

Audit progress report

Tyne and Wear Fire and Rescue Authority

February 2019





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1. AUDIT PROGRESS

Purpose of this report

This report provides the Governance Committee with an update on progress in delivering our responsibilities as your external auditors.

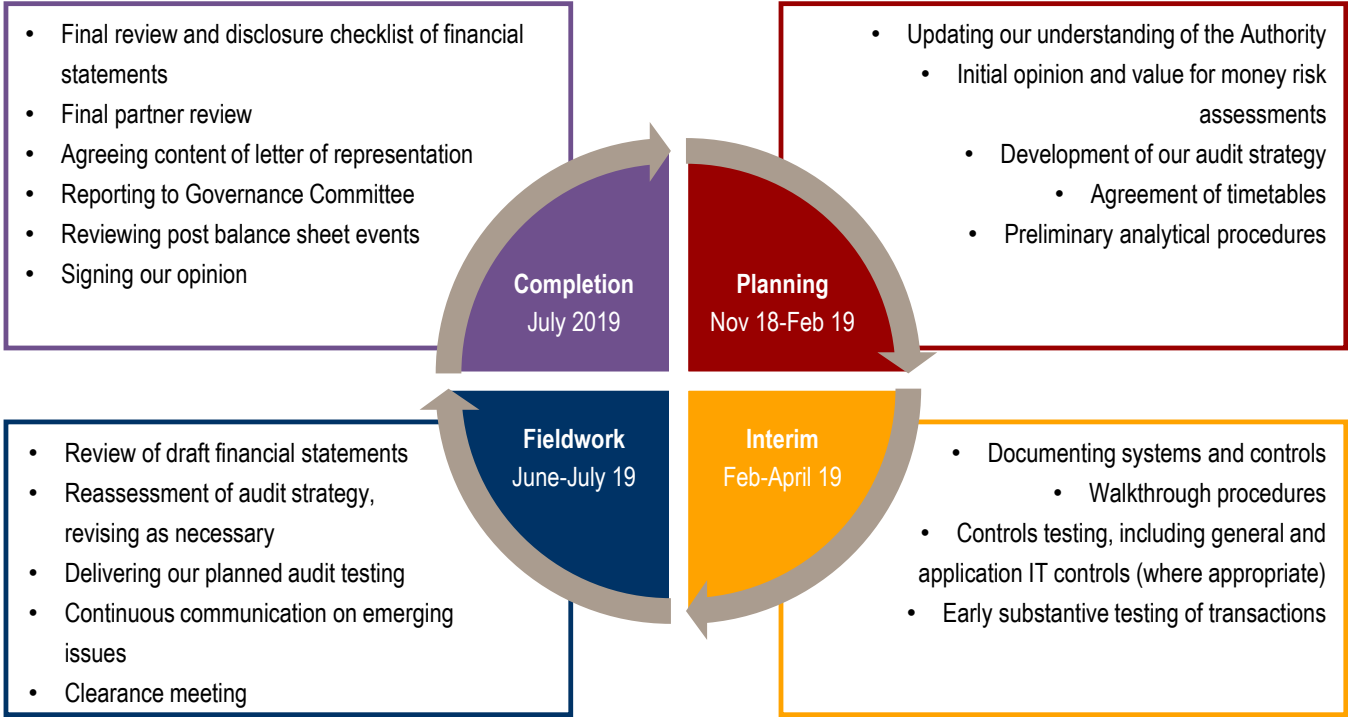
Audit progress

Our key audit stages are summarised in the diagram shown below and our Audit Strategy Memorandum is being presented to the Governance Committee for discussion at this meeting.

We are in the process of completing our walkthroughs at the time of writing this report; if there are any issues arising to report to this Committee, we will include these in our next report.

