

Police and Crime
Commissioner
North Yorkshire



JOINT INDEPENDENT AUDIT COMMITTEE

POLICE AND CRIME COMMISSIONER FOR NORTH YORKSHIRE AND NORTH YORKSHIRE POLICE

**1PM MONDAY 13 DECEMBER 2016 CONFERENCE ROOM ONE, POLICE
HEADQUARTERS, NEWBY WISKE, DL7 9HA**

APPOINTMENT OF EXTERNAL AUDITORS

INTRODUCTION

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.
2. The Police and Crime Commissioner and the Chief Constable have the power to make separate appointments of External Auditors. This report sets out the options available for making that appointment.

BACKGROUND

3. 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.
4. The PSAA has confirmed the extension of the Mazaars LLP contract with the PCC and the Chief Constable 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.
5. 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 the appointment of different auditors.

Local Auditor Appointment Requirements from 2018/19

6. 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.
7. 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.
8. 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's Sole.

Public Sector Audit Appointments Limited (PSAA)

9. 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.
10. PSAA is inviting the PCC and Chief Constable 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 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.
11. Formal notification of 'opt in' needs to be received by PSAA by 9 March 2017.

Considerations

- 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

- The will be no need for the PCC and Chief Constable 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.
12. However, if the PCC and Chief Constable 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.
13. Alternatively the Act enables the PCC and Chief Constable 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.
14. Further legal advice would be required on the exact constitution of such a panel.
15. 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.
16. 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.

SUSTAINABILITY AND RISKS

Sustainability

17. 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.

Risk

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

FINANCIAL IMPLICATIONS

19. 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.

LEGAL IMPLICATIONS

20. 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

EQUALITY AND DIVERSITY AND HUMAN RIGHTS IMPLICATIONS

21. There are none in the context of this report.

CONCLUSIONS

22. 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.

RECOMMENDATIONS

23. The Terms of Reference for the Audit Committee include that it is the role of the Committee to:

- Advise the Commissioner and the CC on the appropriate arrangements for external audit and the appointment of external auditors.

24. Therefore it is recommended that the Audit Committee considers the contents of this report, and if they are in agreement with the proposals set out within this paper, that are supported by both of the Chief Finance Officers, that they advise/recommend that the Police & Crime Commissioner and the Chief Constable 'opt in' to the Public Sector Audit Appointments Limited (PSAA) sector led option for the appointment of external auditors for the five financial years commencing 1st April 2018

Michael Porter
PCC CFO

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CC CFO