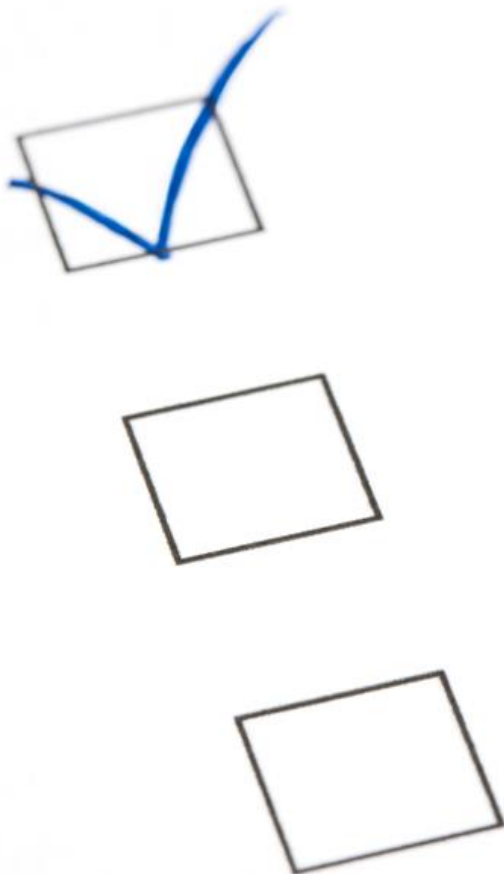


# Tyne and Wear Fire and Rescue Authority

Audit Progress Report

March 2014



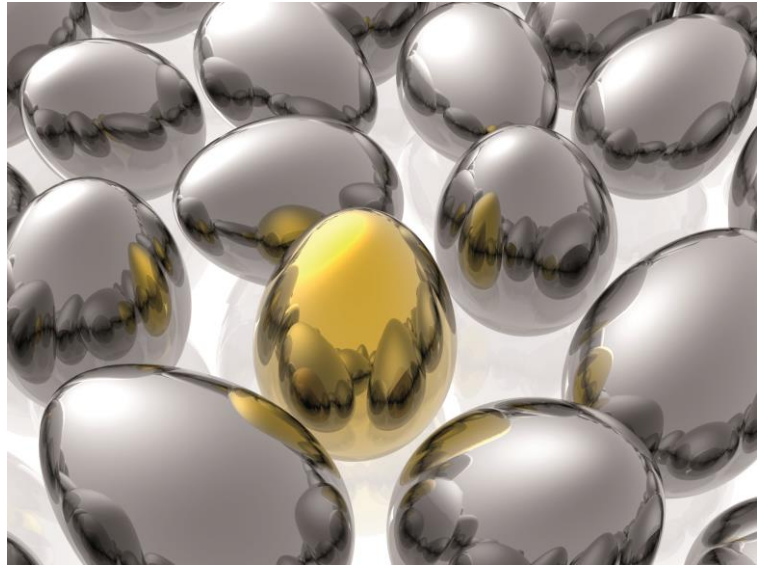
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# 01



