

The Audit Findings for Merseyside Fire and Rescue Authority

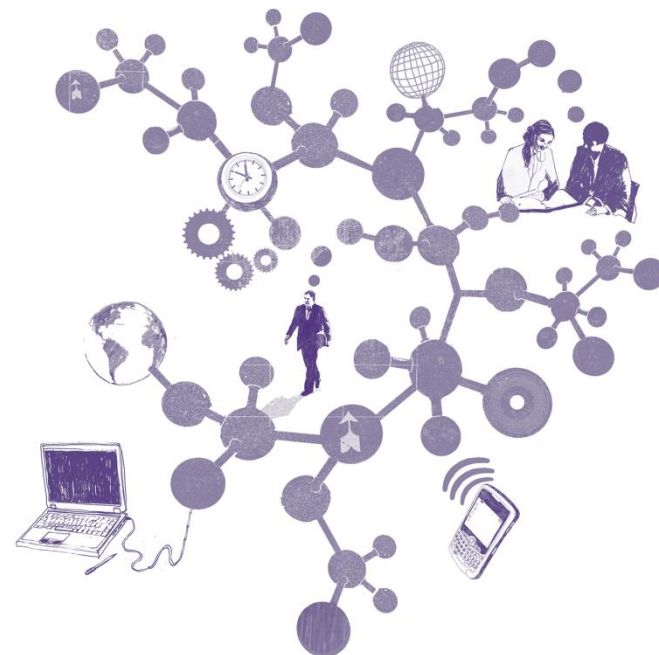
Year ended 31 March 2014

9 September 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

01. Executive summary

02. Audit findings

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05. Communication of audit matters

We anticipate providing an unqualified opinion on the financial statements, and an unqualified value for money conclusion.

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Merseyside Fire and Rescue Authority's ('the Authority') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 29 May 2014. Our audit is largely complete although we are finalising our work in the following areas:

- Finalising our testing of payroll payments; pensions contributions and pensions benefits.
- Obtaining and reviewing the final management letter of representation.
- Updating our post balance sheet events review, to the date of signing the opinion.
- Review of the Whole of Government Accounts submission.

Key issues arising from our audit

Financial statements opinion

As at 9 September 2014, and subject to the completion of the outstanding work described above, we expect to issue an unqualified opinion on the Authority's financial statements. The financial statements show gross expenditure of £75.508m, usable reserves of £27.796m and net liabilities of £943m. At the time of drafting this report we have not identified any material errors or uncertainties in the financial statements. Officers have made some adjustments to improve the presentation of the financial statements as a result of the audit.

The key messages arising from our audit of the Authority's financial statements are:

- No significant issues were identified.
- The accounts were prepared to a fair standard and contained few errors.
- Working papers were provided at the start of the audit and further working papers were produced as required during the audit.
- Finance staff were available throughout the audit to answer our questions promptly and provided additional information in a timely manner.

Further details are set out in section 2 of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion. The Authority continues to have good arrangements in place to secure financial resilience, and proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The Authority has a track record of responding positively to the need to do more with less. Over the last three years the Authority has identified £19.2m of financial savings and reduced the number of pumps from 42 to 28. Looking forward it is clear the Authority will need to make further savings and is making progress with its programme of fire station mergers.

Further details of our work on Value for Money are set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts submission in accordance with the national timetable.

Controls

The Authority's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Authority.

Our work has not identified any significant control weaknesses however we identified a small number of areas where the IT arrangements can be strengthened further.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Deputy Chief Executive.

Acknowledgment

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

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We have not identified any adjustments affecting the Authority's financial position and we are expecting to issue an unqualified opinion on the financial statements.

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 29 May 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to the Audit Committee on 29 May 2014.

Audit opinion

We anticipate that we will provide the Authority with an unmodified opinion. Our audit opinion is set out in Appendix A.

Key findings

The Authority submitted its financial statements for audit by the deadline of 30 June 2014. The draft accounts were prepared to a fair standard and were supported by detailed working papers.

Our audit work identified a small number of amendments to ensure compliance with CIPFA's Code of Practice on Local Authority Accounting. These changes have been processed by management along with a number of presentational amendments identified to improve disclosure for the reader of the accounts. These amendments do not affect the Authority's reported financial position or available reserves.

As last year, we received good co-operation from officers and we would like to record our thanks for their professional and timely approach to the audit and to our requests for additional information.

