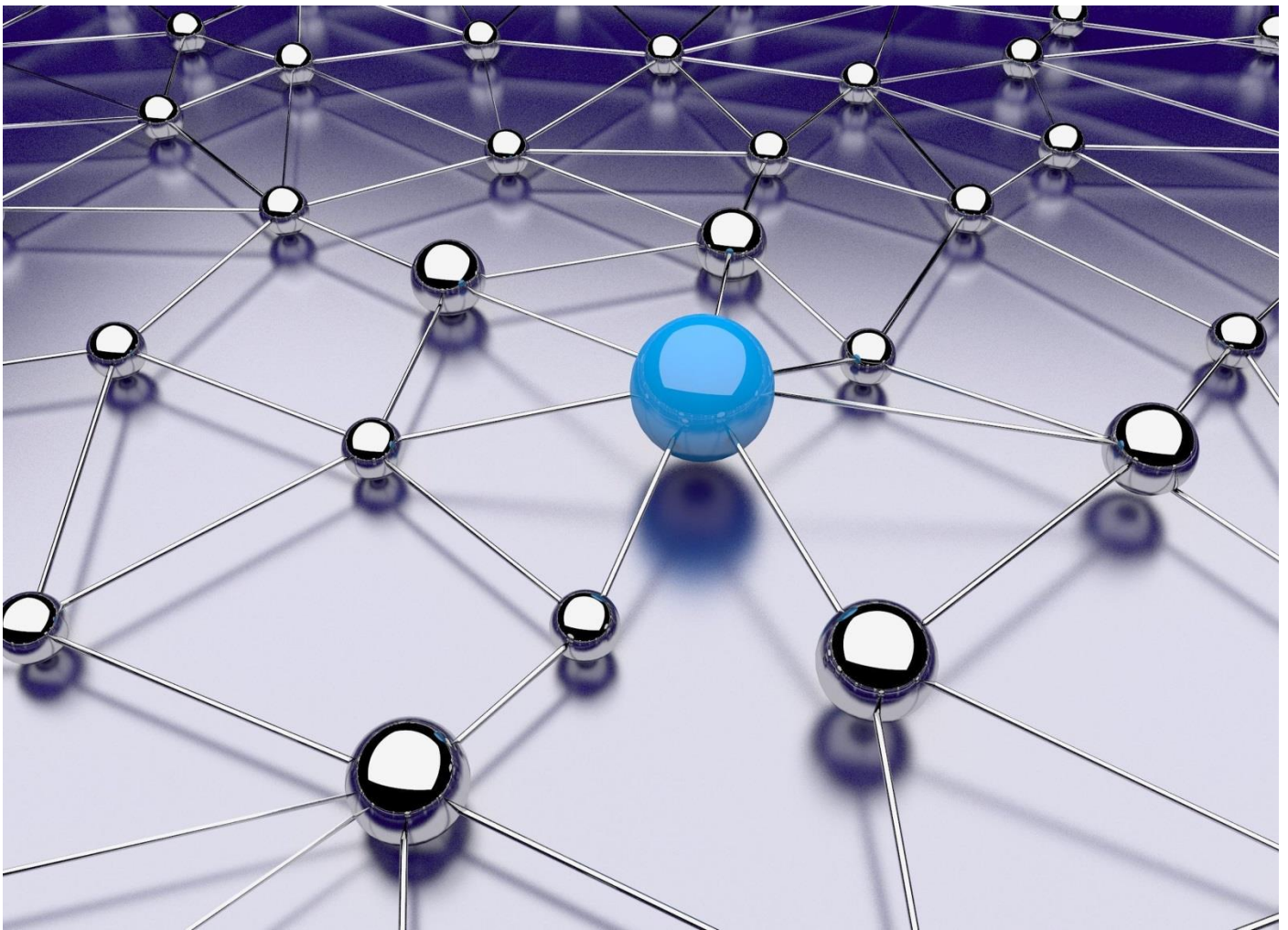


Tyne & Wear Fire and Rescue Authority - Audit Progress Report

March 2016



 **Tyne and Wear Fire and Rescue Service**
Creating the Safest Community
www.twfire.gov.uk



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Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to Tyne & Wear Fire and Rescue Authority, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.

