

**To: Joint Audit Committee**

**Date: 27<sup>th</sup> September 2016**

**By: Ian Perkin, Treasurer**

**Title: Public Sector Audit Appointments**

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**1). Purpose of Report/Issue:**

This report outlines the possible external audit arrangements, that on the advice of the Joint Audit Committee, the Police & Crime Commissioner and Chief Constable may wish to put in place for the audit of the 2018/19 accounts and for subsequent years accounts for a suitable period of time thereafter.

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**2). Alternative Arrangements**

- (i) 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.
- (ii) 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. As a result of this procurement exercise Grant Thornton were appointed to audit the PCC and Chief Constable of Surrey for a five year period from 2013/13 i.e. ending with the audit of the 2017/18 accounts.
- (iii) 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 proposed a new local audit and accountability framework for local public bodies in England, to replace 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 and manage their own audit arrangements, with appropriate safeguards to ensure auditor independence; and retain the same high standards as previously experienced.
- (iv) Although the Minister of State was very keen that all local public bodies should establish Auditor Panels to select and appoint their own

auditors, some local public bodies - including some policing bodies - 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.

- (v) In response to these concerns the Government enacted Section 17 of the Local Audit and Accountability Act 2014 (the 2014 Act) which gave 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.
- (vi) 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 can 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. No other body has been specified as an appointing person by the Secretary of State.
- (vii) PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association and is expected to invite public sector organisations to "opt-in" during December of this year. The time period of making responses to the invitations will be eight weeks, with the PSAA expecting to issue contracts to audit firms by June 2017. It is anticipated that the contracts will be agreed for a time period of between three and five years.
- (viii) The audit scale fee charges for 2016/17 are £38.7k for the PCC and £15k for the Chief Constable (i.e. a total charge of £53.7k). Fee charges for 2017/18 are likely to be announced next March, following consultation with local public bodies. This will be the final year of fees under the present contracts. It is too early to estimate what the new audit fees would be for 2018/19, under either the PSAA route or from local appointment arrangements.

### **3). Potential Benefits/Disbenefits From Using PSAA**

If successful PSAA may achieve significant economies of scale regarding the agreed contract prices that they can achieve from the audit firms that will tender for the work, compared with that which could potentially be achieved by public bodies tendering alone. In addition the overheads that PSAA incur in acting as an "appointing person" when proportioned among the public

bodies that they act for, may be lower than the costs incurred by public bodies that act independently and choose not to appoint PSAA.

However, any of these potential benefits will clearly be dependent on how successful PSAA are in getting public sector bodies to appoint them as “appointing person”, an action which inevitably involves surrendering local autonomy, in terms of the ability to make a local decision about which specific audit firm should be appointed to carry out the external audit function from 2018/19 onwards.

#### **4).Recommendation**

The Committee is requested to advise the Police & Crime Commissioner and Chief Constable on whether the invitation from the PSAA, to appoint them as the “Appointing Person” for the purposes of contracting with an audit firm that will provide external services to the Surrey PCC and CC from 2018/19, should be accepted. Or whether the PCC and CC should proceed to initiate local tendering arrangements to appoint a new external auditor from 2018/19 onwards.

Three documents are appended to this report for members information:

Appendix 1 – Letter dated 17 August from Jon Hayes, Chief Officer, PSAA to Ian Thompson, President of the Police and Crime Commissioners Treasurers Society.

Appendix 2 – Prospectus for the new [PSAA] scheme

Appendix 3 – Appointing Person: Frequently asked questions

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