



<b>REPORT OF:</b>	HEAD OF FINANCE (CFO)
<b>AUTHOR:</b>	Bill Pallett
<b>TELEPHONE:</b>	01737 276560
<b>E-MAIL:</b>	Bill.Pallett@reigate-banstead.gov.uk
<b>TO:</b>	EXECUTIVE
<b>DATE:</b>	5 JANUARY 2017
<b>EXECUTIVE MEMBER:</b>	COUNCILLOR T SCHOFIELD

<b>KEY DECISION REQUIRED:</b>	NO
<b>WARD (S) AFFECTED:</b>	ALL

<b>SUBJECT:</b>	<b>APPOINTMENT OF EXTERNAL AUDITORS</b>
<p><b>RECOMMENDATIONS:</b></p> <ul style="list-style-type: none"> <li>(i) that Reigate &amp; Banstead Borough Council opt-in to the “appointed person” arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.</li> <li>(ii) that the Head of Finance is authorised to make all necessary arrangements with PSAA to secure the appointment of external auditors for 2018/19 and beyond.</li> </ul>	
<p><b>REASONS FOR RECOMMENDATIONS:</b></p> <p>Regulation 19 of the <i>Local Audit (Appointing Person) Regulations 2015</i> requires that a decision to opt in must be made by Full Council. To comply with this regulation, Executive is asked to make the recommendation above to Council.</p>	
<p><b>EXECUTIVE SUMMARY:</b></p> <p>Following the closure of the Audit Commission new arrangements are needed for the appointment of external auditors. The <i>Local Audit and Accountability Act 2014</i> requires authorities to either opt-in to the “appointing person” regime or to establish an auditor panel and conduct their own procurement exercise.</p> <p>It is highly likely that a sector-wide procurement conducted by PSAA will produce better outcomes for the Council than any individual procurement undertaken by ourselves or with a limited number of partners.</p> <p>Use of the PSAA will also be less resource intensive than establishing an auditor panel, appointing independent panel members, and conducting our own procurement process.</p>	

**The recommendation is subject to approval by Council.**

## STATUTORY POWERS

1. The *Local Audit and Accountability Act 2014* requires authorities to either opt-in to the “appointing person” regime or to establish an auditor panel and conduct their own procurement exercise.
2. Regulation 19 of the *Local Audit (Appointing Person) Regulations 2015* requires that a decision to opt-in must be made by Full Council.

## ISSUES

3. Public Sector Audit Appointments (PSAA) is referred to as the sector-led audit appointment body and has wide support across most of local government. It 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. Following closure of the Audit Commission, control over external audit contracts passed to PSAA on 1 April 2015.
5. In October 2015 the Secretary of State confirmed that the transitional provisions would end after the audit of the 2017/18 accounts. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own external auditor procurements or to opt-in to the “appointed person” regime.
6. In July 2016 PSAA were specified by the Secretary of State as an “appointing person” under regulation 3 of the *Local Audit (Appointing Person) Regulations 2015*.
7. The date by which authorities will need to opt-in to the appointing person arrangements has been set at 9 March 2017.
8. The main advantages of using PSAA are set out below:
  - ensure timely auditor appointments
  - ensure the independence of auditors
  - secure highly competitive prices
  - save on procurement costs
  - save time and effort needed on auditor panels and the appointment of independent panel members
  - ensure a focus on audit quality.
9. Further information on PSAA is shown in the attached FAQs (**Annex 1**).

## OPTIONS

10. The Executive may decide that the Council should establish its own auditor panel and conduct its own procurement of external audit services. This is not recommended for the following reasons:
  - in order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the Panel must be wholly (or at least a majority) of independent members as defined by the Act. Independent members for this

purpose are independent appointees, and this excludes current and former Members (or officers) and their close families and friends. This means that Members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit.

- the recruitment and operation of an independent panel will be far more resource intensive than PSAA, and, without the bulk buying power of sector-led procurement, would be likely to result in a more costly audit service.

