



The Annual Audit Letter for Merseyside Fire & Rescue Authority

Year ended 31 March 2020

7 January 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Merseyside Fire & Rescue Authority ('the Authority') for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Authority and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Authority's Audit Committee as those charged with governance in our Audit Findings Report on 26 November 2020.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Authority's financial statements (section two)
- assess the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Authority's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Authority's financial statements to be £1.794m, which is 2% of the Authority's gross operating expenditure.
Financial Statements opinion	<p>We gave an unqualified opinion on the Authority's financial statements on 3 December 2020.</p> <p>We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Authority's land and buildings and the Authority's share of the property assets of Merseyside Local Government Pension Fund as a result of the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Authority's financial position and its income and expenditure for the year.</p>
Whole of Government Accounts (WGA)	We completed work on the Authority's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Authority put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Authority on 3 December 2020.
Certificate	We certified that we have completed the audit of the financial statements of Merseyside Fire & Rescue Authority in accordance with the requirements of the Code of Audit Practice on 3 December 2020.

Working with the Authority

The Outbreak of COVID-19, the subsequent lockdown after March and the ongoing restrictions to enable people to work in a Covid safe manner, has had a significant effect on the Authority, its staff and on the audit. Fortunately the Authority was able to move quickly to safe office based and remote working, rolling out IT equipment and solutions while not losing operational control.

We have worked with Authority staff, adapting our systems to support remote auditing and, whilst some aspects of the audit have been more time consuming than would normally be the case, we have been able to facilitate virtual audit verification of processes, transactions and balances.

We have been able to hold Teams meetings with officers and to attend virtual meetings of the Audit Committee.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Authority's staff .

Grant Thornton UK LLP
January 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Authority's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Authority's financial statements to be £1.794m, which is 2% of the Authority's gross operating expenditure. We used this benchmark as, in our view, users Authority's financial statements are most interested in where the Authority has spent its revenue in the year.

We also set a lower level of specific materiality of £20,000 for senior officer remuneration due to the sensitivity of disclosures in this area.

We set a lower threshold of £89,684, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Authority and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Authority's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Impact of Covid-19 pandemic</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit we:</p> <ul style="list-style-type: none"> worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. evaluated whether sufficient audit evidence using alternative approaches had been obtained for the purposes of our audit whilst working remotely evaluated whether sufficient audit evidence had been obtained to corroborate significant management estimates such as recovery of receivable balances evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence 	<p>We obtained sufficient audit assurance to conclude that:</p> <ul style="list-style-type: none"> The Authority worked effectively to respond to the challenges brought by Covid-19 and were able to produce financial statements in line with revised deadlines, taking into account the impact of Covid-19 on operations and finances. Financial forecasts and the cashflow analysis of the Authority supports the ability for the Authority to prepare the accounts on a going concern basis The Authority has appropriately disclosed the material uncertainty regarding the valuation of the Authority's property, plant and equipment and its share of the Local Government Pension Scheme's property and infrastructure assets. Our audit report refers to these disclosures as an emphasis of matter.

Audit of the Financial Statements

Significant Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability The Authority's pension fund net liabilities, as reflected in its balance sheet as the pension liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liabilities are considered significant estimates due to the size of the numbers involved and the sensitivity of the estimates to the changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liabilities as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit we:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the information provided by the Authority to the actuary to estimate the liability • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability. • tested the consistency of the pension fund asset liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report. 	<p>The Merseyside Pension Fund financial statements disclosed a material valuation uncertainty relating to the Fund's property portfolio. Your financial statements were updated to refer to this and we drew attention to the uncertainty through the inclusion of an Emphasis of Matter within our audit report</p> <p>Subsequent to the publication of the draft financial statements, the proposed remedy to the McCloud judgement was published for consultation. Pension fund actuaries notified management that this could have an impact on the calculated net pension fund liability and that the liability was likely to be overstated. Management therefore obtained a revised IAS19 report which quantified the potential impact as £4.5m reduction in Pension Liability. This represented a non-adjusting post balance sheet event but management adjusted the financial statements to reflect the revised valuation. We discussed this with management and considered their rationale for adjusting. We concluded that the basis for adjusting was reasonable and that proposed disclosures within the financial statements were appropriate.</p> <p>Management also amended the accounts to reflect a £70k movement in the pension assets of the Local Government Pension Scheme, being the difference between the estimated and actual year-end position.</p> <p>Other than the matters identified above we did not identify any significant issues.</p>

