

GOVERNANCE COMMITTEE: 25th June 2012

SUBJECT: FUTURE EXTERNAL AUDIT ARRANGEMENTS**JOINT REPORT OF THE CHIEF FIRE OFFICER, CLERK TO THE AUTHORITY,
THE FINANCE OFFICER AND PERSONNEL ADVISOR**

1 INTRODUCTION

- 1.1 This paper updates Members on future arrangements for the external audit of Tyne and Wear Fire and Rescue Service, following the demise of the Audit Commission.

2 BACKGROUND

- 2.1 The election of the Coalition Government in 2010 saw a significant change in the national approach to the performance and improvement of local authorities including Fire and Rescue Authorities (FRAs). Government prescription has been replaced by statements of trust in sector led improvement and local accountability. This has led to the removal of much of the national architecture of performance including national performance indicators and much of the audit and inspection regime. The aim was to “refocus audit on helping local people hold councils and local public bodies to account for local spending decisions”.
- 2.2 As part of this, Government conducted a review of a number of public bodies, among them the Audit Commission which has overseen the audit and inspection of local authorities for a number of years. The review determined that whilst a scaled back form of audit (focusing on financial audit) is still required, the inspection element of the Audit Commission’s role should be removed and the financial audit work should be put out to tender.

3 FUTURE ARRANGEMENTS AND IMPACT ON TWFRA

- 3.1 Under the tendering process, the work of auditing local authorities was divided into a number of regional contracts. Contracts last 5 years and through the procurement process an average 40% reduction in audit fees is envisaged, with effect from 2012/13 (TWfRA’s fee for 2012/13 is £40,848).
- 3.2 The auditors appointed to each region will audit local government, Police and Fire Authorities, non foundation NHS Trusts, Primary Care Trusts, Strategic Health Authorities, Passenger Transport Authorities and, in future, elected Police and Crime Commissioners, Chief Constables and NHS Clinical Commissioning Groups.

- 3.3 In March 2012, the Audit Commission announced the results of the process which are set out below:

Contract area	Awarded to
North East/North Yorkshire	Mazars DA
Humberstone and Yorkshire	KPMG
East Midlands	
London North	
West Midlands	Grant Thornton
London South, Surrey, Kent	
South West	
North West	
South East	Ernst and Young
Eastern	

- 3.4 Ernst and Young and Mazars DA are new to the local public audit marketplace.
- 3.5 Mazars DA, the firm successful in the North East and North Yorkshire, was formed through the transfer of former Audit Commission District Audit staff to private provider Mazars, hence Mazars DA. Gareth Davies, formerly of the Audit Commission, led the DA bid for contracts and has transferred to Mazars DA as Partner: Head of Public Services. Other existing DA staff will transfer to new auditors via TUPE on 31st October 2012; Mazars DA staff will include many of our existing auditors.
- 3.6 The specific auditors who will be assigned to TWFRAs are yet to be determined. At a regional event to meet the new auditors on 16th May 2012, the Audit Commission confirmed that a key principle will be to support continuity and a smooth handover, but this will be subject to normal Audit Commission practice relating to regular rotation of auditors to maintain a fresh perspective.
- 3.7 The exact nature of future audit has been subject to public consultation. The focus will be largely financial; there is as yet no absolute clarity as to how much “value for money” judgements will be factored into this process. It seems likely that there will continue to be an element of judgement of financial sustainability in the medium to long term; in the current financial climate this will mean looking at whether our strategic plans for budget reduction are credible and do not compromise our ability to deliver statutory duties.
- 3.8 The next stage of the process is for the Audit Commission to formally appoint each organisation’s auditors. TWFRAs will receive letter confirming our auditors by 10th August.2012.
- 3.9 At this point we will meet with the new auditors, brief them on our approach and track record as necessary and establish the timescales and processes for future work.
- 3.10 It should be noted that audit work for the 2011/12 backward look has been completed during the earlier part of 2012/13 and the auditors have all materials they require to reach their judgement later this year.

4 RISK MANAGEMENT

- 4.1 The provision of financial audit is a key action to mitigate risk to the sustainability of the organisation. Although the national audit and inspection regime has been reduced, it is likely that financial audit will form a key part of new requirements on FRAs under the National Fire Framework to provide assurance to the public.
- 4.2 There are always risks associated with the transfer of functions from one organisation to another. It is considered that the actions of the Audit Commission in seeking a smooth transition to new arrangements will mitigate these risks.

5 FINANCIAL IMPLICATIONS

- 5.1 The new audit regime has reduced the cost of audit to the organisation.

6 EQUALITY AND FAIRNESS IMPLICATIONS

- 6.1 There are no equality and fairness implications in respect of this report.

7 HEALTH AND SAFETY IMPLICATIONS

- 7.1 There are no health and safety implications in respect of this report.

8 RECOMMENDATIONS

- 8.1 The Authority is recommended to:
- a) Note the changes to our external auditors
 - b) Receive further reports as appropriate.

