

# The Audit Findings for Merseyside Fire and Rescue Authority

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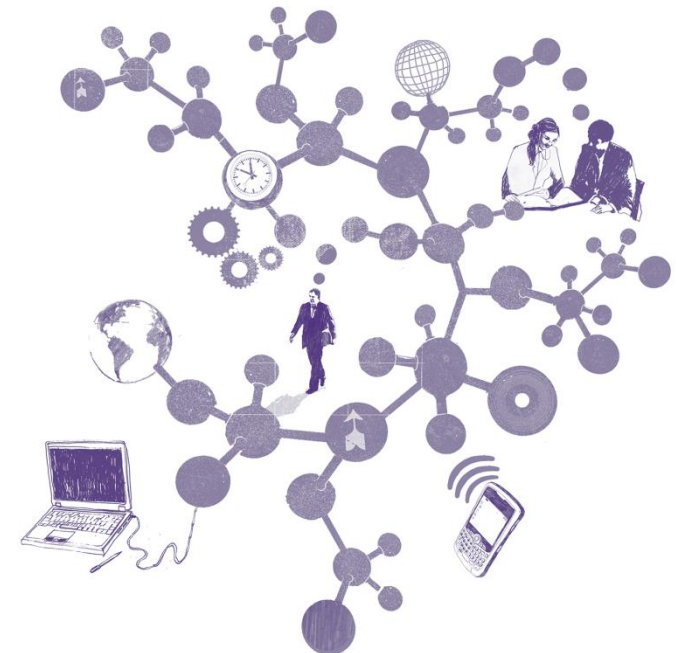
**Year ended 31 March 2015**

24 August 2015

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### **Audit Findings for the Merseyside Fire and Rescue Authority for the year ending 31 March 2015**

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Merseyside Fire and Rescue Authority, the Authority), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management and the Audit Committee.

As auditors we are responsible for performing the audits, in accordance with International Standards on Auditing (UK & Ireland), which are directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

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

Yours sincerely

Michael Thomas  
Director

#### **Chartered Accountants**

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## **Appendices**

A Audit opinion

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# Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

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

As the external auditor appointed to Merseyside Fire and Rescue Authority we are required by the Audit Commission's Code of Audit Practice to report our audit findings to the Authority, as the body charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

This report (our Audit Findings Report) highlights the key matters arising from our audit of the Authority's financial statements for the year ended 31 March 2015. 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 UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Authority's financial statements present a true and fair view of the financial position and their 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 Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in their 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 the Audit Committee on the 26<sup>th</sup> May.

Our audit is substantially complete, although we are finalising our work in the following areas:

- review of the final version of the financial statements;
- finalising our testing of payroll, operating expenses, pensions contributions and pensions benefits;
- obtaining and reviewing the management letters of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts (WGA) consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on the value for money conclusion.

We received draft financial statements and accompanying working papers on 29<sup>th</sup> June, in accordance with the timetable set by the Authority and ahead of the national deadline of 30<sup>th</sup> June 2015. The financial statements submitted for audit were yet again of good quality, delivered by an effective closedown process and supported by good quality working papers. Of particular note was the speed and efficiency that the Finance Team responded to queries.

# Executive summary

## **Key issues arising from our audit**

### **Financial statements opinion**

We anticipate providing an unqualified opinion in respect of the financial statements.

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

- draft financial statements were provided for audit on 29th June 2015 in advance of the national deadline and the planned start date for our year-end fieldwork;
- as last year, the draft accounts were prepared to a good standard and were supported by comprehensive working papers; and
- there are no significant amendments to the accounts as a result of our audit.

We have not identified any adjustments affecting the Authority's reported financial position. The Authority delivered an underspend of £1.187m on its service income and expenditure and the audited financial statements for the year ended 31 March 2015 record net cost of services expenditure of £61.4m.

