

WEST MIDLANDS FIRE AND RESCUE AUTHORITY

AUDIT AND PERFORMANCE MANAGEMENT COMMITTEE

10 OCTOBER 2011

1. **CONSULTATION ON EXTERNAL AUDIT WORK PROGRAMME AND SCALE OF FEES 2012/13 AND UPDATE ON THE FUTURE OF EXTERNAL LOCAL AUDIT**

Report of the Chief Fire Officer.

RECOMMENDED

- 1.1 THAT Members note the proposed scale of fees for the 2012/13 external audit work programme.
- 1.2 THAT Members note the consultation process in respect of the scale of fees for 2012/13.
- 1.3 THAT Members note the update regarding the future of local public audit and in particular the approach to be taken by the Audit Commission to outsourcing external audit through a procurement exercise.

2. **PURPOSE OF REPORT**

- 2.1 This report is submitted to advise Members of the proposed work programme and scale of fees for external audit work for 2012/13. The scale of fees is subject to a consultation process and this report informs Members of how to contribute to this process.
- 2.2 This report also provides an update for Members on the latest position in respect of the future of external local public audit.

3. **BACKGROUND**

- 3.1 The work programme and proposed scale of fees for 2012/13 for external audit work has been announced by the Audit Commission. The proposed scale of fees for 2012/13 audit work programme for West Midlands Fire and Rescue Authority (WMFRA) is £77,273.

- 3.2 The proposed scale fee represents a 10 per cent reduction on the published 2011/12 scale fee, although in real terms the reduction is 2 per cent as the Audit Commission had previously provided an 8 per cent rebate on the published 2011/12 scale fee.
- 3.3 The scale fee is subject to a consultation process which concludes on 24 October 2011. Members are invited to provide a consultation response. In order to inform Member views the proposed work programme and scale of fees document is attached Appendix 1. Members wishing to contribute to the consultation response should contact Jim Whittingham in SPIRiT by email at jim.whittingham@wmfs.net or by telephone on 0121 380 6683.
- 3.4 The Department for Communities and Local Government (DCLG) has announced that all public body external audit work will be undertaken by private sector audit practices from the audit year 2012/13. This intention was captured within the recent DCLG Future of Local Public Audit Consultation publication and was discussed by Members at the Authority meeting on 27 June 2011.
- 3.5 DCLG has confirmed the approach and timetable for the transfer of external public audit to the private sector. External public sector audit is to be outsourced to the private sector by way of a procurement process. This process will be managed by the Audit Commission and new contracts will be awarded for three or five years. The procurement timetable is for the new auditor appointment to be in place by 1 September 2012. This will enable the selected private sector audit practice to undertake the external audit work programme for the 2012/13 audit year. Therefore, the scale fee referred to in paragraph 3.1 above, although set by the Audit Commission, will be payable to a private sector practice.
- 3.6 The Secretary of State has previously indicated that he would support the principle of the Audit Commission's Audit Practice converting to an employee owned mutual. Staff from the Commission's Audit Practice have expressed an interest in developing proposals for an employee owned business which is independent of the Government. To this end it is possible that the Audit Practice will be bidders in the procurement exercise.
- 3.7 The Audit Commission has started the procurement process through a notice in the Official Journal of the European Union (OJEC). Bids will be invited for 10 lots across four geographical regions. As is the

case with all public audited bodies within the West Midlands, the WMFRA external audit work will be encapsulated within the West Midlands lot, which has an overall audited body notional value of £8.9m. Prospective suppliers are free to bid for all work but will only be awarded one lot in a region.

- 3.8 It is hoped that the procurement process will realise further reductions in the cost of audit to audited bodies in the form of lower scale fees. However, WMFRA scale fee for 2012/13 and beyond will not be known until the conclusion of the outsourcing exercise. The final work programme and scale of fees for 2012/13 will be published in April 2012.
- 3.9 The new audit framework, proposed within the recent Future of Local Public Audit consultation, is based around design principles including, localism, decentralisation, transparency and lower audit fees. Although this new framework is based upon the premise of individual public sector bodies (rather than the Audit Commission) procuring private sector external auditors, the Service would hope that that these design principles are followed during the current procurement process. However, at this time it is not yet known:-
- how the Audit Commission intends to guarantee the proposed scale fee for 2012/13 should it increase following the awarding of the contract;
 - whether the external audit work is to be awarded on a 3 or 5 year basis;
 - whether scale fees for the term of the awarded contract will be announced April 2011 and whether WMFRA will be consulted upon such fees; and
 - what involvement, if any, WMFRA and the West Midlands Community have in the selection of the Private Sector Auditor and the term of contract.

Clarification on the points raised above will be sought during the consultation process.

- 3.10 Whilst the outsourcing of audit work to the private sector audit has been confirmed by DCLG, all other proposals contained within the Future of Local Public Audit consultation, to which WMFRA submitted a response in June 2011, are currently being considered by DCLG prior to the publication of draft legislation. Members will be informed of the outcomes of consultation and the potential impact of draft legislation as soon as such information is known.

4. **EQUALITY IMPACT ASSESSMENT**

In preparing this report an initial Equality Impact Assessment is not required and has not been carried out. The matters contained in this report will not lead to and does not relate to a policy change.

5. **LEGAL IMPLICATIONS**

The external audit of public bodies will be undertaken by private sector audit practices, for the first time, for the audit of year 2012/13.

The Future of Local Public Audit consultation referred to in this report will inform the design of a legislative framework to support new local public audit arrangements. Consultation on draft legislation is likely to take place in autumn 2011.

6. **FINANCIAL IMPLICATIONS**

The proposed scale of fees for the audit year 2012/13 is £77,273.

BACKGROUND PAPERS

Proposed Scale of Fees 2012/13- Email to Chief Fire Officer from the Audit Commission, September 2011.

Future of Local Audit- Letter from the Audit Commission, August 2011.

WMFRA response to Future of Local Public Audit consultation June 2011.

Future of Local Public Audit consultation, published by DCLG, April 2011.

VIJ RANDENIYA
CHIEF FIRE OFFICER