



# CLEVELAND POLICE

## **Joint Report to the Chair and Members of the Audit Committee 16<sup>th</sup> December 2016**

**Executive & Presenting Officer: Mr Michael Porter, Chief Finance officer to the PCC**

### **Appointment of External Auditors**

#### **1. Purpose**

- 1.1. The attached report sets out changes to the arrangements for appointing external auditors, the options available and the Chief Finance Officers' recommendation to the Police and Crime Commissioner and Chief Constable in this respect.
- 1.2. The Joint Audit Committee's Terms of Reference state:  
  
`The Audit Committee is responsible for advising the PCC and Chief Constable of Cleveland Police on the appointment of external auditors.`
- 1.3. The report is presented for Members' consideration and to provide them the opportunity to provide advice to the PCC and Chief Constable.

Graeme Slaughter  
Chief Finance Officer  
to the Chief Constable

Michael Porter  
Chief Finance Officer  
to the PCC

December 2016

## **Report to Chief Constable and Police & Crime Commissioner.**

### **Appointment of External Auditors**

#### **1. Purpose of Report**

- 1.1. External auditor appointments must be made for the 2018/19 audit of accounts by 31 December 2017, as required by section 7 of the Local Audit and Accountability Act 2014. Appointments may be made by the audited body itself, by groups of audited bodies, or by a specified appointing person.
- 1.2. This report sets out the options available to the Chief Constable/Police & Crime Commissioner for making that appointment.

#### **2. Recommendation**

- 2.1. It is recommended that the Chief Constable and Police & Crime Commissioner 'opt in' to the Public Audit Appointments Limited (PSAA) sector led option for the appointment of external auditors for the five financial years commencing 1<sup>st</sup> April 2018.

#### **3. Background**

- 3.1. Following the closure of the Audit Commission on 31 March 2015 an independent company created by the Local Government Association, called Public Sector Audit Appointments Limited (PSAA) has been responsible for overseeing the Audit Commission's current external audit contracts with audit firms from 1 April 2015 until December 2017 or up to 2020. It manages the contracts and exercises statutory powers to appoint auditors and set and determine fees.
- 3.2. The PSAA has confirmed the extension of the Mazaars LLP contract with the Chief Constable and PCC for one year to enable them to audit the accounts for 2017/18. At the conclusion of this audit the contract with Mazaars will conclude.
- 3.3. Whilst the Home office Financial Management Code of Practice recommends that the PCC and CC agree on joint internal audit arrangements including a joint Audit Committee, it makes no recommendation in respect of external audit arrangements as, until now, these were a matter for the Audit Commission. However, as the Chief Constable's accounts are a subset of the PCC's Group accounts, it would neither be sensible nor value for money for each to have a different auditor.

#### **4. Local Auditor Appointment Requirements from 2018/19**

- 4.1. The arrangements for local auditor appointments set out in the Local Audit and Accountability Act 2014 will apply for audits of the accounts of principal local government bodies from 2018/19 onwards.
- 4.2. Auditor appointments must be made for 2018/19 audits by 31 December 2017, as required by section 7 of the Local Audit and Accountability Act.

- 4.3. Appointments may be made by the audited body itself, by groups of audited bodies, or by a specified appointing person. The relevant regulations require that the decision on which option to take is made by the Corporation Sole.

## **5. Public Sector Audit Appointments Limited (PSAA)**

- 5.1. PSAA has been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies under the provisions of the 2014 Act. This means that PSAA will make auditor appointments to relevant principal local government bodies that choose to opt into the national appointment arrangements PSAA is developing.
- 5.2. PSAA is inviting the Chief Constable and PCC to opt in, along with all others, so that it can procure a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council/Authority's auditor. The timetable it has outlined for appointing auditors under the scheme means it has now issued a formal invitation to opt into these arrangements.
- 5.3. Formal notification of 'opt in' needs to be received by PSAA by 9 March 2017.
- 5.4. Details of the PSAA Scheme are attached at Appendix A.

## **6. Considerations**

- 6.1. A sector-wide procurement conducted by PSAA should produce better outcomes and will be less burdensome than a procurement undertaken locally. More specifically:
- 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 authorities 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 Chief Constable and PCC to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel'
  - The new regime provides both the perception and reality of independent auditor appointment through a collective approach
  - Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector going forward into the medium and long term.

- 6.2. However, if the Chief Constable and PCC decided not to opt in to the national scheme there would be a need to establish an independent auditor panel to make a stand-alone appointment. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees.
- 6.3. Alternatively the Act enables the Chief Constable and PCC to join with other corporations sole to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees.
- 6.4. Further legal advice would be required on the exact constitution of such a panel.
- 6.5. 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 would seek tenders from these same firms. Local firms could not be invited to bid.
- 6.6. Not 'opting in' to the national scheme would require a 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.

## **7. Implications**

### **7.1. Finance**

- 7.2. The proposed fees for future years cannot be known until the procurement process has been completed. However, 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

### **7.3. Diversity and Equal Opportunities**

- 7.4. There are no diversity and equal opportunities issues arising from this proposal.

### **7.5. Human Rights Act**

- 7.6. There are no human rights issues arising from this proposal.

### **7.7. Sustainability**

- 7.8. Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector going forward into the medium and long term.

### **7.9. Risk**

- 7.10. Opting in to a national scheme minimises the risk of not having effective audit arrangements in place.

## **8. Conclusion**

- 8.1. Not 'opting into' the national scheme would be more resource-intensive 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.

Graeme Slaughter  
Chief Finance Officer  
to the Chief Constable

Michael Porter  
Chief Finance Officer  
to the PCC

December 2016

## Appointing an external auditor

### Information on the national scheme

#### Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

#### The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

#### What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the

appointment;

- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

### **High quality audits**

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

### **Procurement strategy**

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

### **Auditor appointments and independence**

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment. We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

### **Fee scales**

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local



government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

## **Opting in**

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

## **Timetable**

In summary, we expect the timetable for the new arrangements to be:

- |   |                         |
|---|-------------------------|
| • Invitation to opt in issued                   | 27 October 2016         |
| • Closing date for receipt of notices to opt in | 9 March 2017            |
| • Contract notice published                     | 20 February 2017        |
| • Award audit contracts                         | By end of June 2017     |
| • Consult on and make auditor appointments      | By end of December 2017 |
| • Consult on and publish scale fees             | By end of March 2018    |

## Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: [appointingperson@psaa.co.uk](mailto:appointingperson@psaa.co.uk).