01 Introduction

The purpose of this report is to update the Governance Committee of Tyne & Wear Fire and Rescue Authority (the Authority) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

02 Summary of audit progress

2015/16 planning

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.

Accounts workshops for officers

In January 2016, Mazars provided a workshop for finance staff on accounting and auditing issues relating to the closedown and preparation of the 2015/16 statement of accounts. The workshop was well attended and well received by our clients. Some of your officers attended the workshop.

First meeting of the North East Governance Forum

In January 2016, we also held the first meeting of our North East Governance Forum at Durham County Cricket Club. Members will recall that we established the forum for officers and Members, particularly Chairs and Vice Chairs of Audit Committees, with the aims of:

- promoting good practice in governance;
- facilitating dialogue, debate and sharing of ideas among those providing governance oversight;
- horizon scanning to ensure that the forum is briefed on the latest developments and key topical issues; and
- providing a safe and valued forum for discussion.

Most local authorities and related bodies in the North East were represented at the forum, including Tyne & Wear Fire and Rescue Authority.

The topics discussed at the first meeting included:

- Audit Committee effectiveness;
- devolution; and
- future issues (horizon scanning).

There was a consensus among those attending that the forum was valuable, and a second meeting has been arranged for June 2016. It is proposed that the forum will meet twice each year.

Changes impacting on the public inspection of the accounts

The Accounts and Audit Regulations (2015) have made changes to, amongst other things:

- the roles and responsibilities associated with informing electors of their rights; and
- the publication of draft and audited statements of account and information that accompanies those statements.

It is now the Responsible Financial Officer's responsibility to publish a statement that includes details of the period for the exercise of public rights. It is also now the Responsible Financial Officer's responsibility to inform the auditor of the date on which that period commences; previously the auditor was responsible for 'calling the audit' and appointing a specific date on which electors could ask questions relating to the audit.

The period for the exercise of public rights must be a single period of 30 working days. Electors can only exercise their rights of inspection and objection, as set out in the Local Audit and Accountability Act 2014, during this period. The period must include the first 10 working days of July for this year's audit and, as a result, the earliest date that the audit of a local authority can be completed for 2015/16 is 15th July 2016.

The Regulations also set out the revised timetable for the preparation and audit of the Authority's financial statements from 2017/18 that we have mentioned in previous audit progress reports / audit committee meetings. We continue to work closely with the Authority's finance team to ensure that we both meet the revised timetable.

Further details on the requirements are set out in the Appendix to this report.

03 Updated Value for Money conclusion guidance

Summary

The National Audit Office has published updated guidance in respect of the Value for Money (VfM) conclusion. The guidance sets out the revised criterion applying to 2015/16 audits and consists of an overarching document, along with a fire and rescue authority-specific paper which provides details of supporting background information on key issues facing local authorities.

Overarching guidance: <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-03-VFM-Arrangements-Work-09-11-15.pdf>

Fire and rescue authority specific background: <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Supporting-information-AGN-03-Fire-and-rescue-Nov-2015.pdf>

Revised criteria

In previous years, auditors were required to reach their statutory conclusion on arrangements to secure VfM in respect of two main criteria; these have now been replaced by one overall criterion, supported by three sub-criteria, as set out in the two tables below

Previous year criteria

Previous year criteria	Focus of each criterion
The Authority has proper arrangements in place for securing financial resilience.	The Authority has robust systems and processes to manage financial risks and opportunities effectively, 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 resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

New criterion from 2015/16

New overall criterion	Sub-criteria
In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.	<ul style="list-style-type: none">• Informed decision-making.• Sustainable resource deployment.• Working with partners and other third parties.

Sub-criteria – further detail

In both local government and the NHS, organisations are already required to have arrangements in place to ensure proper governance, resource and risk management, and internal controls, and to report on the design and operation of those arrangements through Annual Governance Statements.

