification to all staff via MyView • Information Governance & Security Service Instructions - to ensure compliance with the requirements of Her Majesty's Government's (HMG) Security Policy Framework and to safeguard Authority information and assets <p>The Annual Governance Statement (AGS) to members reviews the governance framework that comprises the systems, processes, culture, values and system of internal control that manage the risks the Authority faces. Members can challenge the AGS if they believe any control or process is inadequate.</p> <p>The Authority, as required by the Accounts and Audit Regulations, has an Internal Audit Service. Each year the internal plan review the internal control system and assess its adequacy.</p> <p>The Authority employs a S151 Officer, Treasurer, who reports directly to Members and has statutory powers and responsibility for the financial administration of the Authority / Service.</p> <p>The Authority has a Monitoring Officer, this role is provided by the Authority Solicitor, to ensure a comprehensive system of governance and checks exist.</p>

Fraud risk assessment

Question	Management response
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>As employee costs make up 70% of costs then in terms of absolute revenue spend this would be an area potentially most at risk of fraud, but very limited in terms of the type of fraud that could be committed. The recruitment processes and checks carried out on potential new employees are comprehensive, combined with a formal management structure in place to supervise staff. A Confidential/Whistleblowing Reporting Policy exists as well as other controls. Standing Orders and Financial Regulations are in place to ensure the award of services, contracts and goods orders follow an agreed process. Expense claims must be signed-off by an employee's manager.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Merseyside Fire and Rescue Service as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>Yes, potentially 2 financially immaterial fraudulent incidents;</p> <ol style="list-style-type: none"> 1. 1. A supplier had their email account hacked after emailing a valid invoice for £275 to the Authority's payments section, that resulted in a follow-up email being received the following day from the supplier's email account advising that their bank details had changed. The payment was made to the new bank account but the supplier contacted the service after several weeks saying he hadn't received any payment. The matter was been referred to the Authority's bank, and procedures within the payments section enhanced so internal checks will prevent this fraud from re-occurring. 2. 2. During the year an alleged misappropriation of an Authority asset for personal use is being investigated to establish the facts of the allegation.

Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	For reporting of Risk issues see the answer to Q1 within this section.
5. Have you identified any specific fraud risks? If so, please provide details Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Merseyside Fire and Rescue Service where fraud is more likely to occur?	No. No. No.
6. What processes do Merseyside Fire and Rescue Service have in place to identify and respond to risks of fraud?	See Q1, this outlines the various polices and systems that exist to identify and respond to fraud.

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Merseyside Fire and Rescue Service, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Internal Audit review the internal control environment each year and assess its effectiveness. The Authority receives the Annual Governance Statement each year that assess the internal control arrangements.</p> <p>Also see Q1 answer for policies and processes in place to deter or detect fraud.</p> <p>No</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>No. Both financial and performance reporting within the Authority is robust and challenged by the Senior Leadership Team and Members' of the Authority.</p> <p>Processes and resources are in place to ensure this can't happen. Sufficient qualified finance staff are employed to work on the internal financial reporting statements, the Statement of Accounts, and monitor financial procedures to ensure they operate as they should and the relevant professional codes are adhered to.</p> <p>The Authority has an independent Internal Audit service that annually reviews the systems of control and in particular those that relate to the fundamental financial systems.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Merseyside Fire and Rescue Service communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The Authority has a set of Core Values that shape what we do whilst the personal values shape how we do it. This indicates what our expectations are of our people and how they deliver the aims of the organisation. All staff are aware of these values, new staff are introduced to them as part of their induction. The values are contained in all the strategic documentation, IRMP, MTFP etc. The Authority's procurement process requires contractors to maintain a high ethical and social responsibility and adhere to all current employment legislation and rights. Contractors are advised these issues are considered in the evaluation of tender documents.</p> <p>A permanent message on the MyView login page "Whilst the Authority has in place rules, regulations and procedures to ensure that the highest standards of conduct and service delivery are followed, irregularities, wrong-doing or serious failures in standards can sometimes occur. The Authority expects employees to be able to report any serious concerns they have about any aspect of the Authority's work without fear of reprisal and therefore has established a Whistleblowing/ Confidential Reporting Policy"....</p> <p>No significant issues have been reported.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>As all processes require authorisation by a second person, and other controls are in place to validate transactions / approvals no specific posts are identified as high risk.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>¹⁶ How do you mitigate the risks associated with fraud related to related party relationships and</p>	

