



west midlands  
police and crime  
commissioner



**AGENDA ITEM 09**

**JOINT AUDIT COMMITTEE  
22 December 2021**

**Public Sector Audit Appointments**

**1. PURPOSE OF REPORT**

- 1.1 To inform Members of the latest position in relation to the appointment of External Auditors for both Police Crime Commissioner and the Police Constable of the West Midlands. This is to enable External Auditors to be in place from April 2023 to complete the audit of accounts for the financial year 2023/24 through to 2027/28.

**2. BACKGROUND**

- 2.1 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.
- 2.2 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.
- 2.3 As a result of this procurement exercise Grant Thornton were appointed to audit the PCC and Chief Constable of the West Midlands for a five-year period from 2012/13 i.e. ending with the audit of the 2017/18 accounts.
- 2.4 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 put in place a new local audit and accountability framework for local public bodies in England. This replaces 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; manage their own audit arrangements, with appropriate safeguards to ensure auditor independence; and retain the same high standards.
- 2.5 Although the Minister of State was very keen that all local public bodies should establish Auditor Panels to select and appoint their own auditors, local public bodies - including

the police - 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.

- 2.6 The Government clearly listened since Section 17 of the Local Audit and Accountability Act 2014 (the 2014 Act) gives 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.

### **3 PUBLIC SECTOR AUDIT APPOINTMENTS LTD (PSAA)**

- 3.1 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 meant the PSAA made auditor appointments to relevant principal local government bodies including PCCs and Chief Constables that choose to opt into the national appointment arrangements, for audits of the accounts for 2018/19.

- 3.2 PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association.

- 3.3 West Midlands Police and Crime Commissioner and the Chief Constable opted into the national arrangement for audits for 2018/19 onwards with the PSAA. Through a national procurement exercise Grant Thornton were appointed the Commissioner's and Chief Constable's External Auditors for the financial years 2018/19 to 2022/23.

- 3.4 Members will be aware of the significant developments in the audit market over recent years. This includes the independent review by Sir Tony Redmond that considered the effectiveness of external audit and transparency of financial reporting in local authorities. This has led to a number of changes to the approach to external auditing PCCs and forces. The review highlighted the difficulties in recruiting staff to audit firms with the appropriate skills and the difficulties of encouraging more firms to enter the external audit market.

- 3.5 The PSAA have now asked PCCs and forces whether they want to opt into the next round national appointment arrangements for the period 2023/24 through to 2027/28.

- 3.6 The PSAA have produced a number of documents on their proposal. These are detailed below:

- A scheme prospectus explaining how the process will work for period up to 2027/28. This is available through the link below.

[Final Prospectus 2023 and beyond – Page 2 – PSAA](#)

- A frequently asked question document that provides more details to the proposal and how the current scheme operates. Again, this is available through the link below.

[Frequently Asked Questions – PSAA](#)

- Letter sent to PCCs setting out the proposal. This is attached to this report.

3.7 According to PSAA the benefits of joining their scheme are:

- Transparent and independent auditor appointment via a third party
- The best opportunity to secure the appointment of a qualified, registered auditor
- Appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency
- On-going management of any independence issues which may arise
- Access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees
- A value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021
- Collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements; • avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities
- Updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships
- Concerted efforts to work with other stakeholders to develop a more sustainable local audit market

3.8 Based on the above benefits it is recommended the PCC and Chief Constable opt into the next round national appointment arrangements being coordinated by the PSAA for the period 2023/24 through to 2027/28.

3.9 The option to join PSAA proposal is free and there will not be a requirement to join the sector-led arrangements. The audit fees that opted-in bodies will be charged will cover the costs to the PSAA of appointing auditors and managing the arrangements. The PSAA believes that the audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, individual authorities will avoid the costs of their own procurement and management of contracts and also the requirements to set up an auditor panel with independent members.

3.10 The fee charged to the West Midlands PCC and CC will reflect the size of the organisations, audit risk and complexity of the work required. The PSAA will establish a system for setting the fee which is fair to all opted-in authorities.

3.11 The audits contracts agreed through the PSAA arrangement will be compliant with the National Audit Office (NAO) Code of Audit Practice. The specific terms and conditions of the audit contracts are being discussed with the stakeholder advisory panel set up by the PSAA to comment on the proposals. This will include contract performance targets and measures.

## **4 ISSUES FOR CONSIDERATION**

4.1 The Committee's current terms of reference include the following in respect of external appointing external auditors:

- Advising the WMPCC and the Chief Constable on the appointment of external auditors.
- Approving on behalf of the WMPCC and the Chief Constable the external audit programme and associated fees.

4.2 It is ultimately the PCC and the Chief Constables decision as to whether they join the PSAA proposal in relation to external audit. However, in reaching this decision they will consider the views of the Joint Audit Committee.

## **5 TIMESCALES**

5.1 The PSAA issued invitations to formally opt in were issued in September 2021. The Commissioner and the Chief Constable then has until the 11 March 2022 to opt into the proposals.

## **6 FINANCIAL IMPLICATIONS**

6.1 The audit scale fee charges for 2019/20 were £45,178 for the PCC and £23,966 for the Chief Constable (i.e. a total charge of £69,144). The total audit fees for 2020/21 are subject to final agreement following the completion of Grant Thornton's working including the VfM opinion.

6.2 It is too early to estimate the new audit fee with effect from 2023/24 which is dependent on the procurement exercise being led by PSAA. However, fees are likely to be higher than the current rates to improve the quality of external audits and ensure the contracts are sustainable.

## **7 LEGAL IMPLICATIONS**

7.1 The Local Audit and Accountability Act 2014 explains the process to be adopted for the next round of audit contracts in 2023/24.

## **8 RECOMMENDATIONS**

8.1 Joint Audit Committee is asked to consider the recommendation that the PCC and Chief Constable opt into the next round national appointment arrangements being coordinated by the PSAA for the period 2023/24 through to 2027/28.

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