The recently issued guidance draws on relevant requirements applicable to each sector and aligns the scope of proper arrangements with those that responsible parties are already required to have in place and to report on through documents such as annual governance statements and annual reports (where applicable).

Drawing on the relevant requirements applicable to local bodies, proper arrangements cover the following:

Sub-criteria	Guidance
Informed decision-making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of sound governance.• Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.• Reliable and timely financial reporting that supports the delivery of strategic priorities.• Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.• Managing and utilising assets effectively to support the delivery of strategic priorities.• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities.• Commissioning services effectively to support the delivery of strategic priorities.• Procuring supplies and services effectively to support the delivery of strategic priorities.

Next steps

As in previous years, the VfM conclusion requires auditors to reach a conclusion on whether arrangements are in place for securing VfM as opposed to an absolute determination on whether VfM is being achieved. The guidance also highlights that auditors should note that while all bodies will work with partners and other third parties (including contractors), the significance of these arrangements, and consequently the extent to which they will impact on the auditor's risk assessment, will vary.

We have carried out an initial risk assessment in respect of the VfM conclusion for 2015/16, drawing on the newly issued guidance. This has informed our assessment of any significant risks and the extent of work required and we have reported this in our Audit Strategy Memorandum for the 2015/16 audit.

04 National publications and other updates

This section contains updates on the following:

1. **Guidance for Directors of companies partly or fully owned by the public sector, January 2016**
2. **Supporting the transition, Public Sector Audit Appointments Ltd, February 2016**
3. **Results of auditor's work 2014/2015: local government bodies, Public Sector Audit Appointments Ltd, December 2015**
4. **Cipfa: Guide to auditor panels, December 2015**
5. **Mazars: Public services blog 'Let's talk public services'**
6. **Consultation on 2016/2017 work programme and scales of fees, Public Sector Audit Appointments Ltd October 2015**
7. **Annual Regulatory Compliance and Quality Report, PSAA, June 2015**
8. **Regulatory Compliance and Quality Report, Quarter 1 2015/16**
9. **Whistleblowing e-learning for the public sector**
10. **Consultation on regulation of auditors, Financial Reporting Council, May 2015**
11. **Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Limited**

1. **Guidance for Directors of companies partly or fully owned by the public sector, January 2016**

This guidance, which has been published by the Cabinet office, is to help directors of companies owned by the public sector, in full or in part, to understand their duties and responsibilities, including identifying and managing conflicts of interest. As local government and related bodies increasingly explore alternative models of service delivery, including establishing local authority trading companies, this guidance is of relevance.

<https://www.gov.uk/government/publications/guidance-for-directors-of-companies-fully-or-partly-owned-by-the-public-sector>

An additional guidance paper referred to in the Cabinet Office report is a National Audit Office paper produced in January 2015 on Conflicts of Interest. This is also of relevance to authorities that are operating in an increasingly complex environment of related entities.

<https://www.nao.org.uk/report/conflicts-interest-2/>

2. Supporting the transition, Public Sector Audit Appointments Ltd, February 2016

Public Sector Audit Appointments Ltd (PSAA) has published its Corporate Plan for the period to 2018. The Plan sets out how the company will discharge the functions delegated to it by the Secretary of State for Communities and Local Government which include managing audit contracts originally let by the Audit Commission and supporting a smooth transition to the new audit regime introduced by the Local Audit and Accountability Act 2014.

PSAA's work programme involves two parallel strands: ensuring that the existing audit contracts continue to deliver good quality and positive value for audited bodies and effective assurance to the public; and, providing as much support as possible to assist local bodies to prepare for, and be ready to meet, their new responsibilities as the legislation is fully implemented.

The plan was informed by the fact that the timetable for the expiry of the existing audit contracts is now clear. For NHS bodies and smaller local authorities (mainly parishes and internal drainage boards) existing arrangements will cover the audits up to and including 2016/17. For these bodies the new regime will therefore apply to the audits of the financial year 2017/18 and onwards. For principal local authorities and criminal justice bodies, including fire and rescue authorities, the existing arrangements will run for a further year covering the audits up to and including 2017/18. For these bodies the new regime will apply to 2018/19 audits and beyond.

