

**OFFICE OF THE POLICE AND CRIME COMMISSIONER
FOR HUMBERSIDE
DECISION RECORD**

Decision Record Number: 09/2022

Title: **OPT in to PSAA Audit Procurement**

Executive Summary:

External audit services from 2023/24 to be procured on the PCC/Chief Constable's behalf by Public Sector Audit Appointments for the following 5 years.

Recommendation(s): The PCC and Chief Constable for Humberside becomes an admitted body of the Public Sector Audit Appointments process

Background Reports: Attached.

Police and Crime Commissioner for Humberside

I confirm I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with my code of conduct. Any such interests are recorded below.

The above request has my approval.

Signature



Date 15/02/2022

PUBLIC SECTOR AUDIT APPOINTMENTS

SUMMARY

1. The purpose of this report is to seek the PCC's approval to allow Public Sector Auditor Appointments (PSAA) to act on his behalf in selecting and appointing the external auditor.

RECOMMENDATIONS

2. The PCC approves Public Sector Audit Appointments to act on his behalf in selecting the external auditor for the 2023/24 period onwards.

BACKGROUND

3. Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.
4. The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The PCC opted into the 'appointing person' national auditor appointment arrangements established by PSAA for the period covering the accounts for 2018/19 to 2022/23.
5. PSAA is now undertaking a procurement for the next appointing period, covering audits for 2023/24 to 2027/28. Before 11 March 2022 all local government bodies need to decide about their external audit arrangements from 2023/24. They have options to arrange their own procurement and make the appointment themselves or in conjunction with other bodies, or they join and take advantage of the national collective scheme administered by PSAA.
6. To opt into the national scheme the PCC needs to return the PSAA completed opt-in documents by this deadline.

THE NATIONAL AUDITOR APPOINTMENT SCHEME

7. PSAA is specified as the 'appointing person' for principal local government bodies under the provisions of the Local Government Audit & Accountability Act 2014 (the "Act") and the Local Audit (Appointing Person) Regulations 2015. PSAA let five-year audit service contracts in 2017 for the first appointing period, covering audits of the accounts from 2018/19 to 2022/23. It is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, from the 2023/24 audit onwards, and to complete a procurement for audit services. PSAA is a not-for-profit organisation whose costs are around 4% of the scheme with any surplus distributed back to scheme members.
8. In summary the national opt-in scheme provides the following:
 - 8.1 The appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023;
 - 8.2 Appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints;
 - 8.3 Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy;
 - 8.4 Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period;

- 8.5 Minimising the scheme management costs and returning any surpluses to scheme members;
- 8.6 Consulting with authorities on auditor appointments, giving the PCC the opportunity to influence which auditor is appointed;
- 8.7 Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk; and
- 8.8 Ongoing contract and performance management of the contracts once these have been let.

Pressures in the current local audit market and delays in issuing opinions

9. Much has changed in the local audit market since audit contracts were last awarded in 2017. At that time the audit market was relatively stable, there had been few changes in audit requirements, and local audit fees had been reducing over a long period. 98% of those bodies eligible opted into the national scheme and attracted very competitive bids from audit firms. The resulting audit contracts took effect from 1 April 2018.
10. During 2018 a series of financial crises and failures in the private sector led to questioning about the role of auditors and the focus and value of their work. Four independent reviews were commissioned by Government: Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator; the Competition and Markets Authority review of the audit market; Sir Donald Brydon's review of the quality and effectiveness of audit; and Sir Tony Redmond's review of local authority financial reporting and external audit. The recommendations are now under consideration by Government, with the clear implication that significant reforms will follow. A new audit regulator (ARGA) is to be established, and arrangements for system leadership in local audit are to be introduced. Further change will follow as other recommendations are implemented.
11. The Kingman review has led to an urgent drive for the FRC to deliver rapid, measurable improvements in audit quality. This has created a major pressure for audit firms to ensure full compliance with regulatory requirements and expectations in every audit they undertake. By the time firms were conducting 2018/19 local audits during 2019, the measures they were putting in place to respond to a more focused regulator were clearly visible. To deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain deeper levels of assurance. However, additional work requires more time, posing a threat to the firms' ability to complete all their audits by the target date for publication of audited accounts. Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been needed than in prior years.
12. This situation has been accentuated by growing auditor recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explore innovative ways of developing new or enhanced income streams to help fund services for local people. These challenges have increased in subsequent audit years, with Covid-19 creating further significant pressure for finance and audit teams.
13. None of these problems is unique to local government audit. Similar challenges have played out in other sectors, where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

The Invitation

14. PSAA is now inviting the PCC to opt in for the second appointing period, for 2023/24 to 2027/28, along with all other eligible authorities. Based on the level of opt-ins it will enter into contracts with appropriately qualified audit firms and appoint a suitable firm to be the PCC's auditor.

The next audit procurement

15. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies. PSAA will:
 - 15.1 seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies;
 - 15.2 continue to pool scheme costs and charge fees to opted-in bodies in accordance with the published fee scale as amended following consultations with scheme members and other interested parties (pooling means that everyone within the scheme will benefit from the prices secured via a competitive procurement process – a key tenet of the national collective scheme);
 - 15.3 continue to minimise its own costs, around 4% of scheme costs, and as a not-for-profit company will return any surplus funds to scheme members. In 2019 it returned a total £3.5million to relevant bodies and in 2021 a further £5.6million was returned.
16. PSAA will seek to encourage market sustainability in its procurement. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work suppliers must undertake, firms will be informed as to which developments should be priced into their bids.
17. The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the National Audit Office)¹, the format of the financial statements (specified by Chartered Institute of Public Finance and Accountancy/Local Authority Scotland Accountants Advisory Committee (CIPFA/LASAAC)) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements. The requirements are mandatory; they shape the work auditors undertake and have a bearing on the actual fees required.
18. There are currently nine audit providers eligible to audit local authorities and other relevant bodies under local audit legislation. This means that a local procurement exercise would seek tenders from the same firms as the national procurement exercise, subject to the need to manage any local independence issues. Local firms cannot be invited to bid. Local procurements must deliver the same audit scope and requirements as a national procurement, reflecting the auditor's statutory responsibilities.

The way forward

19. PSAA will commence the formal procurement process in early February 2022. It expects to award contracts in August 2022 and will then consult with authorities on the appointment of auditors so that it can make appointments by the statutory deadline of 31 December 2022. Whilst there have been issues around the timeliness of audits for

¹ MHCLG's Spring statement proposes that overarching responsibility for Code will in due course transfer to the system leader, namely ARGAs, the new regulator being established to replace the FRC.

the reasons outlined above, it is felt that the most robust way forward is to sign-up to the PSAA process. The following factors also support this conclusion:

- Some bodies that undertook their own procurement last time have still had late audit opinions, mainly as a result of late Pension Fund Audit opinions;
- Timescales for 2022/23 Accounts have been pushed back to 30 September for the draft Accounts to be produced and 30 November for the completion of the Audit. This gives more opportunity for resource planning. For the years 2023/24 onwards the Audit of Accounts is moved back to 30 September not the 31 July deadline that was in place in previous earlier years.

FINANCIAL/RESOURCES/VALUE FOR MONEY IMPLICATIONS

21. There is a risk that current external audit fee levels could increase when the current contracts end. The audit scale fee has been driven too low in the market in recent years and it is clear that the scope of audit has increased, requiring more audit work. There are also concerns about capacity and sustainability in the local audit market.
22. Opting into a national scheme provides maximum opportunity to ensure fees are as realistic as possible, while ensuring the quality of audit is maintained, by entering into a large-scale collective procurement arrangement.
23. If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees from 2023/24.