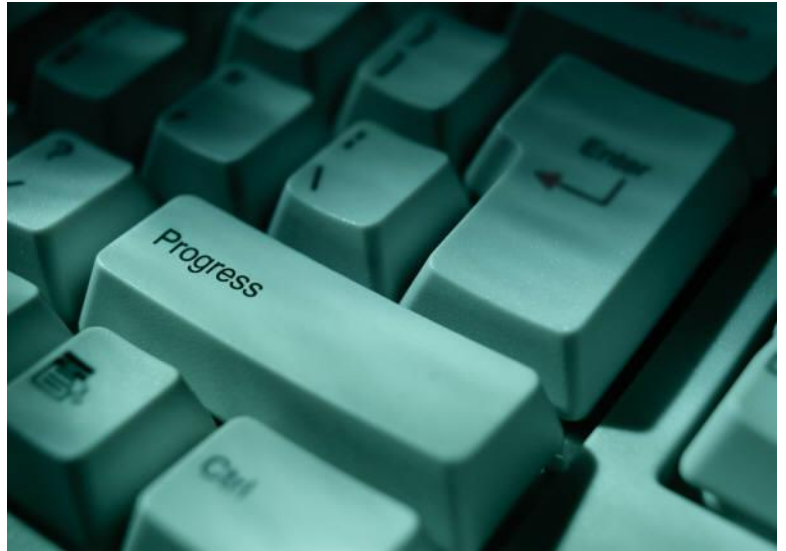
## Purpose of this paper

This paper updates the Governance Committee on our progress in meeting our responsibilities as your external auditor. It also highlights key emerging national issues and developments which may be of interest to you.

If you require any further information please contact your Engagement Lead or Senior Manager using the contact details at the end of this update.

# 02

## Summary of audit progress



Mark Kirkham took over as engagement lead for your audit on 1 November 2013, following Steve Nicklin's retirement.

In February 2014, Mazars provided a workshop for finance staff on accounting and auditing issues relating to the closedown and preparation of the 2013/14 statement of accounts. These workshops were well attended and well received by our clients. The Authority's officers were represented at the workshop.

We have now completed our audit planning and our Audit Strategy Memorandum is also on the agenda for this meeting. This document sets out the risks we have identified for both the opinion on the financial statements and the value for money conclusion, and our overall approach to the audit.

We are now starting our detailed work.

# 03

## Emerging issues and developments



The following pages outline for your attention some significant emerging issues and developments. Although some of the reports mentioned focus on councils, we have included them to the extent that the messages are still relevant in the fire sector:

- Annual Fraud Indicator Report 2012/13
- A Guide to Forecasting Methods in the Public Sector
- Code of Practice in Local Authority Accounting in the UK: Disclosure Checklist 2013/14 accounts
- Accounting and Auditing Standards: A Public Services Perspective

- Audit Commission consultation on 2014/15 fees
- Protecting the Public Purse
- Audit Commission Value for Money profiles
- Tough Times 2013: Councils' Responses to Financial Challenges From 2010/11 to 2013/14
- Auditing the Accounts 2012/13, Quality and timeliness of local public bodies' financial reporting
- Financial Statements: A Good Practice Guide for Local Authorities
- Future of Local Audit: Consultation on Secondary Legislation, DCLG
- The Local Audit and Accountability Act 2014

# Emerging issues and developments

Issue / development	Implications
<p><b>Annual Fraud Indicator Report 2012/13</b> In June 2013, the National Fraud Authority published its Annual Fraud Indicator report for 2013. The Report updates the National Fraud Authority's estimates for fraud in all sectors of the economy, including the public sector.</p> <p>The methodology used in reporting is updated every year, which makes the analysis of trends and the drawing of conclusions difficult, but the report can still make interesting reading.</p>	<p>Provides national context. Tyne &amp; Wear Fire and Rescue Authority prides itself on having a strong anti-fraud culture.</p> <p>The report is available at <a href="https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206552/nfa-annual-fraud-indicator-2013.pdf">https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206552/nfa-annual-fraud-indicator-2013.pdf</a></p>
<p><b>A Guide to Forecasting Methods in the Public Sector</b> CIPFA have produced a detailed guide to forecasting that describes each of the methods available to authorities and their pros and cons. It recognises that robust forecasting is critical to long-term service provision that meets increasing demand within tightening budgets.</p>	<p>Information is available at <a href="http://www.cipfa.org/policy-and-guidance/publications/a/a-guide-to-forecasting-methods-in-public-services-book">http://www.cipfa.org/policy-and-guidance/publications/a/a-guide-to-forecasting-methods-in-public-services-book</a></p>
<p><b>Code of Practice on Local Authority Accounting in the UK: Disclosure Checklist 2013/14 Accounts</b> CIPFA published the key guidance for the preparation of the 2013/14 accounts in May 2013. This checklist can be used to self-assess compliance with this guidance during the closure process and we will use it as part of our audit of the 2013/14 accounts.</p>	<p>For information. Previous work has shown Tyne &amp; Wear Fire and Rescue Authority to comply well with CIPFA's accounting Code of Practice. We work with officers to ensure any new requirements are addressed.</p>

