NOT CONFIDENTIAL – for public release

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

REF: *[leave blank]*
DATE: *[leave blank]*

SUBJECT	**Appointment of External Auditor from 2023/24**
REPORT BY	**PCC Chief Finance Officer & CC Chief Finance Officer**
CONTACT OFFICER	**Gillian Holder, Deputy Chief Finance Officer** **Tel. 01522 947467** **Email: gillian.holder@lincs.police.uk**
EXECUTIVE SUMMARY AND PURPOSE OF REPORT To set out the options available to the PCC to appoint the External Auditor for the 2023/24 audit onwards. To recommend which option should be selected.	
RECOMMENDATION	***That the EM Regional CFOs options paper (Appendix 1) is reviewed and Option 4 – PSAA is accepted.***

POLICE AND CRIME COMMISSIONER FOR LINCOLNSHIRE **I hereby approve the recommendation above, having considered the content of this report.**	
Signature:	***Date:***

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.

1.2 The current External Auditor is Ernst & Young LLP up to and including the audit of the 2022/23 financial year.

1.3 The Police & Crime Commissioner (PCC) for Lincolnshire is required to appoint their own, and the Chief Constable's, External Auditor by 31 December 2022, for the 2023/24 financial year onwards, and then make a further appointment of a local auditor at least once every 5 years.

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

1.5 The current audit appointment was made by the PSAA (Public Sector Audit Appointments). It is widely recognised that there have been several issues with the first round of appointments made by the PSAA for the 5 years from 2018/19.

1.6 An options paper was discussed at the EM Regional CFOs meeting in January 2022. This is attached at Appendix 1. The paper sets out the options and following discussion at the CFOs meeting it was agreed that the preferred option is option 4 via PSAA on the grounds of risk, capacity, cost and ability to influence.

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. The fees for 2021/22 are £22,554 for the PCC and £11,550 for the CC.

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

None specific

F. RISK MANAGEMENT

Consideration of the options now mitigates the risk of missing the opportunity to opt into the PSAA as the appointing person by 11 March 2022. It also mitigates the risk of failing to appoint the External Auditor by 31 December 2022.

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All opportunities to engage with the PSAA, to ensure the second round of appointments address the issues experienced in round one, will be maximised.

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.	
Financial advice: The PCC's Chief Finance Officer has been consulted on this proposal.	
The CC's Chief Finance Officer has been consulted on this proposal.	
Monitoring Officer: The PCC's Monitoring Officer has been consulted on this proposal	
Chief Constable: The Chief Constable has been consulted on this proposal	

OFFICER APPROVAL

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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: ***Date:***

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Appendix 1

EM Regional CFOs 04/01/2022
Appointing the External Auditor - Options Paper

Introduction

This paper sets out the options available for commissioning the external audit service for the PCC and Chief Constable's accounts with effect from the 2023/24 financial year.

The purpose is to understand the position and discuss options available for the policing bodies within the region and to ascertain whether there is a regional appetite to move from PSAA current arrangements. For that purpose, there is no recommended option within this paper as this may vary across the policing bodies.

Current Arrangements

The Local Audit & Accountability Act 2014 abolished the previous audit regime, and the Audit Commission closed on 31 March 2015 and Public Sector Audit Appointments (PSAA) was established to enable the procurement and appointment of external auditors on behalf of public sector organisations.

All PCCs and Chief Constables opted in to the PSAA arrangements and the external auditors EY were appointed for all policing organisations and all public sector organisations in Northamptonshire for five years with effect from 2018/19.

The five years will end in 2022/23 and PSAA have commenced procurement processes for awarding the next contracts across the public sector organisations wishing to be covered by this arrangement. Organisations wishing to take up this service are required to "opt in" by Friday 11 March 2022.

The current external audit contract has been less than ideal for all PCCs in the region. Some of the problems were experienced by all external auditors and public sector organisations, such as the increased regulation in the sector as highlighted by the Redmond Review, the impact of COVID-19 on timescales, audit resourcing and the audit approach and impacting with increased fees. However, locally it appears that some of these problems and fees were exacerbated with EY and in the EM Region where we experienced different audit approaches undertaken by EY, higher than average fee increases, auditor resource issues and late audit and sign offs.

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The Redmond Review recognised many of these challenges and set out recommendations for improvement. Alongside the provisional settlement for 2022/23, DLUHC set out their short and longer term measures to improve local audit delays in December 2021 as follows:

Measures to improve local audit delays - GOV.UK (www.gov.uk)

These measures include working closely with PSAA on the 2022/23 procurement process, working with CIPFA to develop auditor and audited body specific sessions extending the 2021/22 sign off date for the accounts to 30 November 2022, and other long term solutions.

