

Audit progress report

Police, Fire and Crime Commissioner for North Yorkshire Fire and Rescue Authority

March 2019





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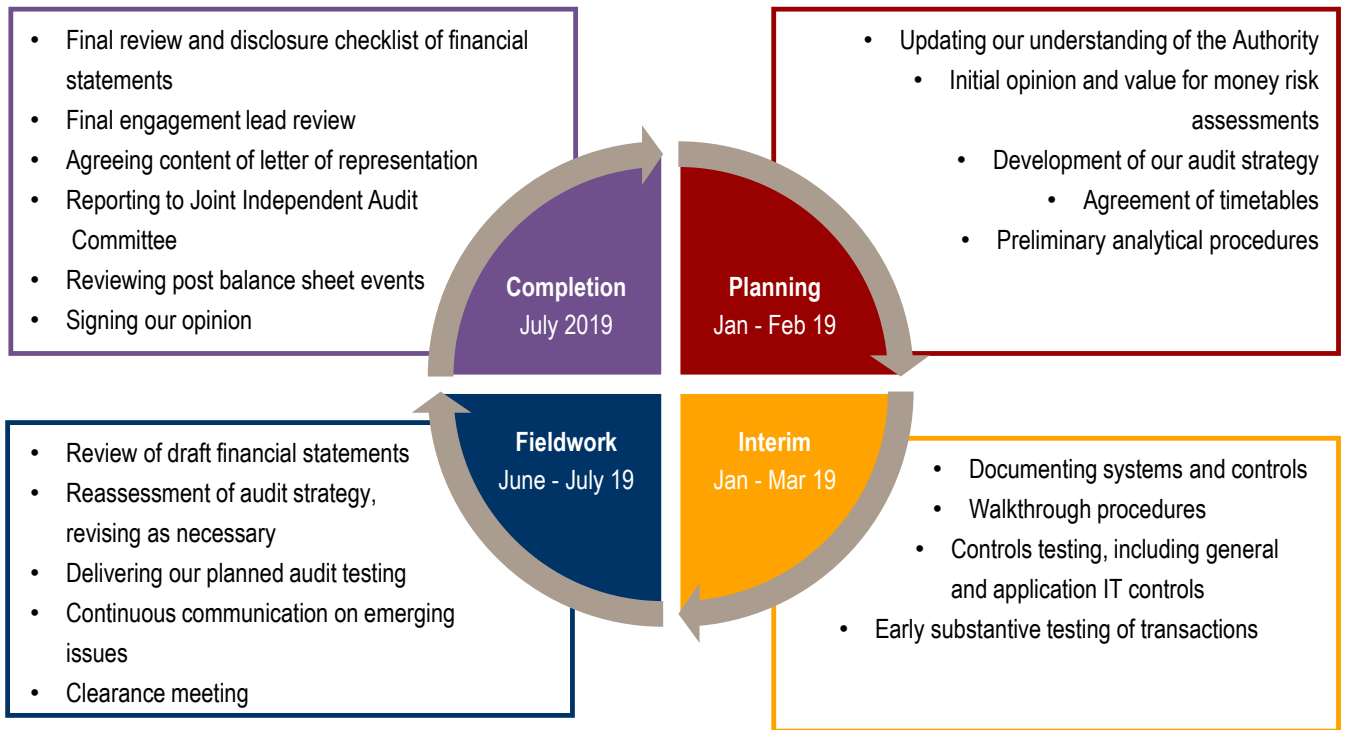
1. AUDIT PROGRESS

Purpose of this report

This report provides the Joint Independent Audit 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, we have now completed our 2018/19 planning and our Audit Strategy Memorandum is included as a separate agenda item to this meeting.



Financial Reporting Workshops

On 29 January 2019, we held our Local Government Financial Reporting workshops and officers responsible for preparing the Authority's financial statements attended. The workshop 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, changes in the 2018/19 Code and a forward look to future regulatory and policy changes.

1. Audit progress

2. Request for information

3. National publications

4. Grant letter

2. NATIONAL PUBLICATIONS AND OTHER UPDATES

	Publication
1	Fire and Rescue Authority 2018 reserves as a share of core spending power, Home Office, November 2018
2	Scrutinising Public Accounts: A Guide To Government Finances, CIPFA, November 2018
3	Local Audit Quality Forum, Public Sector Audit Appointments, December 2018
4	Oversight of audit quality, quarterly compliance reports 2018/19, Public Sector Audit Appointments Ltd
5	Response times to fires attended by fire and rescue services: England April 2017 to March 2018, Home Office, December 2018
6	Local auditor reporting in England 2018, NAO, January 2019
7	Local authorities - governance, NAO, January 2019
8	Streamlining the Accounts: Guidance for Local Authorities, CIPFA, January 2019

1. 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/publications/fire-and-rescue-authority-financial-reserves-2018-share-of-core-spending>

2. 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 and health bodies and includes key questions to ask when scrutinising government financial statements using examples based on UK public sector accounts.

This publication, which is only available online, should assist members fulfil their role scrutinising the financial statements effectively.

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

3. 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.