# Emerging issues and developments

Issue / development	Implications
<p><b>Accounting and Auditing Standards: a Public Services Perspective</b></p> <p>CIPFA have updated a 2003 guide to reflect the subsequent adoption of international standards for accounting (IFRS) and auditing (ISAs). These standards are already embedded in the accounts you produce and our audit approach. However, the guide is a useful summary of how these standards apply to local authorities, fire and police bodies. It includes descriptions of the:</p> <ul style="list-style-type: none"> <li>• Key differences between private sector and local authority financial reporting;</li> <li>• Wider responsibilities of public service auditors; and</li> <li>• Role of the various standard setting bodies.</li> </ul>	<p>This is a useful summary of accounting and auditing standards.</p> <p>Previous work has shown Tyne &amp; Wear Fire and Rescue Authority to comply well with accounting standards.</p> <p>We have arrangements in place to ensure that we comply with all auditing standards.</p>
<p><b>Audit Commission consultation on 2014/15 fees</b></p> <p>The Audit Commission is consulting on its 2014/15 proposed work programme and scales of fees. The proposal is that 2014/15 scale audit fees are set at the same level as the fees applicable for 2013/14, thus locking in the 40 per cent reduction made to fees from 2012/13.</p> <p>The consultation closed on Friday 10 January 2014 and the Commission plans to publish the final work programme and scales of fees for 2014/15 in March 2014. <b>The proposed 2014/15 scale fee for Tyne &amp; Wear Fire and Rescue Authority is therefore £40,848.</b></p>	<p>The 40% reduction in audit fees will be delivered for another audit year.</p> <p>The report can be found at <a href="http://www.audit-commission.gov.uk/audit-regime/audit-fees/proposed-work-programme-and-scales-of-fees-201415/">http://www.audit-commission.gov.uk/audit-regime/audit-fees/proposed-work-programme-and-scales-of-fees-201415/</a></p>



# Emerging issues and developments

Issue / development	Implications
<p><b>Protecting the Public Purse</b>            The Audit Commission’s annual report on fraud, published in November 2013, highlights that £178 million of fraud was detected by local government in the last year.</p> <p>Although the scope for fraud is more limited in fire and rescue authorities, it is important to always remain alert to the risks of fraud, and it is particularly important to retain adequate levels of internal control when redesigning services and looking for savings in the current challenging economic environment.</p> <p>The report contains a checklist which gives organisations an opportunity to consider how effective they are at responding to the risk of fraud.</p>	<p>This annual report sets out the national context. Tyne &amp; Wear Fire and Rescue Authority participates in the Commission’s annual fraud survey, and no fraud was detected at the Authority in 2012/13.</p> <p>The report can be found at <a href="http://www.audit-commission.gov.uk/2013/11/councils-find-178m-in-frauds-against-local-government-but-detection-rates-are-patchy/">http://www.audit-commission.gov.uk/2013/11/councils-find-178m-in-frauds-against-local-government-but-detection-rates-are-patchy/</a></p>
<p><b>Audit Commission Value for Money profiles</b>            The Audit Commission has published its updated VFM profiles.            The Value for Money (VFM) profiles bring together data about the costs, performance and activity of local councils and fire authorities, displayed under sections that give an overview of the chosen organisation and the services it delivers.</p>	<p>Tyne &amp; Wear Fire and Rescue Authority’s VFM profiles can be viewed and downloaded via the Audit Commission website, by following the links to ‘VFM Profile Tools’.</p> <p>We will be discussing the profile outcomes with officers as part of our VFM conclusion work.</p>

