

## NATIONAL SCHEME FOR AUDITOR APPOINTMENTS

### SUMMARY

Under the Local Audit and Accountability Act 2014 the Audit Commission was abolished and new arrangements established to audit local public bodies. The act sets out the new regime for local authority audits and reforms the way audit is procured by Councils. An external auditor for the audit of the Council's accounts for 2018/19 must be appointed before the end of 2017.

Councils may make the appointment themselves, or in conjunction with other bodies, or they can take advantage of a national collective scheme. The decision on the Council's approach is required to be taken by Full.

There are significant advantages to be gained from opting in to the national scheme and this report explains the role of Public Sector Audit Appointments Limited (PSAA), who has been given the role of appointing local auditors under the national scheme. It also outlines a timetable for appointing auditors under the scheme. The Council has been formally invited to opt into these arrangements and should the Council decide to join, then a formal acceptance by Council is required by 9 March.

### INFORMATION

#### **Information on the national scheme: Public Sector Audit Appointments Limited (PSAA)**

PSAA are a not-for-profit company established by the Local Government Association (LGA). They administer the current audit contracts, let by the Audit Commission before it closed.

The PSAA have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. They have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

PSAA have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that they will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements they will operate for audits of the accounts from 2018/19.

PSAA will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate their role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

### **What the appointing person scheme will offer**

PSAA are committed to making sure the national scheme will be an excellent option for auditor appointments. They intend to run the scheme in a way that will save time and resources for local government bodies. A collective procurement, which they will carry out on behalf of all opted-in authorities, will enable PSAA to secure the best prices, keeping the cost of audit as low as possible for the bodies that choose to opt in, without compromising on audit quality. Their current role means they have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for Councils to:

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

The PSAA scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives. They will also try to be flexible about changing an auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for PSAA 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. They ultimately hope to achieve participation from the vast majority of eligible authorities.

### **High quality audits**

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

PSAA will:

- only contract with audit firms that have a proven track record in undertaking public audit work;
- include obligations in relation to maintaining and continuously improving quality in their contract terms and in the quality criteria in their tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

They will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

### **Procurement strategy**

In developing a procurement strategy for the contracts with audit firms, PSAA will have input from the advisory panel they have established. The panel will assist PSAA in developing arrangements for the national scheme; provide feedback on proposals as they develop, and helping maintain effective channels of communication. PSAA think it is particularly important to understand Council's preferences and priorities, to ensure they develop a strategy that reflects customer's needs within the constraints set out in legislation and in professional requirements. In order to secure the best prices they are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help them manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, they will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

### **Auditor appointments and independence**

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 that commands public confidence. PSAA plan to take great care to ensure that every auditor appointment passes this test. They will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments. They will consult on the appointment of auditors, most likely from September 2017. Auditor appointments

for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

**Fee scales**

PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising their own costs. Any surplus funds will be returned to scheme members under our articles of association and their memorandum of understanding with the Department for Communities and Local Government and the LGA.

Costs for setting up and managing the scheme will need to be covered by audit fees. PSAA expect their annual operating costs will be lower than their current costs as they expect to employ a smaller team to manage the scheme. They are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government’s share of their current deferred income. They think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which have regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by the scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. They expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

**Opting in**

The closing date for opting in is 9 March 2017 and the formal approval process is a decision made by the members of an authority meeting as a whole.

**Timetable**

The draft timeline for the new arrangements:

Closing date for receipt of notices to opt in	9 March 2017
Contract notice published	20 February 2017
Award audit contracts	End of June 2017
Consult on and make auditor appointments	End of December 2017
Consult on and publish scale fees	End of March 2018