Fraud risk assessment

Question	Management response
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No.</p> <p>As well as requiring a year end formal return from all members and senior staff about 3rd party interests, officers must declare such interest to the Monitoring officer and also at any committee they attend.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit Committee?</p> <p>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Audit Committee would receive a report from the Monitoring officer on any reported frauds and the outcome of any investigations. The review would also be shared with Internal Audit who would be asked to review the internal control arrangements and follow up with further audit reviews post the implementation of any changes. A summary of all internal audit reports and investigations would go to the Audit Committee for scrutiny and the Group Internal Auditor would be present for the Committee to challenge any findings or recommendations.</p> <p>The Audit committee monitors the Authority policies on Whistleblowing, the anti-fraud and anti – corruption strategy as well as the right to consider the Authority’s own compliance with the policy through reports to the committee. The Audit committee also has an independent member in its membership whose role is to provide extra scrutiny on all matters within its terms of reference.</p> <p>The Audit Committee also services as the Investigating and Disciplinary Committee for any allegations that involve Relevant Officers which may include the appointment of an independent investigator and the establishment of an Independent Panel to review the allegations and report back to the Committee. The monitoring officer would report all such incidents to the Audit Committee.</p> <p>The Audit Committee also receives the Internal Audit annual report and the AGS that review the adequacy of the internal control processes in place.</p> <p>No fraud or weaknesses in internal control have been reported.</p>

Fraud risk assessment

Question	Management response
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	No.
14. Have any reports been made under the Bribery Act? If so, please provide details	No.

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Merseyside Fire and Rescue Service's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Merseyside Fire and Rescue Service have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>The Authority employees a qualified solicitor who is supported by an experienced legal team. Any areas of legal uncertainty are resolved via the engagement of Counsel advice.</p> <p>The Authority is not aware of any changes to the regulatory environment that may impact on it's financial statements.</p>
<p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>As above, and a member of the legal team is present at all committee meetings.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>No.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>No. The Authority employees a qualified solicitor and insurance expert. Any liable claim is met from a specific insurance policy or internal fund. Legal & Insurance staff work with Finance to ensure all claims are provided for.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Merseyside Fire and Rescue Service have in place to identify, evaluate and account for litigation or claims?	See previous answer
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	No

Related Parties

Matters in relation to Related Parties

Merseyside Fire and Rescue Service are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Merseyside Fire and Rescue Service;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any body that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority's perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Merseyside Fire and Rescue Service's 2021/22 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Merseyside Fire and Rescue Service • whether Merseyside Fire and Rescue Service has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	No
<p>2. What controls does Merseyside Fire and Rescue Service have in place to identify, account for and disclose related party transactions and relationships?</p>	It keeps a register of member / senior officers related party interests. Any committee report in which a conflict of interest may arise requires the relevant member to declare at the start of the meeting the conflict and if necessary exclude themselves from voting on the matter.
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	See above
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	Decisions must be referred back to members for a decision unless specific authority has been delegated, in which case the matter must still be reported back to members' for scrutiny.

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Merseyside Fire and Rescue Service will no longer continue?</p>	<p>All fire and rescue services have duties and responsibilities that are set out in legal / statutory documents. These include:</p> <p>The Fire and Rescue Services Act 2004 which explains how we: • Respond to fires and other emergencies • Prevent fires and other emergencies (home and community safety) • Protect (commercial and public building) • Educate and inform the public</p> <p>The Civil Contingencies Act 2004 which explains how we: • Work with other agencies to deal with emergencies</p> <p>Fire Safety Order 2005 which explains how we: • Promote fire safety in places such as offices, factories, shops, public buildings and high rise buildings</p> <p>The National Framework 2018 which explains how we: • Identify and assess risk in Merseyside • Prevent fire and other emergencies and protect buildings and people • Respond to emergency incidents • Collaborate with other organisations • Put in place business continuity arrangements so we can deliver our services even when faced with an emergency like the pandemic • Provide National Resilience when major incidents happen anywhere in the country</p> <p>Any changes to the statutory functions or role of the fire and rescue service would require Government approval through an Act of Parliament (Green/White paper) and this (and probably pre-this via the Home Office) would see the Authority and Senior Leadership team being involved from the early stages in any consultation arrangements by the relevant regulatory bodies.</p>