Property, Plant and Equipment (PPE)

The Authority revalues its property portfolio on a five year basis. For assets not formally revalued in the financial year, officers undertake a review to ensure the carrying value does not differ materially from the value included in the accounts. Through this process, the Authority has demonstrated that the valuation of the assets not revalued in year, has not materially changed.

We are satisfied that the outcome of this process is reasonable and we understand that a full valuation will be undertaken in 2014/15. Going forward it is important that the Authority establishes a process to confirm whether asset values, not subject to a full valuation, are likely to have changed materially since their previous valuation.

Private Finance Initiative (PFI)

In our Audit Plan we highlighted the changes to the Authority's accounts for 2013/14 that had to be made to reflect the completion of the Fire Station replacement project. The Authority's PFI project to rebuild seven of its fire stations is now complete. The three remaining new stations were operational from July 2013. We have considered the disclosures in the Authority's accounts and have discussed the accounting treatment with finance staff and audited the disclosure notes. The PFI disclosure note was amended to show the asset value recognised in the accounts as well as the payments made under the PFI arrangements.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none"> • We considered whether the presumed risk of fraud due to improper recognition of revenue applied for the audit of Merseyside Fire and Rescue Authority. • Most of the Authority's revenues are from government grants or from Council Tax precepts which are predictable in timing and value. As the levels of other revenues are not material in 2013/14, we have concluded that the presumed risk can be rebutted and so is not relevant to our 2013/14 audit. • We have undertaken and completed the following: <ul style="list-style-type: none"> - review and testing of revenue recognition policies; - review of unusual significant transactions; and - testing of material revenue streams. 	Our audit work has not identified any significant issues in relation to the risk identified.
2.	Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management. • testing of journals entries. • review of accounting estimates, judgements and decisions made by management. • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses/creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documented our understanding of processes and key controls over the transaction cycle. • Undertaken walkthrough of the key controls to assess the whether those controls are designed effectively. • Selection of a sample of expenditure items and year end creditor balances for substantive testing. • Review for unrecorded liabilities. • Cut-off testing of the expenditure stream. • Substantive testing of payables and accruals including: <ul style="list-style-type: none"> i. Test of a sample of payables and accruals; ii. Attribute testing on a sample of expenditure; and iii. Assessment of the robustness of assumptions and estimates underlying accruals. 	<p>We tested a sample of 25 payments, selected at random and agreed the payments to source documentation to ensure the payment was valid expenditure, VAT was correctly recorded and the payment was correctly accounted for in 2013/14. We completed an additional test on a sample of 10 payments after the year end to source documentation, to ensure that if the transaction was correctly recorded. Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks continued



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle. walkthrough of the key controls to assess the whether those controls are designed effectively. Substantive testing of employee remuneration including: <ul style="list-style-type: none"> i. Analytical procedure to determine whether movements in salaries and other pay related costs are reasonable and materially correct. ii. Attribute testing on a sample of pay costs. iii. Agreement of related disclosures to the payroll system or other appropriate source document. 	<p>Whilst no issues have arisen to date, our work to confirm the existence of a sample of employees and the accuracy of their pay is still in progress.</p>
Property, plant & equipment	PPE activity not valid or Revaluation measurement not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle. undertaken walkthrough of the key controls to assess the whether those controls are designed effectively. Substantive testing of the property, plant and equipment valuation. Review of the Valuer used by the Authority as an expert. Review of accounting estimates, judgements and decisions made by management. 	<p>The Authority had not revalued its assets in 2013/14 as a full valuation is planned in 2014/15. We reviewed the Authority's asset valuation arrangements and confirmed the valuation of PPE was not materially mis-stated.</p> <p>Our audit work identified an amendment to the PPE comparative 2012/13 disclosures in note 12 to the financial statements and the finance lease disclosure in note 35. The amendment is shown on page 16.</p> <p>Following the finalisation of the lease with Liverpool City Council we have concluded that it is reasonable for the Authority to disclose the Toxteth Fire Fit Hub as a finance leased asset in the 201/314 balance sheet at the valuation calculated under IAS17.</p>

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Pension Benefits payable	Benefits improperly computed/ liability understated.	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none">• documented our understanding of processes and key controls over the transaction cycle.• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively.• Substantive testing of pension payments.	Whilst our testing of pension payments is still in progress, work completed has not identified any significant issues in relation to the risk identified. Review of the outputs of pension scheme actuaries found that the resulting accounting entries affecting the pensions liability and pensions reserve were consistent with the figures reported by the actuary.