Audit of the Financial Statements

Significant Audit Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Authority values land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. Additionally, whilst we acknowledge that the Authority's whole property portfolio was revalued in 2018/19, management need to ensure the carrying value in the Authority's financial statements is not materially different from the current value at the financial statements date.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk of material misstatement.</p>	<p>As part of our audit we:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code were met challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been input correctly into the Authority's asset register evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. We have considered the movements in valuation and carried out the procedures set out above, including comparison of movements since the previous valuation with appropriate Market Movement indices. This provided assurance that valuation movements are in line with expectations and based on reasonable assumptions. 	<p>Our review of the assets subject to revaluation in the year provided suitable assurance that the valuations are in line with expectations and based on reasonable assumptions.</p> <p>In accounting for valuation movements, the Authority made adjustments to the asset register and revaluation reserve that were inconsistent with Code guidance. The annual depreciation charge was applied after the valuations had been adjusted instead of before. Whilst the overall impact was not material, management adjusted the financial statements to correct for this matter. This resulted in the Net Book Value of land and buildings increasing by £1,352k with a corresponding increase in the revaluation reserve. The depreciation charge disclosed for the year in note 10 was been written back to the revaluation reserve as part of this adjustment. There was no impact on general fund.</p> <p>The outbreak of Covid 19 has caused uncertainty in property markets. As a result, the valuer included reference to a material uncertainty in the valuation report.</p> <p>The estimation uncertainty is disclosed in note 4 to the financial statements.</p> <p>We consider the disclosure is sufficiently detailed to meet the requirements of the accounting standards and that it is important to a readers understanding of the financial statements. As such, we draw attention to the uncertainty through the inclusion of an Emphasis of Matter within the audit report.</p> <p>Other than the matters identified above we did not identify any significant issues and gained assurance that the valuation of Property, Plant and Equipment is not materially misstated within the financial statements.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit we:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals Analysed the journals listing and determined the criteria for selecting high risk unusual journals tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions 	<p>Our audit work did not identify any evidence of management override of controls.</p>
<p>Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> there is little incentive to manipulate revenue recognition opportunities to manipulate revenue recognition are very limited the culture and ethical frameworks of local authorities, including Merseyside Fire & Rescue Authority, mean that all forms of fraud are seen as unacceptable. 	<p>For the reasons set out opposite and as reported in our Audit Plan, we did not consider this to be a significant risk. Whilst not a significant risk, we performed audit procedures and testing of material revenue items. Our work did not identify any matters that would lead to a change in our risk assessment.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Authority's financial statements on 3 December 2020.

Preparation of the financial statements

The draft financial statements were provided to the team in July 2020, and the finance team successfully provided all the working papers and responses to our audit queries using our Inflo Software. The finance team responded promptly and efficiently to our queries during the course of the audit. Remote working has taken additional time to explain the audit trail of transactions rather than discussing processes and procedures in person which has resulted in additional fees for the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Authority's Audit Committee on 26 November 2020.

In addition to the key audit risks reported above, we identified the following issue during our audit that we have asked the Authority's management to address for the next financial year:

- Accounting for the Authority's Fixed Assets – We have recommended that the Authority should ensure that the requirements of the CIPFA Code are followed when performing adjustments to reflect the impact of asset revaluations within the asset register, general ledger and financial statements.