# Emerging issues and developments

Issue / development	Implications
<p><b>Tough Times 2013: Councils' Responses to Financial Challenges From 2010/11 to 2013/14</b></p> <p>The Audit Commission's latest research, published in November 2013, Tough Times 2013: Councils' Responses to Financial Challenges From 2010/11 to 2013/14, shows that England's councils have demonstrated a high degree of financial resilience over the last three years, despite a 20 per cent reduction in funding from government and a number of other financial challenges. But, the Commission says, with uncertainty ahead, councils must carry on adapting in order to fulfil their statutory duties and meet the needs of local people.</p> <p>Although focused on councils, the pressures faced, and the increasing pressure over time, will also be familiar to fire and rescue authorities.</p>	<p>As reported in our Annual Audit Letter and VFM conclusion for 2012/13, our view is that Tyne &amp; Wear Fire and Rescue Authority has shown strong financial resilience.</p> <p>In line with this national report, we also identified that the Authority faces significant financial challenges and difficult decisions will be needed.</p> <p>The report can be found at <a href="http://www.audit-commission.gov.uk/2013/11/councils-show-financial-resilience-but-must-continue-adapting/">http://www.audit-commission.gov.uk/2013/11/councils-show-financial-resilience-but-must-continue-adapting/</a></p>

# Emerging issues and developments

Issue / development	Implications
<p><b>Auditing the Accounts 2012/13, Quality and timeliness of local public bodies' financial reporting</b></p> <p>This Audit Commission report summarises the financial reporting outcomes for local authorities and other bodies within its regime. Audit opinions were issued at all fire and rescue authorities by 30 September 2013, and this was the only local government sector achieving a 100% record.</p>	<p>Tyne &amp; Wear Fire and Rescue Authority met all of the statutory deadlines and received an unqualified audit opinion on 30 September 2013.</p> <p>The report can be found at <a href="http://www.audit-commission.gov.uk/2013/12/commission-highlights-year-on-year-improvement-in-financial-reporting/">http://www.audit-commission.gov.uk/2013/12/commission-highlights-year-on-year-improvement-in-financial-reporting/</a></p>
<p><b>Financial Statements: A Good Practice Guide for Local Authorities</b></p> <p>This CIPFA report acknowledges that “local authority financial statements are complex, and readers can find it difficult to identify the information they need.”</p> <p>The report highlights the role that authorities can themselves play in de-cluttering the financial statements, and in presenting key information in a clear narrative that makes the statements more accessible.</p>	<p>This publication provides some ideas which could be considered in trying to make the published financial statements more informative and accessible to readers of the accounts.</p>

# Emerging issues and developments

Issue / development	Implications
<p><b>Future of Local Audit: Consultation on Secondary Legislation, DCLG</b></p> <p>This DCLG consultation was wide ranging, but also includes proposals in relation to the Accounts and Audit Regulations. One important consultation question, of wider interest to authorities, is whether the local authority accounts production timetable should be brought forward.</p> <p>The consultation has now closed and we are awaiting the results of the process.</p>	<p>If the accounts timetable is brought forward this would impact on the Authority's accounts production processes.</p> <p>The consultation can be found at: <a href="http://localaudit.readandcomment.com/">http://localaudit.readandcomment.com/</a></p>
<p><b>The Local Audit and Accountability Act 2014</b></p> <p>On 30 January 2014 the Local Audit and Accountability Act 2014 (the Act) received Royal Assent.</p> <p>The Act sets out fundamental reforms to the local audit regime. The Audit Commission will close on 31 March 2015 and a residuary body will oversee the audit contracts let by the Commission until they expire.</p>	<p>A summary guide for Governance Committee members is attached on the next two pages.</p>

# The Local Audit and Accountability Act 2014

## *A summary guide for Audit Committee members*

### Introduction

On 30<sup>th</sup> January 2014 the Local Audit and Accountability Act 2014 (the Act) received Royal Assent.

The Act sets out fundamental reforms to the local audit regime. The Audit Commission will close on 31 March 2015 and a residuary body will oversee the audit contracts let by the Commission until they expire.