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> The Authority has adopted the accounting policies in accordance with the Code of Practice on Local Authority Accounting. The policies for revenue recognition are set out in the Statement of Accounting Policies. Income is accounted for in the year the activity relates to takes place i.e. on an accruals basis. Income is recognised when it is earned not when it is received. 	<p>We have reviewed the accounting policies against the requirements of the Code of Practice on Local Authority Accounting.</p> <ul style="list-style-type: none"> The approach to accounting for income is robust and in accordance with current guidance. Disclosure of the revenue recognition policy is adequate. The revenue recognition policies of the Authority are appropriate to the accounting framework and are adequately disclosed. Our audit testing has not identified any areas of concerns in respect of revenue recognition. 	
Other accounting policies	<ul style="list-style-type: none"> Key estimates and judgements include <ul style="list-style-type: none"> Provisions and contingent liabilities. Classification, valuation, impairment and useful life of property, plant and equipment. Pension liabilities. Council tax Precept surplus / deficit. Impairment of receivables past due date. 	<p>We have reviewed the judgements and estimates against the requirements of the Code of Practice on Local Authority Accounting.</p> <ul style="list-style-type: none"> Where the Authority has made judgements or estimates in the financial statements these have been supported with robust methodologies and clear explanation of the assumptions applied. Disclosure of judgements and estimates is considered appropriate. 	

Assessment



 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include <ul style="list-style-type: none"> useful life of property, plant and equipment. pension fund valuations and settlements. property revaluations and impairments. Provisions. pension top-up grant. 	<p>We have reviewed the judgements and estimates against the requirements of the Code of Practice on Local Authority Accounting.</p> <ul style="list-style-type: none"> Where the Authority has made judgements or estimates in the financial statements these have been supported with robust methodologies and clear explanation of the assumptions applied. Disclosure of judgements and estimates is considered appropriate. 	
Judgements and estimates - PPE	<ul style="list-style-type: none"> Page 41 of the accounts sets out the Authority's accounting policy for asset valuations. Page 31 of the accounts sets out the critical judgements underpinning the 5 year revaluation programme. The Authority's approach is similar to many other authorities and ensures that assets of a similar class are revalued simultaneously. This approach meets the Code's requirement in paragraph 4.1.2.35. We are satisfied that the Authority has demonstrated the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. 	<p>We have reviewed the judgements and estimates against the requirements of the Code of Practice on Local Authority Accounting.</p> <ul style="list-style-type: none"> The Authority's approach is similar to many other organisations. We noted that the Authority did not complete a revaluation of all assets in 2013/14 as a full valuation is planned for 2014/15. The Authority, in conjunction with its independent external valuer, has completed a desk-based valuation approach which helps to provide assurance over the material accuracy of the balance at 31/3/14 of those assets which have not been subject to a full valuation. We have suggested that going forward it is important that the Authority establishes a process to confirm whether asset values, not subject to a full valuation, are likely to have changed materially since their previous valuation. 	

Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail		Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1	IAS19 disclosure of prior period adjustment.	Financing and investment income +£411k	n/a	0
	The 2013/14 Code includes the adoption of the June 2011 amendment to IAS 19 Employee Benefits, which changes the classification, recognition, measurement and disclosure requirements. The 2012/13 comparative figures in the CIES have been amended as required by the 2013/14 Code. There has been no effect on the total pension liability and therefore the balance sheet has not been restated.	Actuarial losses -£411k	n/a	0
Overall impact		£0	£0	£0

Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	n/a	CIES	Other comprehensive income and expenditure was amended on the face of the CIES from 'actuarial gains/losses on pension assets/liabilities' to 'remeasurement of the net pension liabilities'. The amended description is in line with the 2013/14 Code.
2 Disclosure	n/a	Note 1 Accounting policies	Note 1(iv) on prior period adjustments was amended to include a restated CIES and MIRS disclosing the changes to the comparative figures for 2012/13 following the change in the 2013/14 Code.
3 Disclose	n/a	Note 4 Assumptions/ Estimation uncertainty	Note 4 was amended to record the Authority's assumptions on its arrangements for the valuation of Land and Buildings.
4 Disclosure	411	Note 10 Financing and investment income	The comparative figure for the expected return on pension assets was amended from £2,460 to £2,049k to record the IAS 19 prior period amendments.
5 Misclassification	n/a	Note 11 taxation and non specific grant income.	The total disclosed for council tax income £27,060k consists of the precept, surplus/deficit from previous years, local business rates and an accrual. The disclosure in note 11 was amended to show separate amounts for council tax income (£23,218) and the Authority's local share of business rates (£3,842). 'Non-ringfenced' government grants was amended to 'revenue support grant'.
6 Disclosure	6,152	Note 12 PPE comparatives 12/13	Note 12 comparatives for 2012/13 were amended to disclose the finance lease element of PPE totalling £6.152m and reducing the owned asset holding from £32,560 to £26,408.

