



## Essex Police, Fire and Crime Commissioner Fire and Rescue Authority

### Decision Report

#### **Please ensure all sections below are completed**

**Report reference number:** 044-24 (EP Ref 155-24)

**Government security classification:** official sensitive

**Title of report:** External Audit contract commencing with the Statement of Accounts for the year ending 31 March 2024 for Essex Police Fire and Crime Commissioner Fire and Rescue Authority (Essex PFCCFRA)

**Area of county / stakeholders affected:** Countywide

**Report by :** Neil Cross - Director of Finance, Procurement and Improvement

**Date of report:** 7/8/24

**Enquiries to:** Neil Cross

#### **1. Purpose of the report**

The purpose of this report is to seek the Police, Fire and Crime Commissioner's approval to enter into a contract with Ernst and Young LLP, for external audit services, and to request authorisation for the application of an electronic signature to the Call Off Agreement.

#### **2. Recommendations**

It is recommended that the PFCC, acting on the recommendation of the Audit Panel, enters into the contract with Ernst Young for external audit services appended to this report. The contract will be for three years, commencing with the audit of the 2023/24 accounts, with the option for two 12-month extensions.

The cost of the contract for Essex PFCCFRA in respect of the audit for the financial year 2023/24 will be £110,000.

The cost of the contract for the PFCC and the PFCC group in respect of the audit for the financial year 2023/24 will be £180,600. This will form part of a joint contract with the Essex Chief Constable at £77,400 for 2023/24.

The total cost of the joint contract will be £368,000 for the audit of the 2023/24 Statement of Accounts of the three bodies, being, the Essex PFCC and the Essex PFCC Group, the Essex Chief Constable, and for Essex PFCCFRA.

It is recommended that the Commissioner signs the joint contract, for the Essex PFCC and the Essex PFCC Group, the Essex Chief Constable, and Essex PFCCFRA.

### **3. Benefits of the proposal**

The PFCC is required to appoint the Local Auditors for the Essex PFCC and PFCC Group, commencing with the audit of the Statement of Accounts for the year ending 31 March 2024. The Essex Chief Constable, and Essex PFCCFRA also require the appointment of a Local Auditor also to commence with the audit of the Statement of Accounts for the year ending 31 March 2024.

The financial statements for the year ended 31 March 2023, for the three bodies, have been audited under the final year of the contract with the previous Local Auditors, Grant Thornton, appointed through our own procurement process. The three Essex bodies are amongst a small number, who did not opt into the Public Sector Audit (PSAA)'s national scheme. We have no audit backlogs in respect of previous years and, we have published the audited Statement of Accounts for the year ended 31 March 2023/

Our external auditors had audited our Statement of Accounts for 2022/23 in full, with the exception of the Local Government Pension Scheme (LGPS) valuation, as they did not have the assurance from the Pension Audit.

The auditor's opinion explained Management had stated that in the interests of openness and transparency the signed accounts should be published. Management determined it was appropriate to limit the scope of the auditors work in respect of the net defined benefit pension plan liability.

In compliance with the Local Audit and Accountability Act 2014, it is the role of the Audit Panel to advise the PFCC and Chief Constable on the selection and appointment of the Local Auditor.

In respect of the audits for 31 March 2024 onwards, we undertook a robust procurement process agreed and overseen by the Audit Panel, to enable the selection and appointment of Local Auditors. However, we did not receive any bids from our Invitation to Tender.

The current failures of the PSAA scheme, with audited financial statements not published according to statutory deadlines, has resulted nationally in a significant backlog of overdue and unaudited financial statements for local bodies spanning multiple financial years, resulting in financial statements not being audited and available to provide audited information in a timely manner for the benefit of residents, businesses, partners, and other interested parties timely information not being available to allow sufficient response to financial difficulties.

Finding an alternative solution was challenging. The Essex PFCC Group, for the first time in 2021/22, reached the criteria for Major Local Audit (MLA). Considerably more

local audit capacity is required for MLAs. Only a few firms are in the position to satisfy the FRC's Audit Quality Review (AQR) to undertake any MLAs. It is a significant regulatory risk, requiring considerable financial investment, for firms to enter the MLA audit space. This acts as a major barrier to entry for audit firms, further constraining audit supply for public bodies that tip over the current threshold. The number of local bodies subject to MLAs, increases annually, as the definition for MLA is dependent upon meeting one of the following criteria:

- Total income or expenditure of at least £500 million; or
- For a local authority pension scheme, at least 20,000 members or gross assets in excess of £1,000 million.