Annual Governance Statement and Narrative Report

We are also required to review the Authority's Annual Governance Statement and Narrative Report. It published them on its website in the draft Statement of Accounts in July 2020

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Authority and with our knowledge of the Authority.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Authority was below the audit threshold on 3 December 2020.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Authority's accounts and to raise objections received in relation to the accounts.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Merseyside Fire & Rescue Authority in accordance with the requirements of the Code of Audit Practice on 3 December 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

We did not make any recommendations in relation to the value for money conclusion within our Audit Findings report in November 2020.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Risks identified in our audit plan	Findings and conclusions
<p>Arrangements to secure medium and long term financial sustainability including delivery of the reserves and estates strategies</p> <p>The Authority is operating under a current climate of funding reductions, changes in legislation and policy requirements, and changes to the regulatory bodies and frameworks.</p> <p>The Authority has a significant capital programme which plans to spend £43m over five years which is key to its medium and long terms financial sustainability. The longer term plans of the Authority involve maintaining an appropriate level of reserves which are in line with financial prudence and responsible financial planning.</p>	<p><u>2019/20 outturn</u></p> <p>The Authority has a robust approach to its medium term financial planning and budgeting and has delivered a balanced budget as a forecast after an additional contribution of £0.650m to reserves to cover planned 2019/20 expenditure now expected in 2020/21. The Authority has continued with its policy to utilise any revenue savings generated during the year to fund additional MRP payments in order to free up future debt servicing budget to re-invest in front line services.</p> <p>The capital outturn for 2019/20 was £8.9m against a budget of £12.8m. The capital spend carried out during the year was in line with the planned capital strategy and programme for 2019/20 to 2023/24 totalling £41.2m. The Authority re-phased £3.7m of the original budget from 2019/20 to 2020/21 which due to the fact that most of the re-phasing was being funded via borrowing, the level of borrowing in the year was significantly lower than budgeted for. This demonstrates effective monitoring of the budget in year.</p> <p><u>Medium Term Financial Strategy</u></p> <p>The Authority approved its updated Medium Term Financial Plan (MTFP) in February 2020 covering the five years from 2019/20 to 2023/24 and approved a balance budget for 2020/21 with the expected income and expenditure of £61.961m. The budget was based on a number of assumptions around future income and costs including the proposed Council Tax increase of 1.98% and 2.5% per annum annual pay awards and general price inflation. The Authority has not planned to take out any further long term borrowing in the medium term.</p> <p>Capital expenditure continues to be split across maintaining Fire Stations and other buildings, investing in IT and spending on operational equipment to ensure Firefighter safety. The construction of the new community stations, Saughall Massie and St Helens as part of the station merger programme (from 24 fire stations to 22 stations) accounts for £7.2m of the capital programme. The Authority members received detailed finance monitoring reports from management throughout the year which provided awareness of progress and the impact on the budget.</p> <p>The level of general fund reserves is to be maintained at £3m, having increased this from £2m in the previous MTFP. The reserve represents 5% of the revenue forecast net operating expenditure which is deemed an appropriate level of reserves to have in place.</p> <p><u>Impact of the Covid-19 pandemic on financial plans</u></p> <p>As a result of the Covid-19 pandemic, the Authority updated its corporate risk register and implemented its Business Continuity Plan to ensure that the safety of fire fighters and other staff was paramount to the continuing delivery of services. The anticipated financial impact for 2020/21 is expected to be limited with additional expenditure identified for protective equipment, cleaning and ICT. The Authority has received £1.49m in grants to cover the initial impact of the pandemic which is expected to cover the costs to date.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	May 2020
Audit Findings Report	November 2020
Annual Audit Letter	January 2021

Fees

	Planned	Actual fees	2018/19 fees
	£	£	£
Statutory audit	29,966	33,766	32,966
Total fees	29,966	33,766	32,966

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £24,966 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
Raising the Bar	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	1,000
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this. The Authority also received two IAS 19 valuations during the year requiring additional procedures to review. As part of this work, we also considered the impact of the proposed remedy in respect of the McCloud legal judgement.	2,800
PPE Valuation	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this. In addition, our audit procedures identified issues in the accounting for the revaluation which took additional time to understand and resolve.	2,100
Increased level of work and challenge undertaken in response to the Covid-19 pandemic	The increase in audit fee is due to the impact of Covid-19 on the financial statements audit. Remote working has taken additional time to explain the audit trail of transactions rather than discussing processes and procedures in person. In addition to the increased level of work and challenge undertaken in response to the Covid-19 pandemic and associated significant risk.	2,900
Total		8,800



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