Audit Progress Report

Cleveland Fire Authority

November 2019

MAZARS

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1. AUDIT PROGRESS

Audit progress

This report sets out progress on the external audit.

2018/19 Audit

We presented our Annual Audit Letter to the previous meeting of this committee, which signalled the conclusion of the 2018/19 audit. In the Annual Audit Letter we stated that at the time of producing the report, the audit fee had not yet been finalised. We have now agreed additional fees of £950 plus VAT with the Treasurer and the letter is included at Appendix 1.

2019/20 Audit

We are currently planning our 2019/20 audit to take account of risks to the opinion and VFM Conclusion. This includes on-site work to walk-through the key controls in material financial systems and update our documentation. We will present our Audit Strategy Memorandum, summarising the findings from our risk assessment to the next meeting of this committee.

2. NATIONAL PUBLICATIONS AND OTHER UPDATES

	Publication
1	Challenges in using data across government, NAO, June 2019
2	A practical guide for Local Authorities on Income Generation (2019 edition), CIPFA, July 2019
3	Local Government audit opinions issued by 31 July 2019, PSAA, August 2019
4	Review of local authority financial reporting and external audit, MHCLG, September 2019
5	New Code of Audit Practice 2020/21 – Consultation, NAO, September 2019
6	Detailed analysis of fires attended by fire and rescue services in England from April 2018 to March 2019, Home Office, September 2019
7	Local government finance settlement 2020 to 2021: technical consultation, MHCLG, October 2019

1. Challenges in using data across government, NAO, June 2019

The government plans to produce a new national data strategy in 2020 to position "*the UK as a global leader on data, working collaboratively and openly across government*". The NAO has published a report, which sets out its experience of data use across government. The report includes:

• the current data landscape across government;
• strategy and leadership;
• the quality, standards and systems needed to use data effectively; and
• safeguarding data and enabling change.

The NAO report highlights that without accurate, timely and proportionate data, government will not be able get the best use out of public money. Despite years of effort and many well-documented failures, government has lacked clear and sustained strategic leadership on data, which has affected departments' own progress in managing and improving data. The report identifies some early signs that the situation is improving, but unless government uses the data strategy to get the right leadership, processes, systems and conditions in place to succeed, there is a risk that opportunities to improve will be missed.

The NAO has also published a blog *Right data, right place, right time,* which draws from the report and highlights some of the difficulties of maintaining effective and accurate data to inform decision making and deliver public services.

https://www.nao.org.uk/report/challenges-in-using-data-across-government/

2. A practical guide for Local Authorities on Income Generation (2019 edition), CIPFA, July 2019

CIPFA's revised income generation guide reflects on the income generation issues of 2019 and the changes that are being made. The issues that are examined in this publication include:

- the need for thorough testing and business cases to robustly assess income proposals;
- the impact of the 2018 MHCLG Statutory Investment Guidance; and
- how the pattern of local authority income is changing.

The guide is designed to allow local authorities to maximise their income potential against a backdrop of Brexit uncertainties and other economic changes. With more authorities relying on income generation to balance their budgets, the guide can help finance staff stand at arms-length to ensure authorities act prudently.

The publication also has practical guidance on income generation for different service areas including the fire and rescue service and there is a full coverage of discretionary charging rules.

https://www.cipfa.org/policy-and-guidance/publications/a/a-practical-guide-for-local-authorities-on-income-generation-2019-edition

2. NATIONAL PUBLICATIONS CONTINUED

3. Local Government audit opinions issued by 31 July 2019, PSAA, August 2019

PSAA issued a press release after the end of the 2018/19 audit deadline to highlight the increase in the number of audit opinions that were not available by 31 July 2019. PSAA found that over 40% (210 out of 486) of audit opinions on 2018/19 statements of accounts were not available by the target date of 31 July 2019, compared to just 13% in the previous year. The press release highlights the main factors that have driven the increase in delays focusing on a shortage of appropriately skilled and experienced auditors, the standard and timeliness of draft accounts, and/or associated working papers and difficulties in obtaining responses to and resolving audit queries.

