Agenda Item No.

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JOINT INDEPENDENT AUDIT COMMITTEE
27 JULY 2017

SUBJECT	APPOINTMENT OF EXTERNAL AUDITORS FROM 2018/19 AUDIT
REPORT BY	DEPUTY CHIEF FINANCE OFFICER (PCC & CC)
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SUMMARY AND PURPOSE OF REPORT To provide the committee with an update on progress.	
RECOMMENDATION	That the Committee note the update.

A. Supporting Information

1. Introduction

The purpose of this report is to provide an update on progress in order to have an external auditor appointed by 31 December 2017.

2. Background

2.1 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.

2.2 The current External Auditor is KPMG up to and including the audit of the 2017/18 financial year.

2.3 The Police & Crime Commissioner (PCC) for Lincolnshire is required to appoint their own and the Chief Constable's External Auditor. The appointment must be made 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.

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

3. Business Case

3.1 A business case was presented to the JIAC in February, and subsequently to the PCC in order to make the decision on the preferred procurement approach.

3.2 The PCC decision was taken on 15 February 2017, which was to proceed with the national 'appointing person' body operated by Public Sector Audit Appointments Ltd (PSAA).

4. Key Dates

4.1 The PSAA invitation to opt into the national appointing person arrangements expired on 9 March 2017. The PCC accepted the invitation for The Police & Crime Commissioner for Lincolnshire and on behalf of the Chief Constable of Lincolnshire Police on 28 February 2017. The acceptance included an opportunity to highlight any preference to have the same External Auditor as other PCCs/CCs; the four East Midlands Collaborative Forces were specified in Lincolnshire's response.

4.2 Contracts have been awarded and were announced on 20 June 2017. Lots were awarded along with approximate values per audit year; see Appendix 1 for Lot details and further information on the appointment process.

4.3 PSAA plan to consult with opted-in audited bodies from August 2017, with provision in the timetable for any objections to be resolved by November 2017. The auditor appointments will be confirmed in December 2017.

4.4 The PCC must publish specific information in accordance with The Local Audit & Accountability Act 2014 (Part 3), within 28 days of the appointment.

B. Financial Considerations

Financial considerations will be part of the consultation period commencing in August 2017. Current PSAA estimates point to a possible scale fee reduction of the order of 18%.

C. Legal and Human Rights Considerations

None

D. Personnel, Equal Opportunities and Diversity Issues

(Including any impact or issues relating to Children & Young People)

None

E. Review Arrangements

The JIAC will be kept up to date with progress.

F. Risk Management

Opting in to the national appointing person arrangements is managing the risk of not meeting the deadline to appoint an external auditor.

G. Public Access to Information

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

Appendix 1 – extracts from the PSAA website

Procurement outcome – contract award

As a result of the highly successful procurement of auditor services, opted-in Local government and police bodies throughout England will collectively benefit from reduced fees for audit services in 2018/19 compared to 2016/17. Aggregate savings are expected to exceed £6m per annum, equivalent to a reduction of approximately 18% in the scale fees payable by local bodies.

The national scheme was set up to ensure the delivery of a cost effective, quality audit service for authorities. The collaborative approach will mean that the 484 opted-in local bodies will save the time and expenses associated with establishing and maintaining an independent auditor panel to oversee the procurement and ongoing management of a local auditor arrangements.

Procurement of the services started in February 2017 following an exceptionally high take-up of the scheme. The process thoroughly tested audit quality as well as attracting highly competitive prices. The successful firms possess a wealth of public sector audit experience inspiring confidence that high standards of service will be maintained.

The tender process also encouraged firms to think creatively about maximising social value benefits. Their responses promise the creation of more than 400 new apprenticeships over the life of the contract, many of which will be recruited from more disadvantaged communities.