We have agreed a small number of adjustments to improve the presentation of the financial statements. Further details are set out in section two of this report. The majority of our audit fieldwork has been completed with good co-operation from your Finance team. Subject to clearance of the outstanding matters listed on page 5 of this report, we plan to sign our audit opinion in advance of the 30 September deadline.

### **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 demonstrate sound financial management while providing improvements to service quality and has a positive approach to challenging the value for money of its activities. These arrangements leave the Authority well placed to meet the challenges ahead. However the scale of the financial challenge remains significant. The medium term financial plan identifies a savings target of £6.3m over the three years from 2016/17 to 2017/18. Having already delivered substantial financial savings, the Authority faces a significant challenge to address this budget gap and to meet its statutory responsibilities.

Further detail of our work on Value for Money is set out in section three of this report.

### **Whole of Government Accounts (WGA)**

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

## **Controls**

### **Roles and responsibilities**

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. Management has operated the financial systems and controls to produce the financial statements for 2014/15. Our work on the material financial systems used to prepare the financial statements has therefore supported our audit.

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.

### **Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention. As part of our planned programme of work, we followed up our high level review of the general IT control environment. We are pleased to report that no significant issue arose from our work

## **The way forward**

Matters arising from the financial statements audit and review of the arrangements for securing economy, efficiency and effectiveness in the use of resources have been discussed with the Treasurer.

Looking ahead, we will be discussing with officers the arrangements for bringing forward the accounts and audit completion period, including an earlier Audit Committee date, ahead of the changes to the national deadlines in 2017/18.

## **Acknowledgment**

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

**Grant Thornton UK LLP**  
**August 2015**

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## 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

Our audit is substantially complete . We are finalising our audit procedures in a small number of areas. 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 audits and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 26<sup>th</sup> May. 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 you.

## **Audit opinion**

We expect to issue an unqualified opinion on both the financial statements and our proposed audit opinion is set out in Appendix A.

# 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.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>We considered whether the presumed risk of fraud due to improper recognition of revenue applied for the audit of Merseyside Fire and Rescue Authority.</li> <li>We have undertaken and completed the following:                             <ul style="list-style-type: none"> <li>- review and testing of revenue recognition policies;</li> <li>- review of unusual significant transactions; and</li> <li>- testing of material revenue streams.</li> </ul> </li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>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 2014/15, we have concluded that the presumed risk can be rebutted.</p> <p>We therefore do not consider this to be a significant risk for the Authority</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>review of accounting estimates, judgements and decisions made by management.</li> <li>testing of journals entries.</li> <li>review of unusual significant transactions.</li> </ul>	<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
<p><b>Operating expenses</b></p>	<p>Operating expenses/creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle;</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls are designed effectively;</li> <li>• cut off testing of purchase orders and goods received note to review for unrecorded liabilities;</li> <li>• we tested a sample of 12 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 2014/15; and</li> <li>• we completed an additional test on a sample of 12 payments after the year end to source documentation, to ensure that if the transaction was correctly recorded and to ensure they have been accurately accounted for and in the correct period.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</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
<b>Employee remuneration</b>	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle;</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding;</li> <li>• substantive testing of payments made to employees during the 2014/15 financial year ;</li> <li>• use of analytical techniques to compare expected payroll costs with actual ;and</li> <li>• review of payroll reconciliations including at the year end.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Fire-fighter's pensions benefit payments</b>	Payments to pensioners incorrectly calculated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle;</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our understanding;</li> <li>• substantively tested a 10 sample of lump sum payments and pensions payments;</li> <li>• Confirmed that the figures in the pension statement are consistent with the underlying pensions ' system data.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

