



**west midlands
police and crime
commissioner**



AGENDA ITEM 14

**JOINT AUDIT COMMITTEE
8th December 2016**

Public Sector Audit Appointments

1. PURPOSE OF REPORT

- 1.1 To inform Members of the latest position in relation to the appointment of External Auditors for both Police Crime Commissioner and the Police Constable of the West Midlands. This is to enable External Auditors to be in place from April 2018 to complete the audit of accounts for the financial year 2018/19.

2. BACKGROUND

- 2.1 On 13 August 2010, the Government announced its intention to abolish the Audit Commission and put in place new decentralised arrangements for the audit of local public bodies.
- 2.2 In March 2012 the Audit Commission completed a procurement exercise to outsource the work of its in-house audit practice, covering 70% of principal audits. This exercise, and other efficiencies, allowed the Commission to make reductions of up to 40% in audit and certification fees from 2012/13, subject to annual review.
- 2.3 As a result of this procurement exercise Grant Thornton UK LLP were appointed to audit the PCC and Chief Constable of the West Midlands for a five year period from 2012/13 i.e. ending with the audit of the 2017/18 accounts.
- 2.4 The Local Audit and Accountability Bill, published in May 2013, delivered the Government's commitment to close the Audit Commission and transfer its remaining functions. The Bill put in place a new local audit and accountability framework for local public bodies in England. This replaces the centralised arrangements for the audit of local bodies with a more local approach, giving local bodies the freedom to appoint their own auditors from an open and competitive market; manage their own audit arrangements, with appropriate safeguards to ensure auditor independence; and retain the same high standards.
- 2.5 Although the Minister of State was very keen that all local public bodies should establish Auditor Panels to select and appoint their own auditors, local public bodies - including

the police - were not as enthusiastic and lobbied the Government to change the proposed legislation to enable sector-led collective procurement arrangements in order to benefit from economies of scale.

- 2.6 The Government clearly listened since Section 17 of the Local Audit and Accountability Act 2014 (the 2014 Act) gives the Secretary of State the power to make provision, by regulations, for certain relevant authorities to have a local auditor appointed on their behalf by a body (an 'appointing person') specified by the Secretary of State. This is to allow for sector-led collective procurement arrangements, under which relevant authorities would be able to opt to have their auditor appointed by a specified sector-led body, rather than appoint locally.

3 PUBLIC SECTOR AUDIT APPOINTMENTS LTD (PSAA)

- 3.1 In July 2016 the Secretary of State confirmed that PSAA has been specified as an appointing person under the provisions of the 2014 Act and the Local Audit (Appointing Person) Regulations 2015. This means that PSAA will make auditor appointments to relevant principal local government bodies that choose to opt into the national appointment arrangements they are developing, for audits of the accounts for 2018/19.

- 3.2 PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association.

- 3.3 The PSAA have produced a number of documents on their proposal. These are detailed below:

- A prospectus explaining how they are developing a scheme for local auditor appointment. This is available through the link below.

<http://www.psaa.co.uk/wp-content/uploads/2016/08/PSAA-A5-web-portrait-August-2016.pdf>

- A frequently asked question document that provides more details to the proposal. Again this is available through the link below.

<http://www.psaa.co.uk/wp-content/uploads/2016/11/Appointing-person-FAQs-updated-8-November-2016.pdf>

- Letter sent to PCCs setting out the proposal. This is attached to this report.

- 3.5 According to PSAA the benefits of joining their scheme are:

- Assured appointment of a qualified, registered, independent auditor
- Appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- On-going management of independence issues
- Securing highly competitive prices from audit firms
- Minimising scheme overhead costs
- Savings from one major procurement as opposed to a multiplicity of small procurements
- Distribution of surpluses to participating bodies
- A scale of fees which reflects size, complexity and audit risk

- A strong focus on audit quality to help develop and maintain the market for the sector
- Avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- Enabling time and resources to be deployed on other pressing priorities
- Setting the benchmark standard for audit arrangements for the whole of the sector

3.6 The option to join PSAA proposal is free and there will not be a requirement to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to the PSAA of appointing auditors and managing the arrangements. The PSAA believes that the audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition individual authorities will avoid the costs of their own procurement and management of contracts and also the requirements to set up an auditor panel with independent members.

3.7 The fee charged to the West Midlands PCC and CC will reflect the size of the organisations, audit risk and complexity of the work required. The PSAA will establish a system for setting the fee which is fair to all opted-in authorities.

3.8 The audits contracts agreed through the PSAA arrangement will be compliant with the National Audit Office (NAO) Code of Audit Practice. The specific terms and conditions of the audit contracts are being discussed with the stakeholder advisory panel set up by the PSAA to comment on the proposals. This includes ensure there are contract performance targets and measures.

4 ISSUES FOR CONSIDERATION

4.1 The Committee's current terms of reference include the following in respect of external appointing external auditors:

- Advising the WMPCC and the Chief Constable on the appointment of external auditors.
- Approving on behalf of the WMPCC and the Chief Constable the external audit programme and associated fees.

4.2 It is ultimately the PCC and the Chief Constables decision as to whether they join the PSAA proposal in relation to external audit. However, in reaching this decision they will consider the views of the Joint Audit Committee.

5 TIMESCALES

5.1 The PSAA issued invitations to formally opt in were issued in October 2016. The Commissioner and the Chief Constable then has until the 9 March 2017 opt into the proposals. Other key dates that the PSAA have detailed in their proposals are as follows:-

- Invite tenders from audit firms - by April 2017
- Award contracts - by 30 June 2017
- Consult on and make final auditor appointments - by 31 December 2017
- Consult on, propose audit fees and publish fees - by 31 March 2018
- Contracts in place – by 1 April 2018

6 FINANCIAL IMPLICATIONS

- 6.1 The audit scale fee charges for 2016/17 are £42,368 for the PCC and £22,500 for the Chief Constable (i.e. a total charge of £64,868). Fee charges for 2017/18 are likely to be announced next March, following consultation with local public bodies and are likely to be the same as 2016/17.
- 6.2 It is too early to estimate the new audit fee with effect from 2018/19 but the cost is likely to be lower through a sector-led procurement than local procurement.

7 LEGAL IMPLICATIONS

- 7.1 The Local Audit and Accountability Act 2014 explains the process to be adopted for the next round of audit contracts in 2018/19.

8 RECOMMENDATIONS

- 8.1 The Committee is asked to consider and note the contents of this report.

Mark Kenyon
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