



Office of the Police & Crime Commissioner

REQUEST FOR POLICE & CRIME COMMISSIONER DECISION - (N° 028 / 2017)

TITLE: Appointment of External Auditors

Executive Summary:

This report sets out the proposals for appointing the external auditor to the Commissioner for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including 2017/18 audits. The auditors are currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission.

A sector-wide procurement conducted by PSAA is likely to produce better outcomes and will be less burdensome for the organisation than any procurement undertaken locally. More specifically:

- The audit costs are likely to be lower than if the Commissioner sought to appoint locally, as national large-scale contracts are expected to drive keener prices from the audit firms;
- Without the national appointment, the Commissioner would need to establish a separate independent auditor panel. The Joint Audit and Standards Committee have agreed to fulfil this role, however there will be training and knowledge requirements which will involve additional cost and officer resources.
- PSAA can ensure the appointed auditor meets and maintains the required quality standards and can manage any potential conflicts of interest much more easily than the Commissioner; they provide an on-going contract management/quality assurance role against national standards;
- Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector and the Commissioner going forward into the medium and long term.

If the Commissioner is to take advantage of the national scheme for appointing auditors to be operated by PSAA for the subsequent years, a formal decision is needed to enable it accept the invitation by early March 2017.

Recommendation:

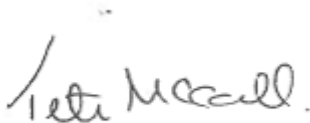
The Commissioner is asked to accept the Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

Police & Crime Commissioner

I confirm that I have considered whether or not I have any personal or prejudicial in this matter and take the proposed decision in compliance with the Code of Conduct for Cumbria Police & Crime Commissioner. Any such interests are recorded below.

I hereby approve/~~do not approve~~ the recommendation(s) above

Police & Crime Commissioner / ~~Chief Executive~~ (delete as appropriate)



Signature:

Date: 14 February 2017

PART 1 – NON CONFIDENTIAL FACTS AND ADVICE TO THE PCC

1. Introduction and Background

- 1.1 The Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015, the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies (including Police and Crime Commissioners and Chief Constables) would be extended by one year to also include the audit of the accounts for 2017/18.
- 1.2 The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for policing bodies to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow policing bodies to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 1.3 In July 2016 Public Sector Audit Appointments (PSAA) were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across local government and policing. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State. PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA.
- 1.4 PSAA is inviting the Commissioner to opt in, along with all other policing bodies, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Commissioner's auditor.
- 1.5 The principal benefits from such an approach are as follows:
 - PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
 - PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
 - Any auditor conflicts at individual organisations would be managed by PSAA, who would have a number of contracted firms to call upon;
 - It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;

- The overall procurement costs would be lower than an individual smaller scale local procurement;
- The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;
- There will be no need for the Commissioner to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel', see below;
- The new regime provides both the perception and reality of independent auditor appointment through a collective approach;
- A sustainable market for audit provision in the sector will be easier to ensure for the future.

1.6 The Commissioner's current external auditor is Grant Thornton PLC, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA, and since this date PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality. Over recent years policing bodies have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission. The Commissioner's current external audit fees are £30k per annum.

1.7 The proposed fees for the subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms.

1.8 The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice, which all firms appointed to carry out the Commissioner's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.

1.9 Currently, there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these being firms with a national presence. This means that a local procurement exercise, as described immediately below, would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.

2. Other Options

2.1 If the Commissioner did not opt in there would be a need to establish an independent auditor panel. In order to make a stand-alone appointment the auditor panel would need to be set up by the Commissioner and Constabulary themselves. The members of the panel must be wholly or a majority of independent members as defined by the Act.

2.2 Alternatively, the Act enables the Commissioner to join with other authorities to establish a joint auditor panel. Again this would need to be constituted of wholly or a majority of independent appointees (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Authority under the Act. This option was investigated, in conjunction with Cumbrian local authorities, with a view to establishing a geographical contract in Cumbria. However, the consensus amongst the other local authorities was to follow the sector led approach led by PSAA and this approach was therefore not available to the Commissioner or Chief Constable.