Although Mazars achieved the deadline at a significantly higher proportion of authorities than the national average there was an increase in delays for similar reasons to those noted by PSAA and resourcing the large volume of public sector audit work within such a tight timetable is proving extremely challenging for all PSAA's audit suppliers.

https://www.psaa.co.uk/2019/08/news-release-local-government-audit-opinions-delivered-by-31-july-2019/

4. Review of local authority financial reporting and external audit, MHCLG, September 2019
The Ministry of Housing, Communities and Local Government announced in September that they had appointed Sir Tony Redmond to conduct a review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014. The review will not look at broader issues of local authority finances and sustainability.

The review will examine the existing purpose, scope and quality of statutory audits of local authorities in England and the supporting regulatory framework to in order to determine:

- Whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment;
- Whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils;
- Whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and
- To make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

As part of the review, MHCLG have issued a "Call for Views" which is linked below, along with the review's terms of reference.

https://www.gov.uk/government/publications/review-of-local-authority-financial-reporting-and-external-audit-terms-of-reference

https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views

5. New Code of Audit Practice 2020/21 – Consultation, NAO, September 2019
Schedule 6 of the Local Audit and Accountability Act (2014) requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

The consultation is taking place in two stages. The first has concluded and the second is currently underway with a deadline for responses of 22 November 2019. The NAO plans to finalise the Code by the end of 2019, ready to be laid in Parliament early in 2020. The new Code will apply from audits of local bodies' 2020/21 financial statements onwards.

The first stage of the consultation showed broad support for maintaining the principles-based nature of the Code, being the wider scope of public audit, independence and public reporting. However the responses highlighted that this should be supported by more detailed sector-specific guidance.

2. NATIONAL PUBLICATIONS CONTINUED

The second stage of the consultation is focusing on the text of the draft Code. In particular there are proposed changes to the way auditors report on arrangements to deliver value for money in the use of resources.

The Local Audit & Accountability Act 2014 places a specific duty on the local auditor to be satisfied whether the body they are auditing has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. In the current Code, this is referred to as work on arrangements to secure value for money. Currently, the local auditor reports against a single overall criterion as to whether: "*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.*" This is known as the value for money conclusion and is included in the Auditor Report included in Council's financial statements. The consultation draft Code proposes changes to this reporting, with a more detailed commentary on the value for money arrangements being included in a new 'Auditor's Annual Report'.

Should the Authority wish to respond to the consultation, the details are provided in the link below. The consultation will close on 22 November 2019.

https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/#

6. Detailed analysis of fires attended by fire and rescue services in England from April 2018 to March 2019, Home Office, September 2019

This release contains statistics about incidents attended by fire and rescue services (FRSs) in England for the 2018-19 financial year.. The statistics are sourced from the Home Office's online Incident Recording System (IRS) and include statistics on all incidents, fire-related fatalities and casualties from fires.

The report finds that nationally there were 253 fire-related fatalities, which was the lowest for any financial year since records began in 1981-82. Over three quarters of these fatalities were in dwelling fires. The number of dwelling fires has fallen by 23 per cent over the last 10 years, including four per cent from 2017-18 to 2018-19. However, there was a nine per cent increase in total fires compared with the previous year, which was driven by an increase in secondary fires resulting mainly from the hot, dry summer of 2018.

https://www.gov.uk/government/statistics/detailed-analysis-of-fires-attended-by-fire-and-rescue-services-england-april-2018-to-march-2019

7. Local government finance settlement 2020 to 2021: technical consultation, MHCLG, October 2019

The government has published a consultation document setting out its proposals for funding local government in 2020-21.
The consultation confirms that the Core Spending Power of local authorities is estimated to rise in real terms by 4.3% to £49.1 billion in 2020-21, an increase of £2.9 billion. It is anticipated that as part of the settlement, local authorities will be able to access an additional £1.5 billion of funding for adult and children's social care.

The consultation, which was open during October 2019, contained the following proposals:
• options for councils to raise more money for adult social care (where needed) through additional council tax flexibilities;
• powers for local authorities to raise council tax by up to 2% plus an additional 2% of adult social care tax before the need for a local referendum;
• £900 million for New Homes Bonus in 2020-2021;
• maintaining the funding for the Improved Better Care Fund at the 2019-20 levels of 1.837 billion;
• continuing the Rural Services Delivery Grant at £81 million, with all recipients receiving the same amount as in 2019-20;
• confirmation that business rates retention pilots agreed for 2019-20 will finish at the end of the financial year with no further pilots running in 2020-21; and
• confirmation of the decision to delay the funding distribution and business rates retention reforms until 2021-22.