### **LEGAL IMPLICATIONS**

11. The process as set out above and the recommendation will ensure compliance with the *Local Audit and Accountability Act 2014*.

### **FINANCIAL IMPLICATIONS**

12. If PSAA is not used additional resource may be needed to establish an auditor panel and conduct our own procurement.
13. Until either procurement exercise is completed it is not possible to state what additional resource may be required for audit fees for 2018/19, although it is anticipated that any such increase will be minimised through using PSAA.

### **EQUALITIES IMPLICATIONS**

14. There are no equalities implications.

### **COMMUNICATIONS IMPLICATIONS**

15. There are no communications implications.

### **CONSULTATION**

16. The Executive Member for Planning Policy and Finance was consulted during the preparation of this report.

### **POLICY FRAMEWORK**

17. There are no policy issues to raise as part of this report.

**Background Papers:** Public Sector Audit Appointments FAQs

## FAQs on Public Sector Audit Appointments

### **1. *What is PSAA?***

Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit (Appointing Person) Regulations 2015 and has the power to make auditor appointments from 2018/19 on behalf of bodies who opt in, in accordance with the Regulations.

PSAA is a company owned by the LGA's Improvement and Development Agency (IDeA) and was established to operate the transitional arrangements following closure of the Audit Commission.

### **2. *When will we need to make a commitment to opt-in?*** ***and***

### **3. *When will invitations to opt-in be issued?***

Invitations to opt-in were issued in October 2016. The date by which principal local government bodies will need to opt in to the sector led appointing person arrangement is 9 March 2017. The aim is to award contracts to audit firms by June 2017, giving six months to consult on appointments with authorities before the 31 December 2017 deadline.

In order to maximise the potential economies of scale from agreeing large contracts with firms, and to manage any auditor independence issues, PSAA needs as much certainty as possible about the volume and location of work it is able to offer to firms.

### **4. *Who can accept the invitation to opt in?***

In accordance with Regulation 19 of the Local Audit (Appointing Person) Regulations 2015, a principal authority will need to make the decision to opt in at full council (authority meeting as a whole), except where the authority is a corporation sole (such as a police and crime commissioner), in which case the function must be exercised by the holder of the office.

### **5. *Can we join after it has been set up or do we have to join at the beginning?***

The Regulations require that once the invitations to opt in have been issued there will be a minimum period of eight weeks for you to indicate acceptance of the invitation. One of the main benefits of a sector led approach is the ability to achieve economies of scale as a result of being able to offer larger volumes of work. The

greater number of participants that have signed up at the outset, the better the economies of scale PSAA are likely to achieve.

This will not prevent authorities from joining the sector led arrangements in later years, but not for 2018/19 audits. In order to be in the best position we would encourage as many authorities as possible to commit by accepting the invitations within the initial timeframe.

**6. Will membership be free for existing members of the LGA?**

The option to join the sector led procurement will be open to all principal local government bodies listed under Schedule 2 of the Local Audit and Accountability Act 2014. There will not be a fee to join the sector led arrangements.

The audit fees that opted-in bodies will be charged will cover the costs to PSAA of appointing auditors and managing the arrangements. We believe that audit fees achieved through large contracts will be lower than the costs that individual authorities will be able to negotiate.

In addition, by opting into the PSAA offer, bodies will avoid the costs of their own procurement and the requirement to set up an auditor panel with independent members.

**7. How will we be able to influence how the contracts are set up?**

We have not yet finalised the governance of the arrangements and are considering the options, including how best to obtain stakeholder input.

PSAA are will establish a stakeholder engagement panel or advisory panel which can comment on the proposals. PSAA continues to work in partnership with the LGA in setting up the sector led arrangements and you can feed in comments and observations to PSAA via the LGA and their Principal Advisors.

**8. Will there be standard terms and conditions?**

The audit contracts between PSAA and the audit firms will require firms to deliver audits compliant with the National Audit Office (NAO) Code of Audit Practice.

We are aware that bodies would like to understand how performance and delivery will be monitored and managed. This is one of the issues that could be discussed with the advisory panel (see Q7).