# 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
<b>Revenue recognition</b>	<p>The Authority's policy is set out in its accounting policies (Note 1 in supporting notes to the financial statements). The Authority has two principal revenue streams:</p> <ul style="list-style-type: none"> <li>grant income is recognised in accordance with the terms of the grant, whether specific or non-specific; and</li> <li>income from fees/charges in the provision of services, which is recognised when the service has been provided or when title to goods has passed.</li> </ul> <p>The Authority's policy for recognising revenue is to recognise it when the economic benefits or service potential will flow to the Authority.</p>	<ul style="list-style-type: none"> <li>The Authority's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).</li> <li>A significant quantity of the Authority's revenue is predictable meaning there is minimal judgement required from the Authority in identifying when to recognise income.</li> <li>The accounting policy is appropriately disclosed within the statement of accounts.</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>Insurance Fund – the Authority operates a self insure scheme</li> <li>Useful lives and £ nil residual value of property, plant and equipment,</li> <li>Property valuations including revaluations, impairments and fair valuations,</li> <li>Government Funding and the high degree of uncertainty,</li> <li>Pension fund valuations and settlements, and</li> <li>Provisions.</li> </ul>	<p>The Authority's policies on estimates and judgements are reasonable and appropriately disclosed and reliance on experts is taken where appropriate.</p>	 <b>Green</b>

## Assessment




-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# 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
<b>Judgements and estimates - land and building valuations</b>	Page 39 of the accounts sets out the Authority's programme of asset revaluations. This shows that a full valuation was undertaken in March 2015 on 42 properties by an external valuer in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.	The Authority's policies on estimates and judgements are reasonable and appropriately disclosed and reliance on experts is taken where appropriate.	 <b>Green</b>
<b>Judgements and estimates - land and building valuations for the JCC</b>	<p>The CIPFA Code requires that authorities revalue their land and building assets on a regular basis. The Authority engages an independent chartered surveyor to provide land and building valuations for financial reporting purposes. In respect of the operational portfolio, all of the Authority's property assets have been physically inspected and valued. The date of the valuation was 31 March 2015.</p> <p>For the Joint Command and Control centre leased by the PCC from Merseyside Fire and Rescue Authority the PCC engaged their own valuer to provide building valuations for financial reporting purposes rather than use the Fire Authority's valuer.</p> <p>The Fire Authority's Valuer provided a valuation of the building which was then apportioned on a 60:40 basis ( PCC:MFRS) to reflect the profile of capital payments used in the construction of the JCC. As a result of this approach the Fire Authority valuation is £4.8m.</p>	<p>We undertook a detailed review of the work performed by the Valuer to provide land and building valuations for financial reporting purposes.</p> <p>We were satisfied from our review of the valuation report, that the methods and assumptions used by the Valuer in valuing the land and property assets are considered to be reasonable and in accordance with the requirements of IFRS and the Code.</p>	 <b>Green</b>

## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# 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
<p><b>Judgements and estimates - IAS 19 liabilities</b></p>	<p><b>Local Government Pension Scheme (LGPS)</b></p> <p>The LGPS is the pension scheme for Authority staff. This is a funded defined benefit scheme. The scheme was administered by Merseyside Pension Fund in 2014/15. The liability showing the underlying long term commitment to fund future retirement benefits is shown on the balance sheet with a corresponding Pension Reserve.</p> <p><b>Firefighters ' Pension Scheme</b></p> <p>The Authority operates two pension schemes for firefighters both of which are unfunded, defined benefit schemes. The financial liability for these schemes appears on the Authority's Balance Sheet with a corresponding Pension Reserve. Changes in actuarial assumptions led to a £66 million increase in the size of the liability, which stood at £1 billion at 31 March 2015.</p> <p>The pension fund liabilities are most sensitive to changes in the following key assumptions:</p> <ul style="list-style-type: none"> <li>• discount rate;</li> <li>• mortality;</li> <li>• inflation; and</li> <li>• future salary increases.</li> </ul>	<p>For LGPS and the two firefighter pension schemes we undertook a review of the relevant actuary's (Mercer for LGPS and GAD for firefighter schemes) work to satisfy ourselves that the pension liabilities are fairly stated in the financial statements. In doing so we engaged our own independent actuary to assess the methodology and assumptions used by the schemes actuary.</p> <p>For LGPS we have confirmed with the LGPS external auditor that the controls over membership data were operating as intended. For the two firefighter schemes we have reviewed the information sent to the actuary ourselves and confirmed it was consistent with our expectations.</p> <p>For both LGPS and the firefighter pension schemes we have reviewed the assumptions used for each of these variables. Our own independent actuary has also confirmed that they are comfortable that the assumptions used by both Mercer and GAD are reasonable for the purpose of valuing the pension fund liabilities as at 31 March 2015.</p>	<p style="text-align: center;">   <b>Green</b> </p>

