

<b>Item No.</b> 13.	<b>Classification:</b> Open	<b>Date:</b> 16 November 2016	<b>Meeting Name:</b> Audit, Governance and Standards Committee
<b>Report title:</b>		Appointment of local auditor	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Strategic Director of Finance and Governance	

## RECOMMENDATION

1. That the audit, governance and standards committee recommend to council assembly the option of opting in to the authorised national scheme for the appointment of external auditors through the sector-led body, Public Sector Audit Appointments (PSAA).

## BACKGROUND INFORMATION

2. The council is currently audited by Grant Thornton under a contract let by the Audit Commission in 2012. Following closure of the Audit Commission under the Local Audit and Accountability Act 2014, transitional arrangements were put in place. These include the management of the current audit contract by Public Sector Audit Appointments Ltd (PSAA), an independent not for profit company limited by guarantee and established by the Local Government Association. These arrangements will come to an end on 31 March 2018.
3. Under the Local Audit and Accountability Act 2014, the council is required to have its accounts audited by an auditor appointed in accordance with the Act. The Act makes local authorities responsible for appointing their own local auditors.
4. The Local Audit (Appointing Person) Regulations 2015 require these appointments to have been made by 31 December in the year preceding the year of audit. As 2018-19 is the first year of the new arrangements, the council needs to have appointed an auditor by 31 December 2017.

## KEY ISSUES FOR CONSIDERATION

5. The 2014 Act allows local authorities to either opt in to the appointing regime or to establish an auditor panel (either alone or with other local authorities) and conduct their own procurement exercise.
6. PSAA has been specified by the Secretary of State as an appointing person under the 2015 Regulations which means that they are able to make auditor appointments for audits of the accounts from 2018-19 for principal local authorities which choose to opt in to its arrangements.
7. PSAA are currently consulting on their procurement strategy but have confirmed that their key objective is to secure high quality audit services at the most competitive prices. Their approach is being informed by the lessons learned from

the procurements undertaken by the Audit Commission that resulted in the current contracts.

8. These contracts were negotiated nationally and covered both the NHS and local government bodies. Maximum economies of scale meant that significant reductions in fees were achieved. Although the PSAA's remit does not include the NHS, there are nonetheless over 490 principal local authorities that are eligible to opt in and it is therefore likely that PSAA is well placed to be able to maximise value for local authorities.
9. Firms wishing to undertake external audit must be registered one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB) and the quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register.
10. Authorities which do not opt in to the appointing person regime will need to carry out a procurement exercise, once they have established an auditor panel. Even if a number of authorities set up a joint auditor panel, the process is likely to be more resource intensive and the opportunity to bid for a series of smaller contracts may be less attractive to potential bidders.
11. Although it is not possible to quantify audit fees at this stage, it is highly unlikely that the council, whether acting alone or with a small number of partner authorities, would be able to achieve the economies of scale of a comparable level to those likely to be achieved through a large-scale procurement such as that which PSAA is able to undertake.
12. It is therefore recommended that the council opt in to the appointing person arrangements to be made by PSAA. Further information about PSAA and their proposed scheme is set out in their prospectus and Frequently Asked Questions document, attached at appendix 1 and 2. PSAA have advised councils that the closing date to give notice to PSAA of their acceptance of the invitation to opt in to the appointing regime is 9 March 2017.
13. The audit, governance and standards committee's terms of reference include "To have oversight over the appointment of the external auditor". However, as Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that the decision to opt in must be taken by the council assembly, the audit, governance and standards committee is asked to make the recommendation above to council assembly. The meeting of council assembly on 30 November 2016 is the last ordinary meeting of council assembly before the date by which notification has to be sent to PSAA.

### **Community impact statement**

14. This report is not considered to have a direct impact on local people and communities.

### **Resource implications**

15. There are no direct resource implications in this report. It is anticipated that fees in the future will be manageable within existing revenue resources, although this will be kept under review.

## Consultation

16. There has been no public consultation on this report.

## SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

17. None required.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
PSAA prospectus	<a href="http://www.psaac.co.uk/wp-content/uploads/2016/08/PSAA-A5-web-portrait-August-2016.pdf">http://www.psaac.co.uk/wp-content/uploads/2016/08/PSAA-A5-web-portrait-August-2016.pdf</a>	Jo Anson 020 7525 4308
PSAA – Appointing person: frequently asked questions	<a href="http://www.psaac.co.uk/wp-content/uploads/2016/11/Appointing-person-FAQs-updated-27-October-2016.pdf">http://www.psaac.co.uk/wp-content/uploads/2016/11/Appointing-person-FAQs-updated-27-October-2016.pdf</a>	Jo Anson 020 7525 4308

## APPENDICES

No.	Title
None.	

## AUDIT TRAIL

<b>Lead Officers</b>	Duncan Whitfield, Strategic Director of Finance and Governance	
<b>Report Author</b>	Jo Anson, Head of Financial and Information Governance	
<b>Version</b>	Final	
<b>Dated</b>	3 November 2016	
<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments sought</b>	<b>Comments included</b>
Director of Law and Democracy	No	No
Strategic Director of Finance and Governance	No	No
<b>Cabinet Member</b>	No	No
<b>Date final report sent to Constitutional Team</b>	3 November 2016	