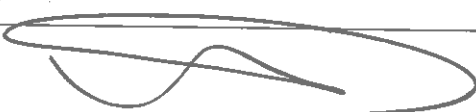


**POLICE AND CRIME COMMISSIONER (PCC) FOR LINCOLNSHIRE  
REQUEST FOR DECISION**

REF: 004 / 2017

DATE: 8 February 2017

<b>SUBJECT</b>	<b>Appointment of External Auditor from 2018/19</b>
<b>REPORT BY</b>	<b>PCC Chief Finance Officer &amp; CC Chief Finance Officer</b>
<b>CONTACT OFFICER</b>	<b>Gillian Holder, Deputy Chief Finance Officer Tel. 01522 558187 Email: gillian.holder@lincs.pnn.police.uk</b>
<b>EXECUTIVE SUMMARY AND PURPOSE OF REPORT</b> To set out the options available to the PCC in order to appoint the External Auditor by 31 December 2017 for the 2018/19 audit. To recommend which option should be selected.	
<b>RECOMMENDATION</b>	<i>That the Business Case is reviewed and the recommended option (Option 4 – national ‘appointing person’ body) is accepted.</i>

<b>POLICE AND CRIME COMMISSIONER FOR LINCOLNSHIRE</b>	
I hereby approve the recommendation above, having considered the content of this report.	
Signature: 	Date: 15/2/17

**A. NON-CONFIDENTIAL FACTS AND ADVICE TO THE PCC**

**A1. INTRODUCTION AND BACKGROUND**

- 1.1 The Local Audit & Accountability Act 2014 abolished the previous audit regime, and the Audit Commission closed on 31 March 2015. Since then Lincolnshire has had a contract with KPMG as the appointed External Auditor.
- 1.2 The current External Auditor is KPMG up to and including the audit of the 2017/18 financial year.
- 1.3 The Police & Crime Commissioner (PCC) for Lincolnshire is required to appoint their own External Auditor by 31 December 2017, for the 2018/19 financial year onwards, and then make a further appointment of a local auditor at least once every 5 years.

- 1.4 The local auditor appointed must be eligible for appointment in accordance with the Local Audit & Accountability Act 2014.
- 1.5 A business case has been prepared which is attached at Appendix 1. The business case sets out the options and makes a recommendation on the preferred option, which is option 4 a national 'appointing person' body approach with PSAA on the grounds of competition, capacity, risk and cost.
- 1.6 The deadline for responding to the PSAA invitation is 9 March 2017.

**A2. LINKS TO POLICE AND CRIME PLAN AND PCC'S STRATEGIES/PRIORITIES**

This decision is consistent with the framework and parameters set out in the PCC's Financial Strategy.

**B. FINANCIAL CONSIDERATIONS**

There is a base budget for the annual external audit. Financial considerations will be part of the procurement process in the future.

**C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS**

*[This should include the legal powers the PCC has for making the decision]*

None specific at this stage.

**D. PERSONNEL AND EQUALITIES ISSUES**

None specific

**E. REVIEW ARRANGEMENTS**

The JIAC have reviewed the draft PCC decision and associated business case at the meeting on 1 February 2017. They wished to add that the national 'appointing person' body be made aware of the regional collaborations in the East Midlands, and therefore there would be a benefit to having the same External Auditor across these 5 Forces.

**F. RISK MANAGEMENT**

Consideration of the options at this time mitigates the risk of failing to appoint the External Auditor by 31 December 2017.

**G. PUBLIC ACCESS TO INFORMATION**

Information in this form along with any supporting material is subject to the Freedom of Information Act 2000 and other legislation.

**Is the publication of this form to be deferred? Yes / No**  
**If Yes, for what reason:**  
  
**Until what date:**

Any facts/advice/recommendations that should not be made automatically available on request should not be included in Part 1 but instead on the separate part 2 form.