Financial Reporting Workshops

In January we held our Local Government Financial Reporting workshops for officers involved in the production of the financial statements and officers from this Authority responsible for preparing the Authority's financial statements attended. These workshops provided an update on the latest developments as well as a forum for our clients to discuss emerging issues. It included a revisit of 2017/18 final accounts issues, early close implications, changes in the 2018/19 Code and a forward look to future regulatory and policy changes.



2. NATIONAL PUBLICATIONS

	Publication/update	Key points
Home Office		
1.	Response times to fires attended by fire and rescue services: England April 2017 to March 2018	Nationally, average response times similar to prior years.
2.	Fire and Rescue Authority 2018 reserves as a share of core spending power	Chart available showing fire authorities reserves as a % of core spending power.
National Audit Office (NAO)		
3.	Financial sustainability of fire and rescue services	Fire and rescue authorities have managed funding reductions well. The Department for Communities and Local Government should, however, seek greater assurance that authorities are maintaining service standards and delivering value for money locally.
4.	Local auditor reporting in England 2018	Main findings reported by auditors in 2017/18.
Public Sector Audit Appointments Ltd (PSAA)		
5.	Local quality audit forum	December 18 forum slides available online.
6.	Oversight of audit quality, quarterly compliance reports	No significant issues.
Chartered Institute of Public Finance and Accountancy (CIPFA)		
7.	Scrutinising Public Accounts: A Guide to Government Accounts	Online publication resource available.

2. NATIONAL PUBLICATIONS

1. Response times to fires attended by fire and rescue services: England April 2017 to March 2018, Home Office, December 2018

The latest official statistics on trends in average response times in England continue to show that nationally response times have plateaued since 2014/15 with the average response time to primary fires in 2017/18 the same as in 2016/17 (8 minutes 45 seconds).

However, the drive time has increased and been compensated by faster call handling and crew turnout.

<https://www.gov.uk/government/statistics/response-times-to-fires-attended-by-fire-and-rescue-services-england-april-2017-to-march-2018>

2. Fire and Rescue Authority 2018 reserves as a share of core spending power, Home Office, November 2018

Financial reserves are required to help authorities manage financial risk and to fund major future costs such as change programmes aimed at improving services to the public. Usable financial reserves are split into resource and capital. Resource reserves are categorised into a general fund to cover unforeseen pressures and earmarked reserves which are each held for a specific purpose. Capital reserves are ring-fenced for capital investment. The Home Office has published data for 2017/18 allowing fire authorities to compare their reserves in total, by type and over time to other fire authorities.

<https://www.gov.uk/government/collections/fire-and-rescue-authority-financial-reserves>

<https://www.gov.uk/government/publications/fire-and-rescue-authority-financial-reserves-2018-share-of-core-spending>

3. Financial sustainability of fire and rescue services, Home Office, November 2018

Funding for fire and rescue authorities has fallen significantly between 2010-11 and 2015-16. The sector has, so far, coped well with financial changes, according to two complementary reports today from the National Audit Office: *Financial sustainability of fire and rescue services*, and *Impact of funding reductions on fire and rescue services*.

The NAO finds there have been no financial failures and the sector as a whole has increased its financial reserves since 2010-11. At the same time, the number of fires and casualties have continued their long-term downward trend: primary fires, those involving casualties or damage to property, fell by 23% from 2010-11 to 2014-15, while the number of fatalities in fires fell by 22% over the same period.

These improvements are despite significant reductions to numbers of firefighters and prevention and protection activities over the same period. From 2010-11 to 2014-15, fire authorities cut numbers of whole-time firefighters by 14%, while carrying out 30% fewer audits of business premises and 27% fewer hours spent on home fire safety checks. Authorities have also changed the scope of their emergency response, sometimes sending fewer firefighters to incidents.

There are, however, some potential signs of low-level stress emerging. Local auditors and peer challenge teams have raised concerns in a small number of authorities. According to the NAO, some fire authorities have indicated their capacity to respond to major incidents might be compromised by further funding reductions. Given the savings made to date, a number of authorities anticipate that further savings will only be possible via further reductions in firefighters, and have expressed concerns at the potential impacts this may have.

