

**Committee: Performance & Audit**

**Agenda Item**

**Date: 15<sup>th</sup> November 2016**

**7**

**Title: Appointment of External Auditor**

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Item for decision

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## **Summary**

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.

In response to the consultation on the new appointment arrangement, the LGA successfully lobbied for Councils to be able to opt in to a Sector Led Body appointed by the Secretary of State. Public Sector Audit Appointments (PSAA) were successful in securing the procurement framework as the Appointing Person.

The transitional arrangements for local government bodies ceases after the 2017/18 audit and under the new arrangements of the act authorities are required to either;

1. Opt in to a Sector Led Body, Public Sector Audit Appointments (PSAA).
2. To establish an auditor panel and conduct our own procurement exercise.
3. Explore the establishment of local joint procurement arrangements with neighbouring authorities.

It is likely that a sector-wide procurement conducted by PSAA will produce better outcomes for the Council on both quality and cost than any procurement we undertook ourselves or with a limited number of partners.

Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt-in must be made by Full Council.

## **Recommendations**

- Performance and Audit Committee to recommend to Full Council that the Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

## Financial Implications

If PSAA is not used additional resource will be needed to establish an auditor panel and conduct our own procurement. Until either option for procurement is completed it would not be possible to ascertain additional financial implications for audit fees for 2018/19, although it is anticipated that any increase will be minimised through using PSAA.

## Background Papers

- [Procurement and Appointment of Auditors](#)
- [PSAA Prospectus and FAQ](#)

## Impact

|                                 |      |
|---------------------------------|------|
| Communication/Consultation      | None |
| Community Safety                | None |
| Equalities                      | None |
| Health and Safety               | None |
| Human Rights/Legal Implications | None |
| Sustainability                  | None |
| Ward-specific impacts           | None |
| Workforce/Workplace             | None |

## Situation

1. As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1 April 2015. The audits were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.
2. In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurement or to opt in to the appointed person regime.
3. There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person)

Regulations 2015. The appointing person is sometimes referred to as the sector-led body and PSAA has wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

4. The date by which authorities will need to opt in to the appointing person arrangements is not yet finalised. However, it is anticipated that invitations to opt in will be issued in December 2016.
5. The main advantages of using PSAA are set out in its prospectus (link provided under background papers) and are copied below; these can also be viewed as the disadvantages if the Council was to decide to undertake its own procurement under either option 2 or 3.
  - Assure timely auditor appointments
  - Manage independence of auditors
  - Secure highly competitive prices
  - Save on procurement costs
  - Save time and effort needed on auditor panels
  - Focus on audit quality
  - Operate on a not for profit basis and distribute any surplus funds to scheme members

## Risk Analysis

| Risk  | Likelihood | Impact | Mitigating actions                               |
|---|------------|--------|--|
| Successful appointment not achieved to timescales | 2          | 4      | Early consideration of preferred option/approach |

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project