The theme of the Manchester event in December 2018 was financial resilience and sustainability, a major challenge for fire authorities in the current climate and a key strategic concern as authorities 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.psa.co.uk/local-audit-quality-forum3/local-audit-quality-forum/>

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2. NATIONAL PUBLICATIONS CONTINUED

4. Oversight of audit quality, quarterly compliance reports 2018/19, Public Sector Audit Appointments Ltd

There are no significant issues arising in the second quarterly compliance report issued by PSAA. Mazars have maintained their overall green rating.

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

5. 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>

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

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. 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. Weaknesses in governance arrangements, often also highlighted by inspectorates' ratings of services as inadequate were the main reasons for value for money qualifications in local government; and
- 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 at principle authorities. These reports include issues with the management of major projects, members' conduct, failing to deliver planned cost savings, processes for producing the annual financial statements and failure to address weaknesses highlighted by independent reviews.

The NAO contacted 102 local public bodies where auditors had reported concerns about their arrangements to ensure value for money, but only three were able to say that they had fully implemented their plans.

The NAO found that 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. 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.

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

2. NATIONAL PUBLICATIONS CONTINUED

7. Local authorities - governance, NAO, January 2019

The NAO has recently published a report on local authority governance, which examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

The report finds that local authorities have faced significant challenges since 2010. For example, they have seen a real-terms reduction in spending power of 29% and a 15% increase in the number of children in care. These pressures raise the risk of authorities' failing to remain financially sustainable and deliver services.

The way authorities have responded to these challenges have tested local governance arrangements. Many authorities have pursued large-scale transformations or commercial investments that carry a risk of failure or under-performance and add greater complexity to governance arrangements. Spending by authorities on resources to support governance also fell by 34% in real terms between 2010-11 and 2017-18, potentially increasing the risks faced by local bodies.

In 2017-18, auditors issued qualified VFM arrangements conclusions for around one in five single tier and county councils. A survey, carried out by the NAO, of external auditors indicates that several authorities did not take appropriate steps to address these issues. Some external auditors have raised concerns about the effectiveness of the internal checks and balances at the local authorities they audit, such as risk management, internal audit and scrutiny and overview. For example, 27% of auditors surveyed by the NAO do not agree that their authority's audit committees provided sufficient assurance about the authorities' governance arrangements. Auditors felt that many authorities are struggling in more than one aspect of governance, demonstrating the stress on governance at a local level.

Some authorities have begun to question the contribution of external audit to providing assurance on their governance arrangements. 51% of chief finance officers from single tier and county councils responding to our survey indicated that there are aspects of external audit they would like to change. This includes a greater focus on the value for money element of the audit (26%). External auditors recognise this demand within certain local authorities. However, their work must conform to the auditing standards they are assessed against and any additional activity may have implications for the fee needed for the audit.

The report also finds that MHCLG does not systematically collect data on governance, meaning it can't rigorously assess whether issues are isolated incidents or symptomatic of failings in aspects of the system. MHCLG recognises that it needs to be more active in leading co-ordinated change across the local governance system. The report recommends that MHCLG works with local authorities and other stakeholders to assess the implications of, and possible responses to, the various governance issues identified. It should examine ways of introducing greater transparency and openness to its formal and informal interventions in local authorities and should adopt a stronger leadership role in overseeing the network of organisations managing key aspects of the governance framework.

<https://www.nao.org.uk/report/local-authority-governance-2/>

8. Streamlining the Accounts: Guidance for Local Authorities, CIPFA, January 2019

CIPFA has released its publication on Streamlining local authorities' accounts. The publication covers a range of issues relating to streamlining both the financial statements and the accounts closure processes and includes information provided by local authorities who are already driving change in this area. These local authorities report that clearer and shorter financial statements that are code compliant, can be prepared to a high standard, with a reduction in the time and resources required to complete them.

The publication is split into 2 parts as follows:

Streamlining financial statements

This involves streamlining the presentation of financial statements by ensuring that local authorities have identified the needs of the users of the financial statements and that financial statements convey key messages clearly, concisely and efficiently. In this part of the publication, CIPFA considers three aspects of streamlining the presentation of local authority financial statements and these include:

- *materiality* - using materiality to avoid key messages in the financial statements being obscured by excessive detail;
- *accounting policies* - reviewing accounting policies so that only relevant information is disclosed; and
- *presentation and layout* – considering the presentation of the financial statements so that the layout is such that it allows readers to navigate through the statement and focus on key messages.

2. NATIONAL PUBLICATIONS CONTINUED

Streamlining year-end closure

In the publication, CIPFA summarises the key elements to streamlining the accounts closure process as effective planning and project management – focusing on what is important and starting the process early to promote a “right first time” culture.

CIPFA has also included several examples of good practice in the publication, but also notes that these examples should be tailored to each individual authority’s circumstances.

Members may wish to familiarise themselves of CIPFA’s suggestions for streamlining the accounts to assist their scrutiny of the financial statements.

https://www.cipfa.org/~media/files/policy%20and%20guidance/panels/local%20authority%20accounting%20panel/streamlining_guidance_pre_publication_version.pdf?la=en

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