While protecting the sector relative to local authorities overall, the Department for Communities and Local Government (DCLG) has reduced funding most to fire and rescue authorities with the highest levels of need. Although DCLG has supported the sector to improve efficiency through a £75 million Fire Transformation Fund, in many cases the sector's transformation projects aim at adding value to other sectors – such as adult social care, or youth services – as much as reducing its own costs.

Unlike in other emergency services there is no external inspection of fire and rescue authorities. DCLG now relies on local scrutiny – from local councillors, the public, and fire chiefs themselves – to safeguard service standards and value for money. Councillors can however lack technical independent support, while a lack of standardised data on response standards makes it hard for people to compare the performance of their local fire authority with others.

The Secretary of State has a statutory duty to assure Parliament on the standards of fire and rescue authorities, but DCLG's evidence to support these statements is limited. DCLG is almost entirely reliant on authorities to self-certify they are in compliance with their mandated duties.

2. NATIONAL PUBLICATIONS

3. Financial sustainability of fire and rescue services, Home Office, November 2018 (continued)

In its accompanying report, *Impact of funding reductions on fire and rescue services*, the NAO takes an in-depth look at how fire and rescue authorities have responded to declining budgets since 2010-11. The NAO warns that if funding reductions were to continue in future years, the sector would be faced with twin challenges: to implement new cost-reduction measures, and to manage increased risks. Where cost reduction leads to further reductions in operational capacity, it may lead to risks such as to firefighter safety, the potential shrinking of the service as a whole, and the possibility of industrial action. The NAO finds it would be important for authorities to seek assurance that such risks were being successfully managed.

Among the NAO's recommendations is that the Department should assess the likely impacts of different types of service transformation on cost reduction and service improvement. The Department should also strengthen its assurance on the operational performance of the sector by gathering substantive evidence to support the Secretary of State's assurance to Parliament and encouraging authorities to standardise the format of operational targets and performance reporting.

<https://www.nao.org.uk/report/financial-sustainability-of-fire-and-rescue-services/>

4. Local auditor reporting in England 2018, NAO, January 2019

Since 2015, the Comptroller and Auditor General (C&AG) has been responsible for setting the standards for local public audit, through maintaining a Code of Audit Practice and issuing associated guidance to local auditors.

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the C&AG took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors. The report highlights a number of points as summarised below.

- Auditors gave unqualified opinions on financial statements in 2015-16, 2016-17 and 2017-18. This provides assurance that local public bodies are complying with financial reporting requirements. As at 17 December 2018, auditors had yet to issue 16 opinions on financial statements, so this does not yet represent the full picture for 2017-18.
- Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18 (of which 3% covered police and fire bodies). Again, as at 17 December 2018, auditors had yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18. This level of qualifications reinforces the need to ensure that local auditors' reporting informs as much as possible relevant departments' understanding of the issues facing local public bodies.
- Auditors qualified their conclusions at 40 (8%) of local government bodies. The proportion of qualifications was highest for single-tier local authorities and county councils where auditors qualified 27 (18%) of their value for money arrangements conclusions. The qualifications were for weaknesses in governance arrangements, often also highlighted by inspectorates' ratings of services as inadequate.
- More local NHS bodies received qualified conclusions on arrangements to secure VfM than local government bodies. In 2017-18, auditors qualified 168 (38%) of local NHS bodies' conclusions; up from 130 (29%) in 2015-16, mainly because of not meeting financial targets such as keeping spending within annual limits set by Parliament; not delivering savings to balance the body's budget; or because of inadequate plans to achieve financial balance. The increase between 2015-16 and 2017-18 is particularly steep at clinical commissioning groups, with qualifications for poor financial performance increasing from 21 (10%) in 2015-16 to 67 (32%) in 2017-18.
- Local auditors are using their additional reporting powers, but infrequently. Since April 2015, local auditors have issued only three Public Interest Reports, and made only seven Statutory Recommendations. These Public Interest Reports have drawn attention to issues such as unlawful use of parking income, governance failings in the oversight of a council-owned company, management of major projects or members' conduct. Auditors have made Statutory Recommendations in relation to failing to deliver planned cost savings, poor processes for producing the annual financial statements and failure to address weaknesses highlighted by independent reviews.