The results of the process announced on 20 June 2017 involve the award of the following contracts:

- Lot 1 of approx. £14.6 million per audit year was awarded to Grant Thornton LLP;
- Lot 2 of approx. £10.9 million per audit year was awarded to EY LLP;
- Lot 3 of approx. £6.6 million per audit year to awarded to Mazars LLP;
- Lot 4 of approx. £2.2 million per audit year to awarded to BDO LLP;
- Lot 5 of approx. £2.2 million per audit year to awarded to Deloitte LLP; and
- Lot 6 with no guaranteed value of work to awarded to a consortium of Moore Stephens LLP and Scott-Moncrieff LLP.

Each Successful Firm could only be awarded **one** Lot only, unless there was a situation where there was no eligible bid for any one Lot – this exception situation did not arise.

Contracts were awarded on the basis of most economically advantageous tender (MEAT) with 50% of the available score awarded to price and 50% awarded to quality.

Having concluded the procurement, PSAA will commence the process of appointing auditors to opted-in bodies.

Auditor appointment process

PSAA will consult on and confirm auditor appointments to opted-in bodies from 2018/19 between August and December 2017, following award of contracts to audit firms in June. Appointments will be confirmed by the statutory deadline of 31 December 2017.

The process for making individual auditor appointments for opted-in bodies from 2018/19 is set out below.

Developing proposals

For each firm awarded an audit contract with PSAA, we will put together a balanced portfolio of proposed appointments during July 2017. Firms will need to confirm the position on independence issues for each opted-in body, before we can consult audited bodies on proposed appointments.

Within the overall context of developing auditor appointments that represent value for money, we will have regard to the following six principles approved by the PSAA Board:

1. ensuring auditor independence;
2. meeting our contractual commitments;
3. accommodating joint/shared working arrangements where possible;
4. ensuring a blend of authority types for each audit firm;
5. taking account of a firm's principal locations; and
6. providing continuity of audit firm, if possible.

The primary consideration in allocating proposed appointments to individual opted-in bodies will be ensuring independence, and then balancing the remaining principles. PSAA's stakeholder advisory panel has confirmed its support for these principles.

Consulting audited bodies

We will begin the process of consulting audited bodies on proposed appointments in August 2017, allowing five weeks for the consultation (14 August to 22 September).

Where a body accepts the appointment we have proposed, no further action is needed. The PSAA Board will consider all the 2018/19 appointments for approval at its meeting in December 2017, and confirmation letters will then be sent to opted-in bodies.

We recognise that in some instances there could be valid reasons why the proposed firm may not be appointed. Opted-in bodies will therefore have the opportunity to make representations on the proposed appointment. Although the timetable is very tight for this appointments exercise, we have provided for two opportunities for bodies to make representations (16-27 October, and 10-24 November).

Considering representations

Where an audited body objects to their proposed auditor appointment, it should set out in writing the reasons why the appointment should not be made.

The following may represent acceptable reasons:

1. there is an independence issue, of which PSAA had not been informed;
2. there are formal and relevant joint working arrangements, of which we had not been informed; or
3. there is another valid reason, for example a body can demonstrate a history of inadequate service from a particular firm.

Representations will be considered carefully and a formal response made in each case, whether accepted or rejected. Bodies whose representations are not accepted will have one final opportunity to make representations to the Board, providing any additional information they may wish to present to support their case.

Consulting on revised proposals

Where the PSAA Board confirms that we should consult on a revised appointment proposal in response to a representation, we will send a further consultation to the audited body. There will be a two-week consultation on the revised appointment proposals (16-27 October).

This consultation period will also apply for any opted-in body whose representations have not been accepted and which wishes to present additional information to enable further consideration of the grounds for their representation. If the Board decides that we should consult on any revised appointment proposals in response, a further two-week consultation period will apply (10-24 November).

Finalising and confirming appointments

The PSAA Board will approve all proposed appointments from 2018/19, following consultation with audited bodies, at its meeting in mid-December. The Board's decision on the appointment of auditors is final. Following Board consideration, we will write to each

audited body to confirm their appointment. We plan to send all confirmations on 18 December.