**Assessment**




- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

# 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
<b>Other accounting policies</b>	We have reviewed the accounting policies against the requirements of the CIPFA Code and International Financial Reporting Standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	 <b>Green</b>
<b>Going concern</b>	<p>The Authority has a reasonable expectation that the services they provide will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p> <p>The Authority faces significant financial challenges due to cuts in the grant they receive from the Government. To their credit, the Authority has a good understanding of the scale of this financial challenge over the medium-term.</p> <p>The Authority has a balanced budget for 2015/16 and a medium term financial plan for 2015/16 to 2018/19 which includes a savings target, some of which are still to be identified for 2016/17.</p>	<p>We have assessed the reasonableness of the assumptions underlying this forecast, and the sensitivity of the forecasts to changes in those assumptions. We do not consider there to be a material uncertainty which could cast doubt on the entity's ability to continue as a going concern.</p> <p>The Authority holds £25.9 million of useable revenue reserves, approximately £17million of which are held in cash and short-term investments. Based on this, we are satisfied that it remains appropriate for the Authority to prepare accounts on a going concern basis as at 31 March 2015.</p>	 <b>Green</b>

## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient



## Other communication requirements

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

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee.</li> <li>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.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Authority</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed.</li> </ul>
6.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained direct confirmation for loans and requested from management permission to send confirmation requests to for bank and investment balances. The requests were sent and were returned with positive confirmation.</li> </ul>

## 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 , we followed up our high level review of the general IT control environment. The Authority has responded to the issues in our action plan and we are satisfied that the issues have been addressed.

# Adjusted and unadjusted misstatements – Merseyside Fire and Rescue Authority financial statements

There were no adjusted or unadjusted misstatements.

## 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 Disclosure	n/a	Note 35 Leases	The table showing the gross investment in the finance lease was amended to provide additional information supporting the disclosure.
2 Disclosure	n/a	Note 12 PPE	The wording on Note 12 PPE was amended to edit the disclosure on the rolling programme. The effective date of the revaluation was added to Note 12.
3 Disclosure	n/a	Note 12 PPE	Note 12 PPE was updated to show provide a comprehensive reconciliation of the impact of the full property revaluation and separately identify the reversal of prior year losses £3.599m and the reversal prior year impairments £2.975m.
4 Disclosure	n/a	Note 42	Note 42 Contingent liabilities was amended to cover the impact on the Authority for liabilities from MMI.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of audit matters

We have completed our Value for Money work and intend to issue an unqualified Conclusion.

# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Authority's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

**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.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Authority's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

The main matters to note from our work are:

- The Authority is considered to be in a sound financial position at this time. The Authority has general reserves of £2m, risk assessed earmarked reserves of £23.9m and a track record of delivering financial performance in line with budgets. The savings programme has been successful over the past three years and plans are in place which should enable the Chief Fire Officer to deliver services in line with the IRMP's objectives despite the significant cuts in funding.
- The Authority continues to show strong financial resilience, and good financial planning and management. The revenue budget underspend for the year was £1.187m which enabled the capital investment reserve to be strengthened in light of the anticipated funding requirement for the station merger projects.
- However the scale of the financial challenge remains significant. The MTFS was approved as part of the 2015/16 budget setting process and covers the period to 2019/20. The medium term forecast sets out that the Authority is potentially required to identify £3.7m of savings by 2016/17, rising to £7.5m by 2017/18 and £10.6m by 2018/19, giving an anticipated overall savings requirement of £13.3m over the MTFS period.
- The challenge is however becoming increasingly difficult to meet and whilst 2015/16 is budgeted to be delivered, the financial position will be increasingly challenging thereafter as significant changes to Government grant is likely to mean further efficiencies will then be needed in order to balance the budget.