2. NATIONAL PUBLICATIONS

4. Local auditor reporting in England 2018, NAO, January 2019 (continued)

- A significant proportion of local bodies may not fully understand the main purpose of the auditor's conclusion on arrangements to secure value for money and the importance of addressing those issues. 102 local public bodies were contacted where auditors had reported concerns about their arrangements to ensure value for money:
 - half of the bodies (51) said that the auditor's report identified issues that they already knew about;
 - fifty-seven (95%) of those responding said they had plans in place to address their weaknesses but only three were able to say that they had fully implemented their plans; and
 - twenty-six (25%) did not respond at all to the NAO's request.
- The extent to which central government departments responsible for the oversight of local bodies have formal arrangements in place to draw on the findings from local auditor reports varies. Processes in the relevant central government departments differ. The Department of Health & Social Care, NHS Improvement and NHS England have arrangements in place to monitor the in-year financial performance of local NHS bodies, and use information from local auditor reports to confirm their understanding of risks in the system. The Home Office and Ministry of Housing, Communities & Local Government consider the output from local auditors' reports to obtain a broad overview of the issues local auditors are raising, but there is a risk that these two departments may be unaware of all relevant local issues.
- Under the current local audit and performance framework, there is no direct consequence of receiving a non-standard report from the local auditor. Before 2010, a qualified value for money arrangements conclusion would have a direct impact on the scored assessments for all local public bodies published by the Audit Commission at that time. While departments may intervene in connection with the issues giving rise to a qualification, such as failure to meet expenditure limits, there are no formal processes in place, other than the local audit framework, that report publicly whether local bodies are addressing the weaknesses that local auditors are reporting.

A list of all local bodies that received a non-standard local auditor report for 2017-18 was published alongside the report.

This included one fire body only, Avon Fire Authority, with an adverse VfM conclusion.

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

5. Local Audit Quality Forum, Public Sector Audit Appointments, December 2018

The Local Audit Quality Forum (LAQF) is a forum within which representatives of relevant audit bodies can work together and collaborate with others to share good practice and strive to enable improvements in the quality, efficiency and effectiveness of audit arrangements and practices in principal local authorities and police bodies in England. PSAA wants to develop a momentum and a passion for continuous improvement in audit arrangements throughout the entities and sectors for which PSAA has a mandate.

Slides of the Manchester December 2018 event are available on the PSAA website as per the link below.

The theme of the Manchester event was financial resilience and sustainability, a major challenge for all fire authorities in the current climate and a key strategic concern as bodies prepare 2019/20 budgets and update medium term plans. The event explored:

- the nature and scale of the sustainability challenges facing local bodies;
- the strategies and disciplines which can help to address them successfully; and
- the roles and responsibilities of Chief Finance Officers and Auditors in helping to maintain resilience and sustainability.

<https://www.psaa.co.uk/local-audit-quality-forum3/local-audit-quality-forum/>

2. NATIONAL PUBLICATIONS

6. Oversight of audit quality, quarterly compliance reports 2017/18, Public Sector Audit Appointments Ltd

There are no significant issues arising in the latest quarterly compliance report issued by PSAA.

<https://www.psaa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/>

7. Scrutinising Public Accounts: A Guide To Government Finances, CIPFA, November 2018

This guide provides an overview of the different processes for budgeting and performance reporting in central and local government, health bodies and includes key questions to ask when scrutinising government financial statements using examples based on UK public sector accounts.