Misclassifications & disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
7	Disclosure	411	Note 27 Reconciliation of Services Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement	The comparative figure for net pension interest costs in the corporate amounts column was amended from £40,869k to £41,280k to record the IAS 19 prior period amendments.
8	Disclosure	6,029	Note 35 Finance leases	Note 35 showing the Authority as lessor was amended to include a table on the assets acquired under finance leases and carried as Property, Plant and Equipment in the Balance Sheet.
9	Disclosure	20,215	Note 36 PFI	Note 36 was amended to include a table on the value of assets recognised under PFI arrangements and an analysis of the movement in the value of assets during the year.
10	Disclosure	n/a	Note 40 Local Government pension scheme	The impact on the authority's cash flows was amended to include a paragraph outlining the prepayment of contributions towards the pension fund deficit in 2014/15.
11	Disclosure	n/a	Pension Fund	The notes to the Pension Fund were amended to include an analysis of debtors as required by the Code para 5.3.4.2.
12	Disclosure	n/a	Note 40 Firefighters' pension scheme	The note has been amended to include narrative explaining the Authority's treatment, within the financial statements, of Government top-up grant.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

As part of our planned programme of work, our information system specialist team undertook a high level review of the general IT control environment at the Authority. This was undertaken as part of the review of the internal controls system. We are pleased to report that no significant issue arose from our work, however we identified a small number of minor areas where the Authority's existing IT arrangements can be developed further, including:

- developing stronger password formats and exploring the use of controls designed to address the risk of password compromise.
- reviewing the external access controls as two-factor authentication is not currently used (i.e. username/password only); and
- periodically perform a network penetration test to identify any weaknesses in the network the Authority is unaware of.

We have issued a separate detailed report on these issues to management.

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance via the Audit Committee.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> • We have previously discussed the risk of fraud with the Audit Committee. • We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> • We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> • A standard letter of representation has been requested from the Authority.
4.	Disclosures	<ul style="list-style-type: none"> • Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> • We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> • Our work has not identified any reason to challenge the Authority's decisions to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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We propose to give an unqualified VFM conclusion

Value for Money

Value for money conclusion

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited bodies have put in place such arrangements.

The VFM conclusion is based on the following two criteria specified by the Audit Commission:

- **The Authority has proper arrangements in place for securing financial resilience.** The Authority has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Authority has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Authority is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Our audit approach involves the completion of an initial risk assessment against a series of key criteria. In undertaking this initial assessment we took account of the key issues facing the Authority including the significant financial challenge of balancing service delivery against available resources at a time of reducing budgets. We did not identify any residual risks that needed to be addressed through specific local work.

Key findings

The main matters to note from our VFM conclusion work are:

Securing financial resilience - the Authority has delivered £19m of savings following the reduction in Government grant funding over the first two year period of the spending review. In February 2013 the Authority approved a balanced budget identifying savings options that closed a £10m budget gap. The savings target of £10m by 31 March 2015 consisted of:

- a maximum increase in council tax of 2% generating income of £0.446m.
- a back office and support service review providing savings of £7m through a combination of measures including the removal of 57 posts.
- a reduction in the number of appliances from 42 to 28 and the number of firefighters from 850 to 760.

The majority of the savings plan has been achieved one year earlier than expected which is a significant achievement.

The scale of the financial challenge remains significant. Following the Government's announcement of the settlement for 2014/15 and an indicative estimate for 2015/16 the Authority was required to make further savings of £6.3m to address a funding gap in the financial position for 2014/15 to 2018/19. The challenge is becoming increasingly difficult to meet and in order to achieve this the Authority has developed a programme of fire station mergers which we understand will be completed by 2016.

Value for Money

Value for money conclusion

Challenging economy, efficiency and effectiveness

We have reviewed whether the Authority has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies. The work has included:

- Review of the 2013/14 budget setting process and updates to the Medium Term Financial Strategy;
- Review of budget monitoring arrangements; and
- On-going review of major projects and developments.