The full technical consultation document can be found through this link:
https://www.gov.uk/government/consultations/local-government-finance-settlement-2020-to-2021-technical-consultation

3. CONTACT DETAILS

Please let us know if you would like further information on any items in this report.
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APPENDIX 1 : 2018/19 ADDITIONAL FEE LETTER

MAZARS

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Date: 19 September 2019

Dear Chris

Cleveland Fire Authority - Additional Fee Letter 2018/19

When we issued the Annual Audit Letter for 2018/19 on 9 August 2019, we reported that we had not yet finalised our audit fees for the year. We indicated that if the final fee varied from the fee reported of £25,169 plus VAT, we would write to the Chief Financial Officer setting out the proposed variation and any reasons for the variation, and seeking agreement to it. Any variations to the final fee will also require the approval of Public Sector Audit Appointments Limited (PSAA), which manages the contracts for our work.

You will recall that the fees from the 2018/19 audit year, were set by PSAA at 23% less than the fees for previous years, following the latest national procurement. It is envisaged that where additional work is undertaken beyond that normally expected a fee variation would be appropriate.

We have now assessed the final costs of our audit for 2018/19 and are seeking an additional fee variation of £950 plus VAT, making a total audit fee for the 2018/19 audit of £26,119 plus VAT.

The reasons for the variation are the significant additional work required as part of the audit this year in relation to accounting for IAS 19 pensions, in light of the national issues that arose, particularly in relation to the McCloud judgement.

These issues were summarised on page 8 of our Audit Completion Report, and resulted in significant amendments to the financial statements as set out on pages 11 and 12 of the Audit Completion Report.

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Extract from page 8 of our Audit Completion Report:

Significant matters discussed with management

There have been significant issues this year relating to accounting for pensions. These issues are not specific to the Authority, but are national issues impacting on all local government and related bodies, including police and fire. There have been three issues, but the most significant issue has been the impact of what is known as the McCloud judgement.

The nature and impact of the McCloud judgement was referenced in the Authority's draft financial statements. It relates to claims of discrimination in respect of protections offered to some, but not all, pension scheme members as part of reforms to public sector pensions. In December 2018, the Court of Appeal ruled in a test case that this did amount to unlawful discrimination. At the time the Authority was producing its draft financial statements, the Government intended to appeal to the Supreme Court and the outcome was uncertain.

During the audit period, the Government has not been granted leave to appeal, meaning that some form of restitution across all public sector pension schemes seems more certain, requiring the estimated impact of this to be reflected in the pension disclosures in the financial statements, subject to materiality considerations.

The other two issues have been:

- Guaranteed Minimum Pension (GMP) indexation and equalisation, which relate to the move to a single-tier new State Pension and equalisation of the GMP benefits between males and females, which has been accounted for to varying degrees by each actuary; and
- Asset values – this issue relates only to the Local Government Pension Scheme (which is funded) and not to the firefighters' scheme (which is not funded). The issue is whether the estimation of assets by the actuary using asset values at the end of December 2018 / end of January 2019 was accurate, given higher than expected returns in the final quarter of 2018/19.

For each of these issues, our approach has been to suggest that the Authority engages with the actuary of each scheme, to assess the potential impact of these issues, to see whether the impact is material, and if so, to make amendments to the financial statements.

The additional work included but was not limited to:

- Assessing the impact of each of these issues as they emerged;
- Communicating and discussing the implications with your officers as the position became clearer;
- Discussing and agreeing the additional steps that would be required to address these issues;
- Reviewing the additional information provided by your officers and by the actuary to assess its reasonableness;
- Considering and following up on issues raised by our own consulting actuary; and
- Checking the amendments to the financial statement disclosures when they had been made.

In your case, the additional work was undertaken both in relation to the Local Government Pension Scheme and the firefighters' scheme.

In arriving at the additional fee variation, I believe we have been fair minded, and we have absorbed a significant element of our additional costs. However, I believe that a fee variation of £950 plus VAT and an additional contribution by the Authority to our additional costs in relation to this work is both reasonable and justified in the circumstances.

I write now to seek the Authority's agreement to the proposed fee variation, so that I can write to PSAA to seek approval of the fee variation.

Please feel free to contact me if you would like clarification on any point.

Thank you again to you and your team for the support and cooperation in enabling us to complete the audit.

Yours sincerely

Gavin Barker

Gavin Baker
Director