2.3 In either case these options would be more resource-intensive processes to implement and without the bulk buying power of the sector led procurement, would be likely to result in a more costly service. It would also be more difficult to manage quality and independence requirements through a local appointment process.

3. The invitation

3.1 PSAA has now formally invited the Commissioner and Chief Constable to opt in to the sector led external audit appointment process.

3.2 In summary, the national opt-in scheme provides the following:

- The appointment of a suitably qualified audit firm for each of the five financial years commencing 1 April 2018;
- Appointing the same auditor to other opted in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible within other constraints;
- Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed procurement strategy;
- Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
- Minimising the scheme management costs and returning any surpluses to scheme members;
- Consulting with authorities on auditor appointments, giving the Commissioner the opportunity to influence which auditor is appointed;
- Consulting with policing bodies on the scale of audit fees and ensuring these reflect scale, complexity and audit risk;
- Ongoing contract and performance management of the contracts once these have been let.

4. Next Steps

- 4.1 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by the Commissioner. The Commissioner then needs to formally respond to PSAA's invitation in the form specified by PSAA by early March 2017.
- 4.2 PSAA will commence the formal procurement process after this date. It expects to award contracts in summer 2017 and consult with policing bodies on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017.

5. Risk Management Implications

- 5.1 The principal risks are that the Commissioner fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.

6. Legal implications

- 6.1 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Police and Crime Commissioner to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the Commissioner must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant Police and Crime Commissioner is operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the policing body under those arrangements.
- 6.2 Section 12 makes provision for the failure to appoint a local auditor: the Commissioner must immediately inform the Secretary of State, who may direct him to appoint the auditor named in the direction or appoint a local auditor on behalf of the Commissioner.
- 6.3 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State specified PSAA as the appointing person.

7. Financial Implications

- 7.1 There is a risk that current external fees levels could increase when the current contracts end in 2018.

7.2 Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.

7.3 If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2018/19.

8. Procurement Implications

8.1 Opting into the national scheme is a collaborative procurement arrangement covered within the Commissioner and Chief Constable’s Joint Procurement Arrangements. Advice will be sought from the Head of Procurement regarding any exemptions to access the collaborative arrangements through PSAA.

9. Backgrounds / supporting papers

(List any relevant business case, EIA, PID, Media Strategy and append to this form; list persons consulted during the preparation of the report)

- Appendix – Letter from Public Sector Audit Appointments October 2016

Michelle Bellis Deputy CFO

17 January 2017

<p>Public Access to Information</p> <p>Information in this form is subject to the Freedom of Information Act 2000 (FOIA) and other legislation. Part 1 of this form will be made available on the PCC website within 3 working days of approval. Any facts/advice/recommendations that should not be made automatically available on request should not be included in Part 1 but instead on the separate Part 2 form. Deferment is only applicable where release before that date would not compromise the implementation of the decision being approved.</p>
<p>Is the publication of this form to be deferred? NO</p> <p>If yes, for what reason:</p> <p>Until what date (if known):</p>

Is there a **Part 2** form - NO

(If Yes, please ensure Part 2 form is completed prior to submission)

ORIGINATING OFFICER DECLARATION:

I confirm that this report has been considered by the Chief Officer Group and that relevant financial, legal and equalities advice has been taken into account in the preparation of this report.

Signed: **Date:**

OFFICER APPROVAL

Chief Executive / Deputy Chief Executive (delete as appropriate)

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner / Chief Executive (delete as appropriate).

Signature: R. Hunter

Date: 14 February 2017

Media Strategy

The decision taken by the Police & Crime Commissioner may require a press announcement or media strategy.

Will a press release be required following the decision being considered? NO

If yes, has a media strategy been formulated? YES / NO

Is the media strategy attached? YES / NO

What is the proposed date of the press release: