

Confirmation of Arrangements for Appointment of External Auditors

Report of the Treasurer

For further information about this report please contact James Walton, Treasurer, on 01743 255011 or Joanne Coadey, Head of Finance, on 01743 260215.

1 Purpose of Report

Following a report to this Committee in September 2016 regarding the appointment of external auditors from 1 April 2018, this report confirms Public Sector Auditor Appointments Ltd (PSAA) as a sector led body. The Committee is asked to formally opt in to PSAA for the future appointment of external auditors.

2 Recommendations

The Committee is asked to recommend that the Authority formally opt in to Public Sector Audit Appointments Ltd (PSAA) as a sector led body.

3 Background

The Local Audit and Accountability Act 2014 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 for 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.

The Authority's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission, the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State. Over recent years the Authority has benefited from a reduction in fees of around 50%. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants, and savings from closure of the Audit Commission. The Authority's current external audit fees are £28,000 per annum.

When the current transitional arrangements come to an end on 31 March 2018, the Authority will be able to move to the local appointment of the auditor. At its meeting in September 2016, a number of routes were considered by the Committee. It was agreed, and subsequently ratified by the Fire Authority, that the preferred method for the appointment of external auditors would be using a Sector Led Body. A Sector Led Body would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

4 Information on the National Scheme

It has now been confirmed that PSAA Ltd has been awarded by the Secretary of State, the role of appointing local auditors under a national scheme.

PSAA Ltd have set out their proposed scheme, further details of which can be found at: <http://www.psaa.co.uk/supporting-the-transition/appointing-person/>. As part of the scheme, and under their timetable for appointing auditors, they are now formally inviting the Authority to decide if it wants to join the national scheme. PSAA Ltd need to receive formal acceptance by 9 March 2017 and the decision to accept the invitation and to opt-in needs to be made by the Authority.

The scheme is intended to save time and resources for local government bodies and, through collective procurement, secure the best prices without compromising on audit quality.

Given their current role PSAA Ltd feel they have a unique experience and understanding of auditor procurement and the local public market. Using the scheme will avoid the need for the Authority to:

- establish an audit panel with independent members;
- manage its own auditor procurement and cover its costs;
- monitor the independence of its appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor and
- manage the contract with the auditor.

The scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration with the Authority or joint working initiatives, if it is considered that a common auditor will enhance efficiency and value for money. PSAA Ltd will also try to be flexible about changing the Authority's auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

PSAA Ltd are looking to secure a high level of acceptance to the opt-in invitation to provide the best opportunity for the company to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities, of which the Authority was one. They hope to achieve participation from the majority of eligible authorities.

5 Next Steps

Opt In

The closing date for opting in is 9 March 2017. PSAA Ltd have allowed more than the minimum eight week notice period, because the formal approval process for most eligible bodies, except police and crime commissioners, requires a decision made by the members of an authority meeting as a whole.

PSAA Ltd will confirm receipt of all opt-in notices, and will publish a list of authorities on their website. On receipt of an opt-in notice they will write to request information on any joint working arrangements relevant to the auditor appointment, and any potential independence matters that would prevent them appointing a particular firm.

Timetable

The timetable for the new arrangements is:

Invitation to opt-in issued	27 October 2016
Closing date for receipt of notices to opt-in	9 March 2017
Contract notice published	20 February 2017
Award audit contracts	By end of June 2017
Consult on and make auditor appointments	By end of December 2017
Consult on and publish scale fees	By end of March 2018

6 Financial Implications

Current external fee levels are likely to increase when the current contracts end in 2018. The fee currently paid by the Authority is £28,000 per year.

Opting-in to a national Sector Led Body provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.

There will be no fee to join the sector led arrangements. The audit fees that opted-in bodies will be charged by the sector led body will cover the costs of appointing auditors. The LGA believes that audit fees achieved through block contracts will be lower than the costs that individual authorities will be able to negotiate. In addition, by using the Sector Led Body, authorities would avoid both the procurement process and the legal requirement to set up a panel of independent members.

7 Legal Comment

Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

PSAA Ltd is an independent company set up by the Local Government Association in August 2014. In July 2016, the Secretary of State for Communities and Local Government specified PSAA Ltd as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. This means that PSAA Ltd can make auditor appointments for audits of the accounts from 2018/19 of principal authorities (including fire authorities) that choose to opt into its arrangements. Appointments for 2018/19 must be made by 31 December 2017.

The overall procurement and management of service contracts of audit services for opted-in authorities will be managed by PSAA Ltd. PSAA Ltd will run the tendering exercise, and will evaluate bids and award contracts, whilst consulting authorities on individual auditor appointments. Audit firms appointed under the Scheme will be required to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice.

8 Initial Impact Assessment

This report contains merely statements of fact / historical data. An Initial Impact Assessment is not, therefore, required.

9 Equality Impact Assessment

There are no equality or diversity implications arising from this report. An Equality Impact Assessment is not, therefore, required.

10 Appendices

There are no appendices to this report

11 Background Papers

Audit & Performance Management Committee

15 September 2016

Report 8 - Changes to Arrangements for Appointment of External Auditors