# Value for Money

## Challenging economy, efficiency and effectiveness

We have considered the Authority's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted:

- Despite the financial challenges and the strong opposition of some community groups, the Authority has made significant progress in developing its Fire Station Merger Strategy. The strategy proposes the merging of fire stations in 3 key areas and the closure of Allerton fire station. The merger of two stations on Wirral (West Kirby and Greasby), two stations in St Helens (Eccleston and St Helens) and two stations in Knowsley (Huyton and Whiston). This is projected to deliver a reduction of 66 whole-time equivalent (WTE) posts, reduce the Authority asset base down from 26 stations to 22 and deliver additional savings from a reduction in premises overheads.
- The Authority has been ambitious in developing a significant capital programme of £13m to finance construction projects for the three new fire Stations with specific funding identified although costs have still to be finalised.
- The capital programme of £27m for the 5 year period 2015/16 to 2019/20 includes a borrowing requirement of £21m and this will have an impact on the level of charges for capital that need to be borne by the Authority through the revenue account, when funded through borrowing. The MTFS highlights that the 'ratio of financing costs to net revenue stream' will increase markedly over the next few years from 7.94% in 2014/15 to 14% in 2019/20 as the Capital Programme is implemented. 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. It is therefore important that the Authority continues to monitor and assess the affordability of its borrowing in the light of the overall financial challenge.

## 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 Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

## Detailed findings – Merseyside Fire and Rescue Authority

We set out below our detailed findings against six risk areas which have been used to assess the PCC's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Key indicators of performance</b>	<p>The key indicators of performance highlight that, while Merseyside has managed its finances well to date, it is under significant financial pressure. This is as a result of a number of factors: reductions in Government funding, the restriction on council tax increases and increasing level of borrowing for the capital programme. The Authority has reacted appropriately to these challenges. However, it will need to manage its finances carefully over the next few years if it is to remain financially stable.</p> <p>In 2015/16 the capital programme estimates that external borrowing of £10.4 m will be required followed by £2.5m (16/17), £2.9 m (17/18) , £2.8m (18/19) and £2.8m (19/20). The MTFP includes the phasing of the additional external borrowing. Capital financing costs of £7m are forecast to increase as the Ratio of Financing costs to Net Revenue Stream will increase from 7.94% in 2013/14 (based on the actual forecast capital spend in 2014/15) to 14.01% by 2019/20.</p>	<b>Green</b>
<b>Strategic financial planning</b>	<p>The updated MTFP highlights the on-going significant financial challenges faced by the Authority over the period including the phasing of the capital programme for the merger projects. Within the 2014/15 budget the Authority identified savings of £10m which enable a balanced budget to be achieved in 2014/15. In the event the budget has underspent by £1.187mm mainly due to reduction in officer numbers. The MTFP shows that the budget for 2015/16 of £63.3m has been balanced by a contribution of £1.229m from reserves. Looking forward the MTFP shows that plans have been developed to achieve the estimated savings requirements of £6.3m by 2015/16 and work is continuing on developing the fire station merger proposals to contribute towards the savings target of £13.3m by 2019/10.</p>	<b>Green</b>