Financial Planning - the Authority has developed a Medium Term Financial Strategy which provides detailed plans for five years (on a rolling basis) and considers the financial planning at a higher level for future years. This includes sensitivity analysis and scenario planning. With the uncertainty of future funding, detailed plans have not been developed further ahead than five years. However, the Authority does consider the full financial impact of any decisions made on capital projects initiated.

Reserves Strategy - The Authority has adopted a reserves strategy that maintains a General Reserve of £2.894m and Earmarked Reserves of £23.082m to cater for specific risks, projects and one-off initiatives and in particular to help it manage effectively the financial pressures. Looking ahead, the Authority is undertaking a review of all reserves and balances to support the station merger programme. The Authority holds specific risk reserves for cost smoothing, capital investment, inflation and catastrophe where it is not possible with certainty to predict in what year these reserves will be utilised and therefore holds these on the balance sheet until required.

While the Authority has a good level of reserves and balances it currently has outstanding debt of £42.1m which is relatively higher than most fire and rescue authorities due to the size of the estate and the previous capitalisations of revenue costs. The Authority's MTFS highlights that the 'ratio of financing costs to net revenue stream' will increase markedly over the next few years. The annual cost of debt repayment and interest for new borrowing is forecast to increase by £1m (2014/15). Given the level of savings the Authority has to make in the next 3 years the additional debt and interest payments may place an increasing pressure on the Authority's finances.

Should the Authority use reserves to support the funding of the station merger programme then as the reserves are used up it will reduce the short term flexibility within the financial strategy post 2016/17 and it will be harder to use natural turnover rates to deliver savings from the firefighter budget. It is therefore important that the Authority continues to monitor and assess the affordability of its capital programme in the light of the overall financial challenge.

Value for Money

Investment in major projects - the Authority, in partnership with Merseyside's Police and Crime Commissioner has made progress with the development of a combined control room and strategic and tactical command suites. Completion of the main building and stage A and B of the construction programme was achieved on the 23 June 2014. Although we understand that work on the ground floor corridor was delayed following a contractual dispute resulting in the release of the contractor and the re-tendering of the contract. We will continue to track progress on the project as the work continues.

Looking forward the Authority will seek to build on its partnership with Merseyside's Police and Crime Commissioner and find further ways of strengthening collaboration.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Section 4: Fees, non audit services and independence

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There are no significant facts or matters that impact on our independence as auditors

Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Authority audit	43,232	43,232
Total audit fees	43,232	43,232

Fees for other services

Service	Fees £
None	Nil

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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We have delivered out audit in accordance with planned timescales and the requirements of Auditing Standards.
We expect give our opinions by the statutory deadlines.

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

Appendices

Appendix A: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MERSEYSIDE FIRE AND RESCUE AUTHORITY

Opinion on the Authority financial statements

We have audited the financial statements of Merseyside Fire and Rescue Authority for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the firefighters' pension fund financial statements comprising the Pension Fund Account, the Net Assets Statement and the related notes. 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 2013/14.

This report is made solely to the members of Merseyside Fire and Rescue Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Deputy Chief Executive and Auditor

As explained more fully in the Statement of Responsibilities, the Deputy Chief Executive is responsible for the preparation of the Statement of Accounts, which includes the Authority 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Deputy Chief Executive; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to

identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Merseyside Fire and Rescue Authority as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Merseyside Fire and Rescue Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

We certify that we have completed the audit of the financial statements of Merseyside Fire and Rescue Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Robin Baker
Engagement Lead

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Royal Liver Building
Liverpool
L3 1PS

September 2014

Appendix B: Letter of Representation

Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

23 September 2014

Dear Sirs

Merseyside Fire and Rescue Authority - Financial Statements for the year ended 31 March 2014

This representation letter is provided in connection with the audit of the financial statements of Merseyside Fire and Rescue Authority for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Authority has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi. We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

- vii. Except as stated in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Authority has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for.
- ix. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- x. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have not adjusted the misstatements brought to our attention in the Audit Findings Report, as they are considered to be immaterial to the results of the Authority and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We believe that the Authority's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Authority's needs. We believe that no further disclosures relating to the Authority's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

Appendix B: Letter of Representation

- xvi We have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Authority s financial statements communicated by employees, former employees, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the entity of the 'Authority's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement
We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority 's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Approval
The approval of this letter of representation was minuted by the Authority 's Policy and Resources Committee at its meeting on 23 September 2014.

Signed on behalf of the Authority

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....



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