The Chief Financial Officer for the PFCC and the Chief Financial Officer for Essex PFCCFRA, met with most of the big audit firms, with the partners consistently stating they could not risk entering into any new contracts, as they all had major concerns over the capacity required for the significant backlogs within the new PSAA contracts and whether they could meet these contractual obligations, that they were already signed up to.

The PFCC and the Chief Constable wrote to the Home Office to express their concerns around being unable to directly appoint a local auditor, The response from the Home Office, disappointingly recommended PSAA.

We identified one alternative solution for Essex PFCCFRA (which is not subject to MLA). Unfortunately, the current MLA criteria prevented this being the solution for the Chief Constable, the Essex PFCC and the PFCC Group.

Since this time, we have secured a contract for our external audit from 2023/24 onwards, with Ernst and Young.

The Audit Panel met on 8 December 2023 and recommended that the PFCC should contract with Ernst and Young for external Audit Services.

#### **4. Background and proposal**

The PFCC is required to appoint the Local Auditors for the Essex PFCC and PFCC Group, for the period commencing with the audit of the Statement of Accounts for the year ending 31 March 2024. The Essex Chief Constable, and Essex PFCCFRA also require the appointment of a Local Auditor also to commence with the audit of the Statement of Accounts for the year ending 31 March 2024

#### **5. Alternative options considered and rejected**

Do nothing – Ruled out as the requirement to appoint external auditors is set out in statute by the Local Audit and Accountability Act 2014

Agree a contract with PSAA – Ruled out due to the risk of being in a similar position to other bodies under PSAA, where significant backlogs of audits have built up.

Following the original robust procurement process where no bids were received, it was recommended by the Audit Panel to enter into discussions with the audit firms able to undertake MLAs, to agree a contract under an existing Framework.

## 6. Strategic priorities

The local auditors audit the Statement of Accounts which show the income and expenditure for each year ended 31 March, which includes the financial resources used to support the required performance to meet the priorities and strategies within the Police and Crime Plan. The Audit ensures the Statement of Accounts reports the correct position.

## 7. Operational implications

There are no direct operational implications arising from this decision report

## 8. Financial implications

The fee for the External Audit of the Statement of Accounts for the year ending 31 March 2024 of Essex PFCCFRA £110,000.

This will be a joint contract with the Essex PFCC and the Essex Chief Constable. The total cost of the external audit contract for the three Essex bodies' Statement of Accounts for the year ending 31 March 2024, is detailed in figure 1 below.

Figure 1

	£
Essex PFCC and the PFCC Group	180,600
Essex Chief Constable	77,400
<b>Total PFCC, Chief Constable and Group</b>	<b>258,000</b>
Essex PFCCFRA	110,000
<b>Total PFCC, Chief Constable, PFCC Group and PFCCFRA</b>	<b>368,000</b>

The cost increase is mainly driven by the lack of capacity in the market for the provision of local/external audit services and cost increases due to inflation.

The Essex Chief Constable costs have increased by a higher percentage than the Essex PFCC and PFCC Group. This is due to a higher proportion of the increase being applied to the PFCC Group than to the Chief Constable in 2022/23.

We are required by statute to appoint local auditors to audit the accounts for the year ended 31 March 2024. Ernst and Young is the only audit firm with the capacity to enter into a contract outside of the PSAA contract, for all three bodies, being, the Essex

PFCC and the Essex PFCC Group, the Essex Chief Constable, and the Essex PFCCFRA.

We remain convinced that we should remain outside of the PSAA arrangement, as we do not believe that the backlogs will be resolved by the backstop legislation. We will have the ability to manage our own contract by directly contracting with EY.

On 30 July 2024, Jim McMahon, Minister of State for Housing, Communities and Local Government provided Parliament with a written update on the action to tackle the local audit backlog in England and the intention to lay secondary legislation to provide for an initial backstop date of 13 December 2024, for the audits of all financial years up to and including 2022/23. The subsequent backstop dates are.

2023/24 - 28 February 2025  
2024/25 - 27 February 2026  
2025/26 - 31 January 2027  
2026/27 - 30 November 2027  
2027/28 - 30 November 2028

The backstop dates are the date at which unfinished audits will result in auditors issuing 'disclaimed' audit opinions (no assurance) on the accounts.