**Is there a part 2 form? Yes / No**  
**If Yes, for what reason:**

**ORIGINATING OFFICER DECLARATION**

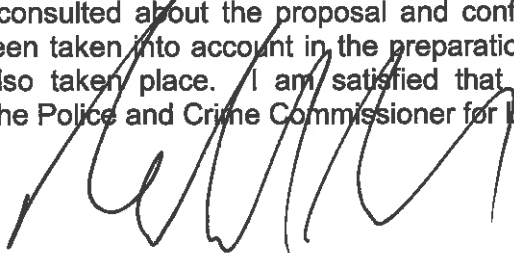
	Initial to confirm
Originating Officer: The Deputy CFO recommends this proposal for the reasons outlined above.	adl
Financial advice: The PCC's Chief Finance Officer has been consulted on this proposal.	JF
The CC's Chief Finance Officer has been consulted on this proposal.	se
Monitoring Officer: The PCC's Monitoring Officer has been consulted on this proposal	vs
Chief Constable: The Chief Constable has been consulted on this proposal	W

**OFFICER APPROVAL**

**Chief Executive**

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. Consultation outlined above has also taken place. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner for Lincolnshire.

**Signature:**

A handwritten signature in black ink, appearing to be 'A. Smith', written over the text of the approval statement.

**Date:** 14/2/17

# Business Case for the Appointment of External Auditor from 2018/19

## Introduction

This business case evaluates the options available to the Police and Crime Commissioner (PCC) for commissioning the external audit service for the PCC and Chief Constable's accounts with effect from the 2018/19 financial year. In practice, this means that the external auditor needs to be appointed by 31 December 2017.

This business case outlines the current arrangements and the reasons for making a change. Four options are then identified and evaluated and the recommended way forward is to opt into a sector-led body (an "appointing person") who will make an independent appointment of a local auditor.

## Current Arrangements

Since the early 1980s the Audit Commission appointed external auditors to local authorities, including police authorities, in order to ensure the appointments were independent. This arrangement continued when the police authority was abolished in 2012 and the PCC's and Chief Constable's accounts are audited by KPMG under a contract awarded under this regime. The fee for the audit of the 2015/16 accounts was £44,000 (£29,000 for the PCC's accounts and £15,000 for the Chief Constable's accounts) and the current contract with KPMG expires after the audit of the 2017/18 accounts.

## The Reasons for Change

The Local Audit & Accountability Act 2014 abolished the previous audit regime, and the Audit Commission closed on 31 March 2015.

Under the new law the Police & Crime Commissioner (PCC) for Lincolnshire is required to appoint a local auditor for their own accounts and the Chief Constable's accounts by 31 December 2017, for the 2018/19 financial year onwards, and then make a further appointment of a local auditor at least once every 5 years. (Chief Constables are not permitted to make their own appointment of a local auditor.)

The local auditor appointed must be eligible for appointment in accordance with the Local Audit & Accountability Act 2014.

## Available Options

There are four available options:

1. Re-appoint the existing external auditor, KPMG.
2. Make an appointment using an existing government or public sector framework.
3. Carry out a standalone procurement process.
4. Opt into a body who will fulfil the 'appointing person' role on behalf of the PCC (i.e. carry out the appointment role along the same lines as the Audit Commission did). To keep the options open at this stage, the PCC has registered his interest in joining Public Sector Audit Appointments Ltd (PSAA, a company limited by guarantee incorporated by the Local Government Association (LGA)).

If options 1, 2 or 3 are followed the PCC will need to establish an Auditor Panel to advise on:

- the selection and appointment of the auditor
- whether the PCC should adopt a policy on obtaining non-audit services from the auditor, including the contents of such a policy
- any proposal by the PCC to enter into a liability limitation agreement
- maintaining an independent relationship with its auditor
- the outcome of any investigation of an auditor's resignation from office, if this occurs, or on any proposal to remove a local auditor from office.

There are several options for how the PCC can set up an Auditor Panel. There could be a standalone panel for Lincolnshire; there could be a joint panel with other PCCs; an existing committee might be able to carry out the role if it meets the criteria for independence; or the PCC could arrange for another PCC's Auditor Panel to carry out the role on his behalf.

The reason for having the machinery of an Auditor Panel is to bring some independence into the appointment of local auditors. If option 4 were selected there would be no need for an auditor panel as the sector-led body would be independent of the PCC.

## **Preferred Option**

Option 4 (Joining the national 'appointing person' body) is the preferred option on the grounds of competition, capacity, risk and cost. An assessment of the four options against each of the four criteria is set out below.