Going Concern

Question	Management response
<p>2. Are management aware of any factors which may mean for Merseyside Fire and Rescue Service that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>No.</p>
<p>3. With regard to the statutory services currently provided by Merseyside Fire and Rescue Service, does Merseyside Fire and Rescue Service expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Merseyside Fire and Rescue Service to cease to exist?</p>	<p>MFRS expect to continue to provide all current services for the foreseeable future.</p>
<p>4. Are management satisfied that the financial reporting framework permits Merseyside Fire and Rescue Service to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes.</p> <p>As the Authority is funded through the Government's Local Authority Funding system and Council Tax the Authority's future funding is as certain as it can be. The only question is over the level of Government funding. The 2022/23 – 2026/27 MTFP does rely on some key assumptions about future costs / funding, but if any future deficit materialises then the Authority will agree options to ensure a balanced budget.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	PPE and Pension values.
2. How does the Authority's risk management process identify and address risks relating to accounting estimates?	Property and Pension valuations are performed by independent experts who are required to adhere to their professional standards or specific regulations. Any material uncertainty over these estimates will be referred to in the financial statements.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	See above, these are the only really key estimates
4. How do management review the outcomes of previous accounting estimates?	The above estimates are prepared on an annual basis and MFRA finance staff consider the assumptions, data and calculations used by the experts. If as a result of the review any prior year adjustments are required they will be actioned.
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	No

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>The Code / Regulations drive the complexity of the financial statements. It is clear from the ask what information requires specialist input (PPE / Pensions) and the Service outsources the ask to the relevant professional experts.</p>
<p>7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The relevant professional body has its own Professional Standards / Codes it must adhere to and these are often referred to within the Cipfa codes. The information provided by these bodies will confirm the required regulations have been followed.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>See above.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The Chief Accountant and supporting staff attend the various year-end closedown workshops run by Cipfa / GT, purchase the updated annual Code and practitioner's guide to ensure the required standards and processes are followed.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	The relevant external professional opinion is sought as required.
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Reference is made in the report to the Committee seeking authorisation to publish the audited financial statements that the relevant Code and Regulations have been followed by the statutory officer responsible (s151 officer)

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Property without a potential Market value (fire stations) DRC Property with a potential Market value (HQ / TDA) Market Value	Previous Valuations and Market conditions in the current climate and an impairment review by estates team and valuers.	Yes Dears Brack Valuers	Valuation Report produced each year with a 20% Rolling full valuation and the balance a desktop exercise based on the 20% valuation.	No
PFI Liabilities	Operator Model Provided	See Operator Model in INFLO	Pricewaterhouse ecoopers Spreadsheet	See Operator Model in INFLO	No
Valuation of defined benefit net pension fund liabilities	In year Data is provided to each expert per their requests.	Actuals in year to December and forecast to year end	YES - GAD Firefighters scheme Mercers LGPS Scheme	See Valuation Reports on INFLO for both GAD and LGPS Valuations	No
Depreciation	All depreciation is based on estimated useful life of that particular asset. No residual value is assumed.	General controls Fire Engines 12 years Vans 7 years Cars 5 years Equipment can vary?	Yes for L & B Dears Brack give each property a life span	All depreciation is based on estimated useful life of that particular asset. No residual value is assumed.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair Value Estimates	PWLB Debt PFI Liability		Experts Spreadsheets		No
Provisions	Insurance provision	Year End Claims evaluated based on historical experience	In House Team And Zurich Municipal	Year End Claims evaluated based on historical experience	No
Staff Holiday Accruals	Information is gathered from the STARS system based on the information for all staff	Based on actuals	No	Based on 100%	No



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