The new responsibility of local public bodies to appoint their own auditor will come into effect on the expiry of the existing Audit Commission contracts, and those contracts currently out to tender. It has yet to be determined whether these new contracts will be for 2 or 5 years, so the new arrangements will take effect from either the 2017/18 accounts or the 2020/21 accounts.

Although the Act provides an overall framework for the new local audit regime, much of the detail underpinning these fundamental changes will not be provided until the Secretary of State makes regulations to specify certain provisions.

In addition to changes affecting audit, the Act enables the Secretary of State to direct bodies to comply with the code of practice on local authority publicity, something bodies were previously required to have regard to. It also extends the council tax referendum provisions introduced in the Localism Act. This leaflet focuses on the audit changes.

The purpose of this briefing is to provide members with a summary of the principal provisions of the Act and to give an initial view of the impact that the Act may have on the audit of local government bodies.

### What are the key provisions?

#### Audit appointments

The Act sets out a new framework which requires local public bodies to appoint their own auditors. Appointments for any given financial year will have to be made by 31 December of the preceding financial year.

Bodies will be required to appoint their auditors at least once every 5 years and will be required to publish information about the appointment within 28 days of making the appointment.

#### Independent Audit Panels

With the exception of chief constables, relevant authorities are required to establish an 'Independent Audit Panel'. It will be the responsibility of the Panel to advise the body on the selection and appointment of an auditor. The Panel will also be required to monitor and maintain the independence of the auditor.

At some point in the future, the Secretary of State may make regulations that provide additional guidance on the role of the Panel or impose further requirements that are not contained within the Act itself.

The Act stipulates that Panels must:

- consist of a majority of independent members (or wholly of independent members); and
- be chaired by an independent member.

The Act provides further details on the criteria of an independent member. You are unlikely to qualify as an independent member if you have:

- been a recent member or officer of the body;
- been a recent member or officer of an entity connected with the body; or
- a relative who is a member or officer of the body.

## Collective Procurement

The Act allows bodies to procure audit services collectively by enabling the Secretary of State to make provision for the appointment of an auditor by an 'appointing person'. This is in response to the view that collective procurement may be more cost effective and efficient for bodies.

## Auditor eligibility

Schedule 5 to the Act provides details on who can act as a local auditor. It states that individuals or firms that were qualified to act as appointed auditors under the Audit Commission Act 1998 will continue to hold the relevant qualifications required to carry out local audits under the Act.

The Secretary of State will have the ability to make regulations that change who can be considered eligible as a local auditor.

## Auditor responsibility

The primary functions of the auditor will be largely unchanged, i.e. provision of:

- an opinion on the accounts (i.e. the accounts present a true and fair view and have been produced in accordance with proper practice); and
- a conclusion that the body has arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

## Joint audits

The Act allows bodies to appoint joint auditors however it does not explain how this will work in practice. It may be possible, for example, for one auditor to carry out the value for money conclusion work and another auditor complete the audit of the statement of accounts.

## Role of the National Audit Office (NAO) and other bodies

The Act outlines how Audit Commission functions will be transferred to other bodies:

- the NAO will maintain a Code of Audit Practice and supporting guidance for auditors;
- the NAO will also carry out thematic value for money examinations; and
- the Cabinet Office will be responsible for data matching including the National Fraud Initiative.

## Rights of electors

The Act adopts the majority of the provisions of the Audit Commission Act 1998 in respect of the rights of the public to:

- inspect the statement of accounts;
- inspect documents and records which relate to the year of audit; and
- make an objection to the local auditor.

## Mazars and local audit

Mazars is committed to the provision of high-quality, specialised local audit and advisory services to local authorities, pension funds, blue-light organisations and health bodies. Our aim is to be the auditor of choice for public service bodies.

## Please get in touch

This briefing provides a summary of the impact of the Local Audit and Accountability Act. If you would like further information on how the Act is likely to affect your body and how we can support you in your transition to the new arrangements for public audit, please contact one of the team.

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# 04

## Contact details



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