As part of its role in supporting local bodies to prepare for their responsibilities under the new regime, PSAA has set up on its website a dedicated Supporting the transition area containing resources to assist local public bodies in making the transition to the new arrangements.

<http://www.psa.co.uk/supporting-the-transition/>

A further important aspect of PSAA's work in relation to the new regime will involve working with the Local Government Association and the Improvement and Development Agency to explore the feasibility of PSAA seeking to become a 'sector-led body' with the ability to enter into contracts and appoint auditors to local bodies in the new regime. Further information will be provided on PSAA's website as this work progresses.

3. Results of auditor's work 2014/2015: local government bodies, Public Sector Audit Appointments Ltd, December 2015

This is the first report for local government bodies published by Public Sector Audit appointments Ltd (PSAA), and it summarises the results of auditors' work at 509 principal bodies and 9,755 small bodies for 2014/2015. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.

The timeliness and quality of financial reporting for 2014/2015 remained broadly consistent with the previous year for both principal and small bodies. Against a background of financial challenges, the sector is clearly working hard to achieve appropriate standards in its stewardship of resources.

Auditors at 97 per cent of principal bodies were able to issue the opinion on the 2014/2015 accounts by 30 September 2015, with 23 bodies receiving an unqualified audit opinion by 31 July 2015. For the second year in a row there have been no qualified opinions issued to date to principal bodies (at the time of this report being written). The number of qualified conclusions on value for money arrangements remained consistent with the previous year at 4 per cent.

For small bodies, auditors were able to issue their opinion on the annual return by 30 September 2015 at 99 per cent of parish councils and internal drainage boards. This is consistent with the previous year.

<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

4. Cipfa: Guide to auditor panels, December 2015

This publication is aimed at those within local authorities and related bodies who will have a role to play in deciding how and who to appoint as their organisation's local auditors.

It has been commissioned by DCLG, and a working group including DCLG, NAO, Public Sector Audit Appointments Limited (PSAA) and other stakeholders have ensured that the guidance is relevant and specific to authorities.

<http://www.cipfa.org/policy-and-guidance/publications/g/guide-to-auditor-panels-pdf>

5. Mazars: Public services blog 'Let's talk public services'

Mazars has launched a blog 'Let's talk public services' where Mazars' team of auditors and advisors working with UK public service organisations can provide a place in which public service practitioners can exchange experience and ideas relevant to their jobs. The blog can be found here:

<http://blogs.mazars.com/lets-talk-public-services>

6. Consultation on 2016/2017 work programme and scales of fees, Public Sector Audit Appointments Ltd October 2015

Public Sector Audit Appointments Ltd (PSAA) has published its consultation on the 2016/2017 proposed work programme and scales of fees.

There are no planned changes to the overall work programme for 2016/2017. It is proposed scale fees are set at the same level as the scale fees applicable for 2015/2016 previously set by the Audit Commission. The Commission reduced scale fees from 2015/16 by 25 per cent, in addition to the reduction of up to 40 per cent made from 2012/13.

Following completion of the Audit Commission's 2014/2015 accounts, PSAA has received a payment in respect of the Audit Commission's retained earnings. PSAA will redistribute this and any other surpluses from audit fees to audited bodies.

The work that auditors will carry out on the 2016/2017 accounts will be completed based on the requirements set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office.

The consultation closes on Friday 15 January 2016. PSAA will publish the final work programme and scales of fees for 2016/17 in March 2016.

<http://www.psa.co.uk/audit-and-certification-fees/consultation-on-201617-proposed-fee-scales/>

7. Annual Regulatory Compliance and Quality Report, PSAA, June 2015

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The results of monitoring provide audited bodies and other stakeholders with assurance that auditors within our regime are delivering high-quality audits.

There are two strands to their monitoring:

- audit quality – applying our annual quality review programme (QRP) to the audit work undertaken for the year ending 2013/14; and
- regulatory compliance – reporting quarterly on audit firms' compliance with our 2014/15 regulatory requirements as set out in the Terms of Appointment.

