

Sara Ansell

Treasurer

Warwickshire Office of the Police and Crime Commissioner and Chief Constable of Warwickshire

Email: sara.ansell@warwickshire.police.uk

15 November 2022

Dear Sara,

Thank you for your email. Please find below my responses to the questions you have raised. I hope this additional information is helpful.

With respect to your representation, we will consider the basis of your representation and reply to you by 22 November 2022.

Q1. Technical and financial rigour of the PSAA contract and evaluation process

We understand and share your interest in seeing auditing standards applied through a high quality audit, appropriately equipped and knowledgeable in the accounting treatment appropriate to policing and the widest sense.

Azets are registered with ICAEW as a Local Auditor. They currently have two accredited KAPs and a further three engagement leads who meet the eligibility requirements set out in FRC's Guidance to RSBs on the approval of KAPs for local audit, who are in the process of applying for KAP status. In addition to being approved KAPs, in recognition of the specialist nature of many aspects of local government audit, Azets require all KAPs leading local government audits to have significant experience in this sector.

Azets have been undertaking local audits in Scotland for many years. For example, they are currently the auditors at the City of Edinburgh Council so are very experienced in auditing large and complex organisations. With regard to specific experience of auditing police bodies, Azets were auditors to a number of Police Joint Boards in Scotland until they were subsumed into Police Scotland. Currently Azets are the internal auditors to Police Scotland and are also the NAO's appointed auditor to the College of Policing and the Independent Office for Police Conduct.

A key aim of our procurement strategy from the outset was to attract new entrants firms such as Azets into local audit in England to support market sustainability. We are very pleased that both Azets and Bishop Fleming (our other new entrant firm) bid successfully for our development lots, especially as two current suppliers declined to bid.

We had strong feedback from bodies about the need to place as much emphasis as possible on suppliers' capacity when we were assessing bids, and we have done so with capacity and capability attracting 45 of the 80 quality marks of tender evaluation.

Further our discussions with each firm during the development of these auditor proposals has continued that focus, and in particular we have worked very closely with the new firms on the geographies and clients that are allocated to them. Auditors are independent of us when they are appointed, but we will be stressing to all suppliers the importance of timely opinion delivery.

You have also referenced the budget. As we have previously referenced the total fee is driven by the volume of work that the auditors need to do to deliver a Code compliant audit to the satisfaction of the

regulators – the regulations are clear that fees should rise or fall in line with that. We have long called for proportionate audit and accounts for the sector and have made clear to DLUHC, the FRC and other stakeholders that there is a significant disconnect between the work that auditors are being required to do and the work that bodies consider to be appropriate, both in scope and in volume, and that the disconnect needs to be addressed.

Q2. Price increases

We have already taken the following actions to lobby government for additional support to meet the cost of increased audit fees: written to DLUHC and we ask for updates in our fortnightly meetings with them; requested DLUHC inform other departments such as the Home Office of the need for further funding for audit fees; issued several press releases that have been covered by relevant media; and written media articles calling for funding and wider reform to address the challenges facing local audit. We will continue to lobby for both funding and reform as we are aware of how painful such an increase will be for bodies already grappling with severe financial problems and with understandable fears about the forthcoming Autumn Statement.

DLUHC have informed us that they are considering the case for funding and that they will be liaising with other Departments in relation to the price increases.

Q3. Allocation of Azets to Warwickshire

As part of our procurement strategy to attract new entrant firms and to be able to reach sufficient capacity, we established some “development” contract lots. These lots would exclude audits classed as major local audits (MLA) or public interest entities. We also enabled tenderers for these lots to identify those geographical areas in which they wish to deliver audit – recognising that new entrant firms are unlikely to have the same degree of national coverage as more established, larger firms.

Azets were successful and Warwickshire was one of their selected geographies in which they wished to audit. They are the proposed auditor at all audits in Warwickshire except for the County Council, which is an MLA so not within the scope of a development lot. Azets’ has a centre of excellence for audit delivery in the West Midlands, so a significant number of their appointments are within this region.

Q4. Capacity of Azets to deliver the audit contract in a timely and effective way

This is covered in my response to Q1.

Q5. Capability of Azets to deliver the audit contract

My response to Q1 addresses the 1st and 3rd of these points. In response to the 2nd point, in addition to the actions already set in motion by new entrant firms for tailored training and work programme development, PSAA is working with the FRC (specifically their new Director of Local Audit who was a KAP at EY (including for several police audits) before joining the FRC in September 2022), to provide support to the new entrants. Local audit system partners such as the NAO, CIPFA and the ICAEW have readily agreed to provide support. The programme will support the firms by bolstering their knowledge on the unique features and nuances of local audit in England in 2023/24.

Q6. Contingency arrangements in the event of poor performance

Our audit firms are contractually obliged to deliver the audits in accordance with the Method Statements outlined in their tender responses. Where this does not occur, we have mechanisms that we can lever to support performance improvement. These measures include:

- Firms will be paid when they deliver against four predefined audit milestones (each attracting 25% of the scale fee), rather than on a routine quarterly basis unlinked to on the ground delivery.
 - for Audit Year 2023/24 where the Supplier has not been the Appointed Auditor for the previous Audit Year not earlier than 1 October 2023, otherwise on the production of the auditor's annual report for the previous Audit Year
 - production of the draft audit planning report to Audited Body
 - 50% of the Supplier's planned hours in respect of the Audited Body have been completed
 - 75% of the Supplier's planned hours in respect of the Audited Body have been completed
- We have introduced KPIs linked to the audit delivery lifecycle and a quarterly contract monitoring review process
- There is a Review Procedure through which we can require a supplier at its own cost to amend its method statement, if the current one does not to satisfy their obligations under the contract
- There is a Rectification Plan process which we may invoke if:
 - the supplier fails to comply with its method statement obligations and materially impacts delivery,
 - there is a supplier delay or is reasonably likely to be a delay; and/or
 - the supplier fails to achieve any KPI measure; and/or
 - commits a default that has or may have an adverse effect on the provision of the Services.

Once agreed by us, the Rectification Plan creates a supplier obligation to implement it, including rectification of past failures.

We are frequently asked if the contracts contain penalties where an auditor is the cause of a delayed opinion. The FRC's Ethical Standard does not permit contingent fees so we are unable to reduce supplier payment for not delivering the opinion by the publishing date (which not a statutory date unlike the deadline date for bodies to produce their statement of accounts). The need to reflect the LAAA 2014 and Appointing Person Regulations (2015) in the audit services contracts means that it is very different to a typical services contract which can penalise a supplier for late delivery and require a supplier to provide the specification for a fixed price.

Whilst we have strengthened the contract to reflect the changes in local audit, the fact remains that as now, our ultimate sanction of being able to remove auditors from appointments is largely moot as there is no surplus in the local audit market. As referenced in our press releases, we had to go through several procurement stages to get enough capacity to make the appointments which is far from ideal. Without an auditor of last resort, as is available in other parts of the UK, we are entirely dependent on the capacity in the market that audit firms wish to allocate to the local audit sector. In this context neither we nor the system can offer any guarantees on service delivery. What we can guarantee is that PSAA will do all we can to help the system to tackle the issues. DLUHC has publicly stated that local audit will take years to fix, and no single action will solve it.

I hope this additional information is helpful.

Yours sincerely

Julie Schofield, Senior Manager Business and Procurement, PSAA