## Detailed findings – Merseyside Fire and Rescue Authority

We set out below our detailed findings against six risk areas which have been used to assess the PCC's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Financial governance</b>	<p>The Authority has established effective scrutiny and governance arrangements. The in-year financial position is monitored and managed monthly, with details and associated risks and emerging pressures being reported to both the Performance and Scrutiny Committee on a quarterly basis and also the Authority as part of the budget report.</p> <p>The Authority examines all areas of expenditure as set out in the IRMP and priorities which underpin this. The IRMP Plan outlines the strategic direction for the Authority over a 3 year period and includes the Key Priorities, Outcomes and Strategic Objectives. The IRMP defines; the range of services that will be provided by the Authority, outcomes that will be achieved and the commitment to work in partnership with others. There is consultation with the public and staff prior to this being developed.</p> <p>There are several forms of key communication with stakeholders, largely through the formal consultation on the various reviews undertaken – e.g. building of the fire station in Saughall Massie. These consultations ensure the public and staff are aware of the work being undertaken and plans being developed by the Authority.</p>	<b>Green</b>
<b>Financial control</b>	<p>The Authority has sound budget monitoring arrangements in place including periodic reports to the Authority. High level reporting of expenditure against the budget is included within the financial position review which is presented quarterly. The budget report for 2015/16 issued in Feb 2015 includes a section on the projected outturn position 2014/15. The report analyses the overall outturn position over four key elements:-</p> <ul style="list-style-type: none"> <li>• Performance against budget shown in the revenue outturn summary;</li> <li>• Progress against agreed savings targets;</li> <li>• Impact of movement on reserves; and</li> <li>• Explanations for variations in the levels of actual expenditure compared with the original budget.</li> </ul> <p>Budget Monitoring shows an outturn of £1.187m underspend.</p>	<b>Green</b>

## Detailed findings – Merseyside Fire and Rescue Authority

We set out below our detailed findings against six risk areas which have been used to assess the PCC's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	Adequate arrangements
<b>Amber</b>	Adequate arrangements, with areas for development
<b>Red</b>	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
<b>Prioritising resources</b>	The IRMP is the key document that links the Authority's strategic objectives with operational delivery. The leadership team has worked hard to engage the public and partners through its consultation process on the Authority's strategy. This is evident, for example, in the 2015/17 supplement to the plan.	<b>Green</b>
<b>Improving efficiency &amp; productivity</b>	The Authority has examined the options for delivering the operational savings required including station mergers, closures, whole-time retained and community retained fire-fighters and identified station mergers as the 'least worst option'. Public consultation has partially endorsed this approach. The financial plan at the time of setting the budget assumed that it will be possible to save £3.4m, equivalent to about 100 fire-fighter posts, through at least 4 station mergers. Based on the current fire-fighter retirement profile, to deliver that scale of saving will take until 2016. The Authority has used natural turnover rates from fire-fighters to make savings and to avoid compulsory redundancy in that part of its workforce. A public consultation ran for twelve weeks to discuss whether West Kirby and Upton fire stations should be closed to open a new station at Saughall Massie Road. The consultation discussed closing the two stations and building a new one, or the outright closure of West Kirby as an alternative. Following the consultation, the Authority confirmed the closure of West Kirby and Upton fire stations and the building of a new station in Saughall Massie.	<b>Green</b>

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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non-audit services and independence**

05. Communication of audit matters

# 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
<b>Total audit fees</b>	<b>43,232</b>	<b>43,232</b>

## 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.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

# Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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](http://www.audit-commission.gov.uk)).

We have been appointed as the Authority'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 Authority's key risks when reaching our conclusions under the Code.

It is the responsibility of the Authority 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 Authority is fulfilling these responsibilities.

	Audit Plan	Audit Findings
<b>Our communication plan</b>		
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**

We have audited the financial statements of Merseyside Fire and Rescue Authority for the year ended 31 March 2015 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 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 2014/15.

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

### **Respective responsibilities of the Deputy Chief Executive and auditor**

As explained more fully in the Statement of the Deputy Chief Executive Responsibilities, the Deputy Chief Executive is responsible for the preparation of the Statement of Accounts, which includes the Authority's 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 2014/15, 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 also 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 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 2015 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 2014/15 and applicable law.

### **Opinion on other matters**

In our opinion, the information given in the 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 are required to 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; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a 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 in October 2014.



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 review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, 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 2015.

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 2014, 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 2015.

***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.

Michael Thomas  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Royal Liver Building  
Liverpool  
L3 1PS  
September 2015



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