### ***Competition***

The Government's changes to the audit regime for PCCs and police forces (as well as local authorities and health bodies) has not removed the expectation that contracts would be awarded through competition, in order that value for money is achieved for the public sector. On that basis, option 1 is weak since it would not involve a new competition. On the assumption that it was an extension of a contract awarded under competition, things have changed and the contract may not represent the best value for money which could be achieved. Also, a five-year extension might not be viable meaning that one of the other options would need to be followed in a year or two's time.

Option 2, a framework contract, allows a contract to be awarded on the terms that were offered under a competitive process without the PCC having to incur as much cost in the procurement process. However, first the PCC would have to find a framework offering a suitable external audit service and even then there may be a need to customise the specification and terms and conditions of the contract to meet the requirements of a local auditor appointment under the new legislation.

Option 3, a standalone tendering process, and option 4, the national appointing person approach, both involve a new competition process. In all likelihood option 4 is likely to have more effective competition in terms of price and overall quality because it will be offering larger volume contracts which will be more attractive to the bigger audit firms. A standalone contract for Lincolnshire Police's audit work might not be so attractive to the larger firms, especially as the tendering process will be running at the same time as the national procurement process.

What option 3 could offer, though, is the potential for some customisation of the audit service (although given the nature of external auditing and the need to meet codes of practice, etc. this advantage is more theoretical than practical). Option 3 might also attract local/regional audit firms who do not have the scale and/or capacity to bid for the national procurement contracts. Under option 3, it would be the PCC's responsibility to ensure that any bidding firms will meet the quality and performance standards expected for the audit of public funds.

## **Capacity**

Whichever option is chosen the PCC needs to have sufficient resources to do the work. External audit is not the most complicated service to specify but there are technical details to get right. Options 1, 2 and 3 require the involvement of someone with existing expertise and experience in procuring and awarding an external audit contract to ensure that the ensuing contract meets everyone's requirements. If the PCC (or the Force) do not have someone with this expertise then either there will be some costs attached to training someone to be able to do it or an external adviser would need to be hired.

Options 1, 2 and 3 also require an auditor panel to be established which will also require finding people with the appropriate skills and experience.

Under option 4, on the other hand, the specialist skills and knowledge will be within the appointing person organisation and the PCC will be able to benefit from those skills and knowledge as part of the overall service.

## **Risk**

Every procurement project carries some risks including:

- getting the specification right;
- meeting timescales and deadlines;
- complying with public procurement regulations;
- managing the supplier to deliver the services in line with the contract.

Under options 1 and 3 all the associated risks are faced by the PCC and he has to ensure they are properly managed. In the scheme of things that Lincolnshire Police has to deal with the likelihood and impact of the risks associated with procuring a local auditor are low. Nevertheless, they would require some management attention. For example, as suggested above, it would be important to have access to relevant expertise (internally or externally) to draft the specification. To get that might mean arranging training or commissioning a consultant. Neither of those actions is very expensive or time consuming but such action would need to be taken to minimise the risk.

Option 3 has a slightly different risk profile because risks associated with the procurement of the framework itself would rest with whichever public body or procurement organisation is arranging it. The other risks would remain with the PCC and need to be managed accordingly.

Option 4 does not remove the risks associated with the procurement and subsequent management of a local auditor but it shares them. Some of the risks, such as



meeting the regulations, will have to be managed by the appointing person who, by virtue of having specialist staff and a single purpose, is in a better position to manage them. Even so, the PCC will remain responsible for managing some of the risks and there would be an additional risk relating to ensuring the appointing person meets their obligations.

### **Cost**

The assessment of all of the three preceding criteria suggests that option 4 would be the lowest cost option. Under option 4 there is a good chance that the audit fees payable will be lower because of the improved competition as well as requiring less time input from Lincolnshire Police. The transaction costs would also be lower because there would not be a need to write a specification, run a procurement process, etc. Finally, as there will be no need for an Auditor Panel all of the costs of recruiting and operating it (such as members' expenses) will be avoided.

## **The Way Forward**

If the PCC agrees with the recommendation to adopt option 4 then the first step will be to respond to the PSAA invitation accordingly, the deadline for this is 9 March 2017.

The recommended way forward actually requires very little change to the existing management arrangements. The procurement and appointment of the external auditors will be done by a third party (PSAA in the future rather than the Audit Commission) without the need for much input by either the PCC's or the Chief Constable's CFO.

Once appointed the external auditors will have to liaise with the two CFOs throughout the year in order to carry out their work and report to the Audit Committee, just as now.