The Reasons for Change

The Police & Crime Commissioners (PCCs) are required to appoint a local auditor for their own accounts and the Chief Constable's accounts for the 2023/24 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, EY.
2. Make an appointment using an existing government or public sector framework.
3. Carry out a standalone procurement process.
4. Opt into PSAA Ltd to fulfil the 'appointing person' role on behalf of the PCC.

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

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- 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 each force area or 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 S151 Officers for Derbyshire and Northamptonshire met with the Essex S151 Officer, the only Policing (and Fire) body not in PSAA who advised their Panel was discharged via their independent Audit Committee.

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.

High Level Assessment of Options

Option 1 –could provide benefits of consistency and the ability to set local timescales and fees which would be less subject to change. However, the fee proposals from EY are in excess of the PSAA fee scales and negotiated fee increases, therefore, it is possible that fees could be higher than if procurement were undertaken. It would be difficult to demonstrate whether the reasons for appointing directly for a 5 year contract are sufficient to demonstrate best value – it is also unknown whether EY would wish to consider this.

Option 2 - a framework contract, allows a contract to be awarded on the terms that were offered under a competitive process without having to incur as much cost in the procurement process. However, first a framework offering a suitable external audit service would need to be identified 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. To ensure best value for money, it is likely all PCCs and CCs would need to support this way forward.

Option 3 - a standalone tendering process, and O*ption 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.

Based on recent experience of NHS Trusts, a standalone contract for one policing area (two audited bodies), or even the region, 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, particularly with regard to local agreement of fees, audit team and timescales. In Essex they found the ability to influence timescales, have a consistent team and agree any fee increases locally was the main benefit in contracting for the PCC, the CC and the Fire Authority.

This option 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.

Option 4 – joining the national appointing body means that procurement work would not be required locally and that national work is done to ensure that bidding firms will meet the quality and performance standards expected for the audit of public funds.

There may be better economies of scale in contracting and setting fee scales initially. However, as has been experienced in the current audit contracts, fee increases and agreed timescales have varied significantly to those set in the Scale Fees and Accounts and Audit Regulations.

The options are summarised in the table overleaf.

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Criteria	***Option 1 – Re-appoint***	***Option 2 - Framework***	***Option 3 – Standalone Contract***	***Option 4 - PSAA***
Risk Every procurement project carries some risks including: • getting the specification right; • meeting timescales and deadlines; • complying with public procurement regulations;	*The PCC to ensure managed* *Mitigated by access to expertise, skills and capacity to draft specification and manage the procurement/contract process.*	*The PCC to ensure managed* *Mitigated by access to expertise, skills and capacity to draft specification and manage the procurement/contract process.*	*The PCC to ensure managed* *Risks associated with the procurement of the framework itself would rest with whichever public body or procurement organisation is arranging it.*	*The appointing body to ensure managed and based on the current contracts has experience in this area.*
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	*Local requirements of skills and expertise*	*Local requirements of skills and expertise*	*Local requirements of skills and expertise to support and inform the procurement organisation.*	*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.*
Cost Based on the experience of the first PSAA appointments	*Limited ability to influence economies of scale – for Scale Fees* *Ability to influence local negotiations on scale fees*	*Limited ability to influence economies of scale – for Scale Fees* *Ability to influence local negotiations for in year fee increases*	*Limited ability to influence economies of scale – for Scale Fees – better ability to influence if all regional partners were included* *Ability to influence local negotiations for in year fee increases*	*Economies of scale would secure value for money on scale fees.* *In year fee increases are moderated/negotiated by PSAA with the auditor. The audited body has limited opportunity to influence and is bound by PSAA decision.*
Ability to Influence	*Ability to influence the appointment and contract management of the provider. Albeit that the pool of potential contractors may be limited.*	*Ability to influence the appointment and contract management of the provider. Albeit that the pool of potential contractors may be limited.*	*Ability to influence the appointment and contract management of the provider. Albeit that the pool of potential contractors may be limited*	*Whilst a local view is sought – there is limited ability to influence the appointment or contract management of the provider. This can place a conflict between local responsibilities to ensure timely, good quality audit within agreed fee structure as local auditors are influenced by their organisations national positions.*

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Summary

This paper is provided as a discussion document for the CFO meeting and sets out four options for future External Audit arrangements from 2023/24.

At the meeting it would be helpful to understand whether there is an appetite to consider the options further or whether there are preferred local positions.

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