

**DECISION TO OPT IN TO THE NATIONAL SCHEME FOR AUDITOR  
APPOINTMENTS WITH PSAA AS THE 'APPOINTING PERSON'**

Report of the: Director of Finance and Resources  
Contact: Kathryn Beldon  
Annexes/Appendices: None  
Other available papers (not attached): None

**REPORT SUMMARY**

This report sets out the proposals for appointing the external auditor to the Council for the 2018/19 accounts and beyond, as the current arrangements only cover up to and including the 2017/18 audits. The auditors are currently working under a contract originally let by the Audit Commission and the contract was novated to Public Sector Audit Appointments (PSAA) following the closure of the Audit Commission.

If the Council is to take advantage of the national scheme for appointing auditors to be operated by PSAA for the subsequent years, Full Council agreement is required.

**RECOMMENDATION (S)**

That the Council approve the acceptance of the Public Sector Audit Appointments Limited's (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

*Notes*

**1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy**

1.1 There are no direct implications identified, however the proposed approach is likely to help maximise the Council's resources by providing a low cost solution to both the procurement and delivery of the service.

**2 Background**

2.1 As Members may recall from the previous report in September, the Local Audit and Accountability Act 2014 (the Act) brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local

government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

- 2.2 The Act also set out the arrangements for the appointment of auditors for subsequent years, with the opportunity for authorities to make their own decisions about how and by whom their auditors are appointed. Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'.
- 2.3 Public Sector Audit Appointments Limited is an independent not-for-profit company limited by guarantee which was established by the Local Government Association (LGA) in August 2014. It is wholly owned by the Improvement and Development Agency (IDeA), which is itself wholly owned by the LGA.
- 2.4 In July 2016 PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. An appointing person has the power to make auditor appointments on behalf of Councils that 'opt in', and is sometimes referred to as the sector led body. PSAA has wide support across local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State.
- 2.5 PSAA is now formally inviting the Council to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Council's auditor.
- 2.6 The principal benefits from such an approach are as follows:
  - PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
  - PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
  - Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
  - It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
  - The overall procurement costs would be lower than an individual smaller scale local procurement;

- The overhead costs for managing the contracts will be minimised though a smaller number of large contracts across the sector;
  - There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel', see below;
  - The new regime provides both the perception and reality of independent auditor appointment through a collective approach; and
  - A sustainable market for audit provision in the sector will be easier to ensure for the future.
- 2.7 The Council's current external auditor is Grant Thornton, this appointment having been made under at a contract let by the Audit Commission. Following closure of the Audit Commission the contract was novated to PSAA, and since this date PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality. Over recent years' authorities have benefited from a reduction in fees in the order of 55% compared with fees in 2012. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission. The Council's current external audit fees are £54,000 per annum.
- 2.8 The proposed fees for subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms.
- 2.9 The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
- 2.10 Currently, there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these being firms with a national presence. This means that a local procurement exercise, as described immediately below, would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.
- 2.11 On 13 October 2016, PSAA formally invited this Council to opt in. In summary the national opt-in scheme provides the following:
- The appointment of a suitably qualified audit firm for each of the five financial years commencing 1 April 2018;

- 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;
- Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA will seek views from the sector to help inform its detailed procurement strategy;
- Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise;
- Minimising the scheme management costs and returning any surpluses to scheme members;
- Consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed;
- Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity and audit risk; and
- Ongoing contract and performance management of the contracts once these have been let.

### **3 The way forward**

- 3.1 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by a meeting of the Council (meeting as a whole). The Council then needs to formally respond to PSAA's invitation in the form specified by PSAA by early March.
- 3.2 PSAA will commence the formal procurement process after this date. It expects to award contracts in summer 2017 and consult with authorities on the appointment of auditors so that it can make an appointment by the statutory deadline of December 2017.

### **4 Financial and Manpower Implications**

- 4.1 There is a risk that current external fees levels could increase when the current contracts end in 2018.
- 4.2 Opting-in to a national scheme provides maximum opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering in to a large scale collective procurement arrangement.

4.3 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 for 2018/19.

4.4 **Chief Finance Officer's comments:** *These are contained in the main report.*

## 5 Legal Implications (including implications for matters relating to equality)

5.1 Section 7 of the Local Audit and Accountability Act 2014 requires a relevant Council to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. It may appoint an auditor to audit its accounts for more than one year, but a new appointment is required at least every five years.

5.2 Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.

5.3 Section 12 makes provision for the failure to appoint a local auditor: the Council must immediately inform the Secretary of State, who may direct the Council to appoint the auditor named in the direction or appoint a local auditor on behalf of the Council.

5.4 Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a Sector Led Body to become an appointing person. In July 2016 the Secretary of State specified PSAA as an appointing person.

5.5 Where a local authority has become an opted in authority, the provisions of the 2014 Act in relation to requirements for an Auditor Panel, will no longer apply.

5.6 **Monitoring Officer's comments:** *It is important that due process be followed to ensure that external auditors are appointed by 31 December 2017. The proposal in relation to acceptance of the invitation from PSAA will satisfy the relevant requirements, which might otherwise be difficult and time-consuming for the Council to satisfy if it was to act alone. Once we have opted in, it is not possible to opt out during the compulsory appointing period, which is understood to be five years.*

## 6 Risk Assessment

6.1 The principal risks are that the Council fails to appoint an auditor in accordance with the new frameworks or does not achieve value for money in the appointment process. These risks are considered best mitigated by opting in to the sector led approach through PSAA.

COUNCIL  
13 DECEMBER 2016

## **7 Conclusion and Recommendations**

- 7.1 Council is asked to accept PSAA's invitation to 'opt-in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018.

**WARD(S) AFFECTED: All**