

**OFFICE OF THE POLICE AND CRIME COMMISSIONER
FOR HUMBERSIDE
DECISION RECORD**

Decision Record Number: 27/2016

Title: Invitation to opt into the national scheme for auditor appointments from Public Sector Audit Appointments

Executive Summary:

Report submitted that advised of an invitation to opt in to the sector led collective procurement arrangements to be operated by PSAA Ltd for the appointment of auditors from 2018/19.

Decision:

That the invitation to opt in to the sector led collective procurement arrangements to be operated by PSAA Ltd be accepted.

Background Reports: Open

Police and Crime Commissioner for Humberside

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with my code of conduct.

Any such interests are recorded below.

The above decision has my approval.

Signature



Date 14.11.16

Report to the Police and Crime Commissioner

Invitation to opt into the national scheme for auditor appointments from Public Sector Audit Appointments

1 Introduction and background

1.1 The Corporate Governance Group at its meeting on 29 September 2016 noted correspondence from Public Sector Audit Appointments Limited (PSAA) in connection with the arrangements for the appointments for the audit of local public bodies.

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

1.3 Prior to the abolition of the Audit Commission a procurement exercise was completed to outsource works covering the 70% of principal audits undertaken by its in-house audit practice. This exercise, and other efficiencies, allowed the Commission to make reductions of up to 40% in audit and certification fees from 2012/13. Fees have been subject to consultation and reviewed on an annual basis.

1.4 As a result of this procurement, KPMG were appointed to audit the PCC and Chief Constable of Humberside. The appointment of KPMG has now been extended to cover the period ending with the audit of the 2017/18 accounts.

1.5 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 set out proposals for a new local audit and accountability framework for local public bodies in England to replace the centralised arrangements with a more local approach. The intention being to give local bodies the opportunity 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.

1.6 The then Minister of State was very keen that all local public bodies should establish Auditor Panels to select and appoint their own auditors. However, local public bodies - including those in policing - recognised the potential difficulties and the burden of additional administration. As a result the Government was lobbied to change the proposed legislation to enable sector-led collective procurement arrangements to be introduced in order to reduce bureaucracy and to benefit from economies of scale.

1.7 This lobbying was successful and the subsequent legislation, the Local Audit and Accountability Act 2014, in Section 17, gives the Secretary of State the power to specify an "appointing person" so that certain relevant authorities can have a local auditor appointed on their behalf.

1.8 This allows 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.

1.9 PSAA have now been designated as an “appointing person” and have invited the Police and Crime Commissioner for Humberside, as “the authority”, to opt in in accordance with the Regulations.

1.10 They indicate that 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

1.11 The length of the compulsory appointing period is the 5 consecutive financial years commencing 1 April 2018.

1.12 Further detailed information is contained in the opt-in letter and additional information set out in the appendices to this report.

1.13 Informal indications from work carried out by the Police and Crime Commissioners Treasurers’ Society (PACCTS) suggests that an overwhelming number of Police and Crime Commissioners and Chief Constables will seek to opt in to the sector led collective approach with PSAA.

1.14 In normal circumstances, the Joint Independent Audit Committee (JIAC) or Joint Independent Audit and Ethics Committee (JIAEC) would undertake the following tasks in respect of external audit:

- Consider and comment upon any proposals affecting the provision of the external audit service

- Consider the level of fees charged, and
- Carry out the future role of the Independent Audit Panel, as set out in the Local Audit and Accountability Act 2014, including considering and recommending appropriate arrangements for any future appointment of External Auditors

1.15 In the absence of the JIAC/JIAEC this report is being taken directly to the Commissioner to consider the recommendation from Officers to join the PSAA sector-led collective procurement arrangement.

1.16 It should be noted that the Regulations require a decision to become an opted-in authority to be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, except where the authority is a corporation sole, such as a police and crime commissioner, in which case this decision can be taken by the holder of that office.

2 Financial comments

2.1 The audit scale fee charges for 2016/17 are £33,825 for the Police and Crime Commissioner and £15,000 for the Chief Constable (i.e. a total charge of £48,825).

2.2 Fee charges for 2017/18 are currently the subject of a consultation exercise which ends in January 2017. The outcome will be announced next March. This will be the final year of fees under the present contracts. The consultation document proposes that fees will remain the same as for this financial year.

2.3 It is too early to estimate the new audit fee with effect from 2018/19 but the cost will almost certainly be lower through a sector-led procurement than local procurement.

3 Legal comments

3.1 The Local Audit and Accountability Act 2014 sets out the process to be adopted for the next round of audit contracts in 2018/19.

3.2 Section 17 of that Act allows 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. The provisions are set out in the Local Audit (Appointing Person) Regulations 2015.

4 Equality comments

4.1 There are none arising specifically from this report

5 Conclusion

5.1 It has now been confirmed that the appointment of KPMG will be extended for a further year, 2017/18, and the process for appointment of external auditors from 2018/19 onwards will be in accordance with the Local Audit and Accountability Act 2014.

5.2 PSAA have been designated as an appointing person in accordance with the Local Audit (Appointing Person) Regulations 2015 and have invited the Police and Crime Commissioner for Humberside to become an opted in authority.

5.3 There are significant advantages in opting into the sector led collective procurement arrangement as detailed in this report.

6. Recommendation

6.1 That the Commissioner is asked to formally accept the invitation to opt in to the sector led collective procurement arrangements to be operated by PSAA Ltd.

Background papers

Appendix 1 – Letter dated 22 September 2016 from Jon Hayes, Chief Officer, PSAA

Appendix 2 – Prospectus for the new PSAA scheme

Appendix 3 – Appointing Person: Frequently asked questions

Appendix 4 - E-mail of 27 October 2016 from Jon Hayes and attachments