The audit quality and regulatory compliance monitoring for 2014/15 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) conclusions and Whole of Government Accounts (WGA).
- an assessment as to whether they could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published report on the results of its inspection of firm audits in the private sector;
- the results of inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of our commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 17 key indicators relating to Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with regulatory requirements; and
- a review of each firm's client satisfaction surveys for 2013/14 work.

The report summarising the results of our monitoring work for Mazars LLP is available on the PSAA website.

<http://www.psa.co.uk/wp-content/uploads/2015/07/Mazars-2014-15-Annual-Regulatory-Compliance-and-Quality-Report-Final.pdf>

The firm is meeting standards for overall audit quality and regulatory compliance requirements. The red, amber, green (RAG) indicator for overall audit quality and regulatory compliance was calculated using the principles detailed in Appendices 1 and 2 to the report. For 2014/15, Mazars' combined audit quality and regulatory compliance rating was **green** (the highest available).

2015 Comparative performance for audit quality and regulatory compliance

BDO Amber	Deloitte Amber	EY Green	GT Amber	KPMG Amber	Mazars Green	PwC Amber
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The firm has maintained its performance against the regulatory compliance indicators since last year, with all of the 2014/15 indicators scored as green.

The satisfaction survey results show that audited bodies are satisfied with the performance of Mazars as their auditor.

8. Regulatory Compliance and Quality Report, Quarter 1 2015-16

This report summarises the performance of Mazars LLP (Mazars) against key quarterly performance indicators and is available on the PSAA website <http://www.psa.co.uk/wp-content/uploads/2015/07/Mazars-Q1-2015-16-monitoring-report.pdf>

Mazars are rated **green** in all areas. The all firm comparison is also provided.

9. Whistleblowing e-learning for the public sector

The CIPFA Counter Fraud Centre has worked with the leading whistleblowing charity, Public Concern at Work (PCaW) and Mazars to create an accessible, easy to navigate e-learning course on whistleblowing.

The whistleblowing course is designed for use in organisations, to show all staff how to raise and report concerns at work and to clarify 'grey areas' around processes, complaints and definitions.

Featuring high profile examples plus sector specific case studies, the course aims to help staff to understand:

- what is and what is not whistleblowing
- the arrangements you have in place
- how best to blow the whistle/raise concerns
- where staff can blow the whistle/raise concerns
- what staff can expect and how their organisation will support them
- rights and options for support
- why whistleblowing is so important.

10. Consultation on regulation of auditors, Financial Reporting Council, May 2015

In July 2014, the Financial Reporting Council (FRC) issued a consultation document seeking views on the way in which it should give effect to three specific responsibilities delegated to it under the Local Audit and Accountability Act 2014, that is:

- guidance on the recognition of individuals as key audit partners;
- regulations for the keeping of the Register of Local Auditors;
- regulations for local audit firms on the requirement to publish transparency reports.

The FRC has now published a feedback statement to this consultation together with the Guidance and Regulations as per the link below.

<https://www.frc.org.uk/News-and-Events/FRC-Press/Press/2015/May/FRC-publishes-feedback-statement-on-the-Regulation.aspx>

The areas consulted on included:

- transparency report requirements;
- register of local auditor requirements; and
- approval of engagement leads for local audits.

11. Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Limited

This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. It replaces the previous statement issued by the Audit Commission and applies to audit engagements in respect of 2015/2016.

The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the Code of Audit Practice, now produced by the National Audit Office (NAO). Nothing in the Statement is intended to limit or extend those responsibilities. In particular, audited bodies should note that, because auditors must not prejudice their independence, the role of the appointed auditor does not include providing financial or legal advice or consultancy services to the audited body.

The statement covers the following areas:

- responsibilities in relation to the financial statements;
- responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources (the VfM conclusion);
- specific powers and duties of auditors (public interest report, referral to Secretary of State);
- reporting the results of audit work;
- ad hoc requests for auditors' views; and
- access to information, data security and confidentiality.

http://www.psa.co.uk/wp-content/uploads/2006/08/Statement-of-responsibilities-of-auditors-and-audited-bodies-2015_16.pdf

Code of Audit Practice applying to 2015/2016 audits

As a reminder, earlier in 2015/2016, the NAO published the new Code of Practice applying to 2015/2016 audits. The Code prescribes the way local auditors are to carry out their functions and is supplemented by guidance issued by the NAO during the year.

