

LEICESTERSHIRE

FIRE and RESCUE SERVICE

Status of Report: Public Agenda Item: 10

Meeting: Overview and Scrutiny Committee

Date: 28th January 2015

Subject: Appointment of External Auditor

Report by: The Treasurer

Author: Trevor Peel

For: Decision

1. Purpose

The purpose of this report is to provide the Overview and Scrutiny Committee with an update on the procurement of external audit services following a recent email from the Audit Commission to the Chief Fire and Rescue Officer (CFO). It also proposes an interim position for the appointment of internal audit services.

2. Executive Summary

2.1 The Audit Commission has a statutory duty to appoint external auditors to local public bodies under section 3 of the Audit Commission Act 1998. They wrote to the CFO in June 2014 to consult him on the proposed appointment of KPMG LLP to audit the accounts of the Combined Fire Authority (CFA) from 2015/16 for two years. The latest letter confirms that the Audit Commission Board approved the appointment at its meeting on the 4th December 2014. KPMG's appointment will commence on the 1st April 2015 and they will contact the CFO in due course about the arrangements for the audit from 2015/16.

2.2 Internal audit provision is outsourced to Leicestershire County Council's Internal Audit Service (LCCIAS). Under the current Service Level Agreement LCCIAS provide 85 days of audit time a year at a cost of £22,950. The internal audit plan for 2014/15 was agreed by the Overview and Scrutiny Committee on the 26th March 2014. It is proposed that this agreement is continued for a further two years until the 31st March 2017 to provide continuity during the changeover of the CFA's external auditor.

3. Report Detail

3.1 The Audit Commission wrote to the CFO on the 31st July 2012 confirming the appointment of PricewaterhouseCoopers LLP (PwC) as external auditor to audit the CFA's accounts for five years from 2012/13. This appointment was made under section 3 of the Audit Commission Act 1998 and was approved by the Audit

Commission Board at its meeting on the 26th July 2012.

- 3.2 The Audit Commission then announced on the 2nd April 2013 that it would re-tender the audit contracts awarded to audit firms in 2006 and 2007 representing approximately 30% of the local public audit market. The procurement was completed in April 2014 and the Commission has now finalised auditor appointments under the new contracts. The contracts are in addition to those let in 2012 covering the remaining 70% of the local public bodies to which the Commission appoints the auditor.
- 3.3 Under the provisions of the Local Audit and Accountability Act 2014, the Commission will close at the end of March 2015. A transitional body, Public Sector Auditor Appointments Limited (PSAA), set up by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts.
- 3.4 PSAA will manage the contracts until their expiry in 2017 (or 2020 if the Department for Communities and Local Government [DCLG] opts to extend some or all of the contracts). The Commission's contracts with audit firms are extendable by three years. DCLG have indicated that there will be a decision in summer 2015 about whether to extend or not. This will be the point at which local public bodies will be required to have their own auditors in place or to have agreed to participate in any collective procurement arrangements that are established.
- 3.5 KPMG LLP is a long standing provider of audit services for the Audit Commission, having been involved in these audits since the Audit Commission first used private firms to undertake work on their behalf in the 1980s. Operating from a network of offices throughout the UK, the firm has a highly experienced and dedicated Public Sector Audit department that currently audits over 240 bodies in the Local Government, Health and Criminal Justice sectors throughout England together with a significant wider Public Sector client base.
- 3.6 The primary objective of the internal audit is to provide managers, including the Treasurer, with assurance that risk management and governance is robust and the internal control systems of the CFA are operating properly. LCCIAS auditors undertake the internal audit of the CFA. The CFA's current External Auditor (PricewaterhouseCoopers) places reliance on work undertaken by LCCIAS wherever appropriate and especially for the audits of the key financial and ICT systems. The External Auditor may plan additional coverage. The extension of the internal audit contract would enable LCCIAS to provide a similar service to KPMG in their first year as external auditors.

4. Report Implications / Impact

4.1 *Legal (including crime and disorder)*

These are included in the main body of the report.

4.2 *Financial (including value for money, benefits and efficiencies)*

The annual budget for 2014/15 contains a provision of £48,340 for the costs incurred for External Audit. PwC are currently anticipating charging a total audit fee

of £38,996 for the 2014/15 audit. Under the current Service Level Agreement LCCIAS provide 85 days of audit time a year at a cost of £22,950. This number of days is slightly below other CFAs such as Nottinghamshire who in 2013/14 planned to commission 92 days.

4.3 Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)

Both External and Internal Audit provides reassurance to the general public that the CFA is meeting its statutory obligations. They also work with the Treasurer in ensuring that effective internal control procedures are in place.

4.4 Staff, Service Users and Stakeholders (including the Equality Impact Assessment)

None.

4.5 Environmental

None.

4.6 Impact upon Our Plan Objectives

The CFA's Strategic Objective 4 is the attainment of efficiency and the provision of a value for money service. The provision of both External and Internal Audit assists both effective and efficient management and good corporate governance. It also externally validates the CFA's progress in this area.

5. Recommendations

The Overview and Scrutiny Committee is asked to note the appointment of KPMG and approve the continuation of the current internal audit provision until the 31st March 2017.

6. Background Papers

- a) Appointment of External Auditor (Overview and Scrutiny Committee Report – 3rd September 2014)
- b) Confirmation of auditor appointment from 2015/16 - Audit Commission email of 15th December 2014

7. Appendices

None.