In addition, the update stated that commencing with the financial years 2024/25 the date by which local bodies should publish 'draft' (unaudited) accounts will change from 31 May to 30 June.

The audit backlogs and the previous proposals of backstop dates had already had a detrimental impact on the audit of the 2022/23 accounts. In Essex, the draft accounts for 2022/23 were published to the deadline, but the audit which would have normally taken place during the summer, did not commence until December, while auditors were concentrating on the national backlogs in other local bodies.

## **9. Legal implications**

The procurement has been carried out in accordance with the Contract Standing Orders and the Public Contracts Regulations 2015 using a compliant framework agreement.

## **10. Staffing implications**

There are no direct staffing implications directly arising from this decision.

We have consulted with the Audit Panel throughout the process, including after having received no bids from our invitation to tender. Their recommendation was to commence discussions with the audit firms able to undertake MLAs. At the Audit Panel meeting on 7 September 2023 the independent members were informed that Ernst and Young were submitting a proposal to provide our local audit. The Audit panel met on 8 December 2023 and recommended this proposal to the PFCC.

## 11. Equality and Diversity implications

The actions being taken will not have a disproportionate impact on individuals with protected characteristics (as defined within the Equality Act 2010), when compared to all other individuals and will not disadvantage people with protected characteristics.

Race	N	Religion or belief	N
Sex	N	Gender reassignment	N
Age	N	Pregnancy & maternity	N
Disability	N	Marriage and Civil Partnership	N
Sexual orientation	N		

The Core Code of Ethics Fire Standard has been fully considered and incorporated into the proposals outlined in this paper.

## 12. Risks

The procurement risks are mitigated through use of a legally compliant framework.

There is no contract in place for the external audit of the Statement of Accounts for the financial year that ends 31 March 2024. By signing this contract, the risks relating to failing to appoint an auditor will be removed.

EY have not yet been able to provide an estimated start date for the audit for the year ending 31 March 2024. This could have subsequent impacts on the timescales for delivery of the audit. This is also impacting the internal planning of resources. The backstop date for the audit of the 2023/24 Statement of Accounts is xx February 2024. This only allows just over six months to plan and complete the audit once the contract is signed.

## 13. Governance Boards

The Audit Panel of 7 September 2023

The Audit Panel of 8 December 2023

## 14. Background papers

**Decision Process (044-24)**

**Step 1A - Chief Fire Officer Comments**

(The Chief Fire Officer is asked in their capacity as the Head of Paid Service to comment on the proposal.)

.....I support this recommendation.....



Sign: ..... Date:.....12/8/24.....

**Step 1B – Consultation with representative bodies**

(The Chief Fire Officer is to set out the consultation that has been undertaken with the representative bodies)

NA

**Step 2 - Statutory Officer Review**

The report will be reviewed by the Essex Police, Fire and Crime Commissioner Fire and Rescue Authority’s (“the Commissioner’s”) Monitoring Officer and Chief Finance Officer prior to review and sign off by the Commissioner or their Deputy.

Monitoring Officer

Sign: .....  .....

Print: .... Darren Horsman - Deputy MO

Date: .. 13.8.2024 .....

Chief Finance Officer

Sign: .....  .....

Print: .....Neil Cross.....

Date: .... 12/8/24 .....

**Step 3 - Publication**

Is the report for publication?      **YES**

If ‘NO’, please give reasons for non-publication (Where relevant, cite the security classification of the document(s). State ‘none’ if applicable)

.....

If the report is not for publication, the Monitoring Officer will decide if and how the public can be informed of the decision.

**Step 4 - Redaction**

If the report is for publication, is redaction required:

- 1 Of Decision Sheet NO
- 2 Of Appendix NO

If 'YES', please provide details of required redaction:

.....

Date redaction carried out: .....

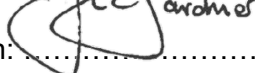
If redaction is required, the Chief Finance Officer or the Monitoring Officer are to sign off that redaction has been completed.

Sign: ..... Print: .....

Date signed: .....

**Step 5 - Decision by the Police, Fire and Crime Commissioner or Deputy Police, Fire and Crime Commissioner**

I agree the recommendations to this report:

Sign:  ..... (DPFCC)

Print: ... Jane Gardner Deputy PFCC Date signed: 14/08/2024 .....

I do not agree the recommendations to this report:

Sign: ..... (PFCC / DPFCC)

Print: ..... Date signed: .....