<https://www.nao.org.uk/code-audit-practice/>

05 Contact details

Please let us know if you would like further information on any items in this report.

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Appendix

Changes arising from the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015

Changes to legislation which sets the framework for the work we undertake on local authority statement of accounts will lead to changes in the audit process and timetable.

The relevant legislation can be found here:

The Local Audit and Accountability Act 2014:

<http://www.legislation.gov.uk/ukpga/2014/2/contents/enacted>

Accounts and Audit Regulations 2015:

http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

Arrangements for the publication and audit of the statement of accounts

The changes to legislation do not change the publication and audit process to a great degree, however there are differences that we, and our clients need to be aware of. These, and the timings involved, are set out in the table below:

	Action	Regulation	Timing (15/16 and 16/17)	Timing (17/18 onwards)
1	RFO signs and dates the statements and confirms that they present a true and fair view	9(1)(a)	Prior to publication of draft statements (see below)	Prior to publication of draft statements (see below)
2	RFO must publish (including publication on the authority's website): <ul style="list-style-type: none"> • The statement of accounts and an accompanying declaration that they are unaudited and subject to change • The AGS (whether approved or not) • The Narrative Statement • A statement that sets out <ul style="list-style-type: none"> ○ The period for the exercise of public rights ○ Details of the manner in which notice of the intention to documents should be given ○ The name and address of the auditor ○ The provisions of section 26 and 27 of the LAAA 2014 	15(2)	By 30th June* by virtue of the fact that the period for the exercise of public rights (3 below) must include the first 10 working days of July as per 15(1)(a) as adjusted by 21(b).	By 31st May* by virtue of the fact that the period for the exercise of public rights (3 below) must include the first 10 working days of June as per 15(1)(a).
3	RFO must commence the period for the exercise of public rights and notify the auditor of the date on which the period commences. The period must be a single period of 30 working days as per regulation 14(1) and must include the first 10 working days of July (for 2015/16 and 2016/17) as explained above.	9(1)(b) And 9(1)(c)	The day following the date on which the RFO has met the responsibilities in (2) above.	The day following the date on which the RFO has met the responsibilities in (2) above.

4	Following conclusion of the period for exercise of public rights the accounts must be: 1. considered by members (committee or meeting as a whole) 2. re-confirmed by the RFO on behalf of the authority that the statement of accounts presents a true and fair view before the accounts are approved 3. approved by the same committee or meeting 4. signed – this must be by the person who presides over the meeting where the accounts were considered and approved.	9(2) and (3)	By 30 th September	By 31 st July
5	The approved and audited accounts, approved AGS, and Narrative Statement, must be published (including on the authority's website)	10(1)	By 30 th September	By 31 st July
6	An authority must publish (including on the authority's website) that the audit has been concluded and that the statement of accounts has been published.	16 (1)and (2)	By 30 th September	By 31 st July

** The exact date will depend on when the first working day falls in July (for 2015/16 and 2016/17) and in June (for 2017/18 onwards).*

Further information on public rights under the LA&A Act

Period for exercise of rights

The period for questions to the auditor is now restricted to the 30 days of the inspection period, there is no appointed date for questions to the auditor. As noted above, the period must include the first 10 working days of July in for the audit years 2015/16 and 2016/17 under the transitory arrangements.

Calling the audit is no longer the responsibility of the auditor; it has been superseded by the notification of the period for public rights by the RFO (point 3 in the table above).

There is no longer a set date for questions to the auditor, but a local elector must be given the opportunity to question the auditor about the accounting records if they request it (section 26(2) of the LA&A Act). Rights of objection also remain (section 27 of the LA&A Act). All objections to the auditor must be made in writing and be copied to the authority. Regulation 14(1) makes it clear that the rights conveyed by sections 26 and 27 of the Act may only be exercised within the single 30 day period.