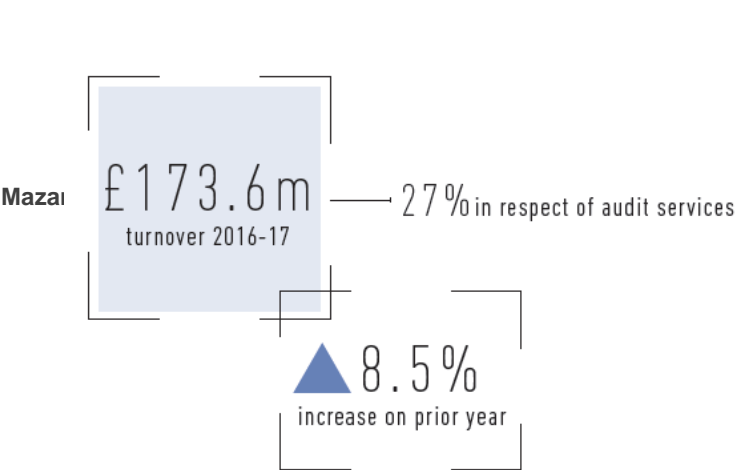
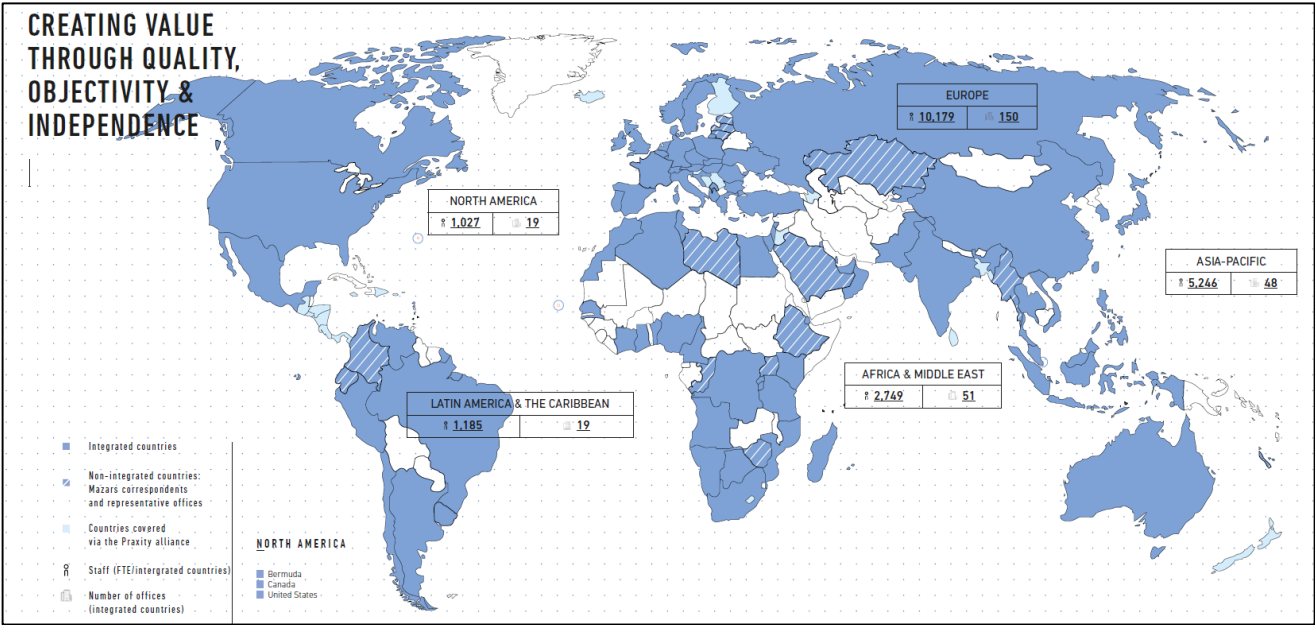
This publication is only available online.

<https://www.cipfa.org/policy-and-guidance/publications/s/scrutinising-public-accounts-a-guide-to-government-finances>

MAZARS AT A GLANCE

Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand



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