

Appointment of External Auditors
Report by Head of Internal Audit

Summary: This report outlines the Local Audit and Accountability Act (2014) and the necessity for local authorities to establish an auditor panel and manage their own procurement. The report explores the options available, the associated benefits, and concludes with a preferred route for the Authority for the appointment of the External Auditor.

Recommendations:

- (i) That the Authority agrees to join the national collective scheme, led by the Public Sector Audit Appointment (PSAA), as recommended by the Financial Scrutiny and Audit Committee on 27 September 2016.
- (ii) That delegated authority be given to the Section 17 Officer to communicate the willingness of the authority to join the scheme to PSAA and to enter into the scheme after a satisfactory examination / negotiation of the proposed terms and conditions is concluded.

1 Introduction

- 1.1 The Local Audit and Accountability Act 2014 (the Act) introduced the necessity for local authorities to establish an auditor panel and manage their own procurement.
- 1.2 Therefore all local authorities will need to decide how their auditors will be appointed in the future, whether they make the appointment themselves, or in conjunction with other bodies, or join a national collective scheme.
- 1.3 The current audit contracts are administered by Public Sector Audit Appointments (PSAA), which is a not-for-profit organisation established by the Local Government Association (LGA). These powers are time limited and will cease when these contracts with audit firms expire with the completion of the 2017/18 audits.
- 1.4 Thereafter the Authority will need to have exercised a choice about whether to opt in to the authorised national scheme, or whether to make arrangements to appoint their own auditors.
- 1.5 The LGA has played a leadership role in anticipating the changes and influencing the range of options available to local bodies. In particular it had lobbied to ensure that, irrespective of size, scale, responsibility or location, local government bodies can, if they wish, subscribe to a specially authorised

national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.

- 1.6 PSAA is leading the development of this national option and ideally are looking for principal bodies to give firm commitment to join during autumn 2016.
- 1.7 High quality independent audit is one of the cornerstones of public accountability, it gives assurance that taxpayers' and Toll Payers' money has been well managed and properly expended. It helps inspire trust and confidence in the organisations and people responsible for managing public money.

2 Options

- 2.1 The Authority can appoint auditors directly but this is not recommended as it would be costly to run our own procurement exercise, and being an individual authority we would be unlikely to benefit from economies of scale and achieve a competitive price. In addition an auditor panel would need to be set up to undertake the functions as set out in the Act.
- 2.2 Auditors can be appointed in conjunction with other local authorities. This was initially explored with Norfolk County Council leading on a potential County-wide procurement exercise. However again this is not recommended as it would incur procurement costs for the authorities involved and would also mean each authority would need to manage and monitor the performance of the contract that was entered into. Again an auditor panel would need to be set up.
- 2.3 To avoid prohibitive costs and ensure a sound contractual framework is in place for the assessment of auditors it is recommended that the Authority join the national collective scheme, subject to the applicable terms and conditions being acceptable to the Authority.
- 2.4 To do nothing is not recommended as this would contravene the Act.

3 Expected Benefits

- 3.1 Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way which commands public confidence. PSAA will ensure that every auditor appointment passes this test.
- 3.2 The scheme will endeavor to appoint the same auditor to bodies which are involved in formal collaboration / joint working initiatives or within combined authority areas thereby avoiding duplication or effort wherever possible.
- 3.3 PSAA will only contract with firms which have a proved track record in undertaking public audit work. In accordance with the Act the firms must be

registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB), and the quality of the work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC).

4 Reasons for Chosen Option / Recommendation

- 4.1 A top priority for PSAA is to seek to obtain the best possible price; the current thinking is that this can be achieved by letting a three year contract, with the option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contracts nationally. By having contracts with a number of firms PSAA will be able to ensure independence and avoid dominance of the market by one or two firms.
- 4.2 The procurement strategy will prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used.
- 4.3 PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own cost. PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling therefore means that everyone within the scheme will benefit from the most competitive prices (current fees are set on this basis).

5 Conclusion

- 5.1 Due to the expected benefits, as outlined in the report, the Authority should agree to join a national collective scheme for the appointment of the External Auditors.

Background papers:	PSAA Corporate Plan 2015-2018
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Broads Plan Objectives:	None
Appendices:	APPENDIX 1 - Objectives of PSAA

Public Sector Audit Appointments Limited

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014, without any share capital and is a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the LGA.

The Secretary of State for Communities and Local Government delegated statutory functions (from the Audit Commission Act 1998) to PSAA by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.

The company is responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.

Before 1 April 2015, these responsibilities were discharged by the Audit Commission.

PSAA has been tasked with ensuring that the company delivers the following objectives:

- appointing auditors to all relevant authorities;
- setting scales of fees, and charging fees, for the audit of accounts of relevant authorities and consulting with relevant parties in relation to those scales of fees;
- making arrangements for the certification of claims or returns in respect of housing benefit subsidy from audited bodies;
- helping to ensure a smooth transition to the new audit regime to be established under the Local Audit and Accountability Act 2014;
- ensuring that public money continues to be properly accounted for and protected during the transition to the new local appointment regime to be established under the Local Audit and Accountability Act 2014;
- overseeing the delivery of consistent high quality and effective audit services to relevant authorities;
- ensuring effective management of contracts with audit firms for the delivery of audit services to relevant authorities;
- be financially responsible having regard to the efficiency of operating costs and transparently safeguarding fees charged to audited bodies; and
- Leading its people as a good employer, ensuring that it continues to be fit-for-purpose; motivating and supporting its staff; and communicating with them in an open, honest and timely way.