**9. What will be the length of the contract?**

The optimal length of contract between PSAA and firms has not been decided. We would welcome views on what the sector considers the optimal length of audit contract. We anticipate that somewhere between 3 and 5 years would be appropriate.

**10. Will there be the opportunity of a 3 year contract with an option to extend for up to 2 years or something similar?**

Please see answer to question 9.

**11. In addition to the Code of Audit Practice requirements set out by the NAO, will the contract be flexible to enable authorities to include the audit of wholly owned companies and group accounts?**

Local authority group accounts are subject to audit in line with the NAO Code of Audit Practice and will continue to be part of the statutory audit.

Company audits are subject to the provisions of the Companies Act 2006 and are not covered by the Local Audit (Appointing Person) Regulations 2015. Local authority companies will be able to appoint the same audit firm (as PSAA appoints) for any company audits to undertake the principal body audit, should they so wish.

**12. Will bodies that opt in be able to seek information from providers and undertake some form of evaluation to choose a supplier?**

PSAA will run the tendering exercise, and will evaluate bids and award contracts. PSAA will consult on individual auditor appointments. The appointment of an auditor independently of the body to be audited is an important feature of the arrangements and will continue to underpin strong corporate governance in the public sector.

The arrangements by which audited bodies will be able to comment on the performance of firms and the arrangements made by PSAA is still being considered. Please see answers to Questions 7 and 8.

**13. Will the price be fixed or will there be a range of prices?**

The fee for the audit of a body that opts in will reflect the size, audit risk and complexity of the work required. PSAA will establish a system for setting the fee which is fair to all opted-in bodies. As a not-for-profit organisation, PSAA will be able to return any surpluses to participating bodies after all costs have been met.

- 14. We have shared service arrangements with our neighbouring bodies and we are looking to ensure that we share the same auditor as our Fire Authority, Housing Association and Pension Fund. Will the sector led body allow for this?**

PSAA will be able to make appointments to all bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014 which are 'relevant authorities' and not excluded as a result of being smaller authorities e.g. parish councils.

In setting up the sector-led arrangements, one of our aims is to make auditor appointments that take account of joint working and shared service arrangements. PSAA will seek information on such arrangements to allow it to make a sensible distribution of appointments.

- 15. We also have a Joint Committee which does not have a statutory requirement to have an external auditor but has agreed in the interests of all parties to continue to engage with one. Is it possible to use this process as an option to procure the external auditor for the Joint Committee?**

The requirement for joint committees to produce statutory accounts ceased after production of 2014/15 accounts. Joint committees that have opted to produce accounts voluntarily and obtain non-statutory assurance on them will still be able to make local arrangements.

- 16. How will the process ensure providers are not over-stretched and that the competition in the market place is increased?**

The number of firms eligible to undertake local public audit will be regulated through the Financial Reporting Council and the Recognised Supervisory Bodies (RSBs).

Only appropriately accredited firms will be able to bid for appointments whether that is through PSAA or an auditor panel. The seven firms previously appointed by PSAA and the Audit Commission generally maintain a dedicated public sector practice with staff trained and experienced in public sector work.

One of the advantages of the sector led option is to make appointments that help to ensure that each successful firm has a sufficient quantum of work to make it possible for them to invest in public sector specific training, maintain a centre of excellence or hub that will mean:

- firms have a regional presence
- greater continuity of staff input
- a better understanding the local political, economic and social environment.

**17. Will the process appoint a number of different external auditors and how will they be allocated?**

PSAA will organise the contracts so that there is a minimum number of firms appointed nationally. The minimum is probably four or five (depending on the number of bodies that opt in). This is required, not just to ensure competition and capacity, but because each firm is required to comply with the FRC's ethical standards. This means that an individual firm may not be appointable for 'independence' reasons, for example, because they have undertaken consultancy work at an audited body. PSAA will consult on appointments to ensure the allocation meets the needs of the sector.

**18. What will be the process to feed in opinions from customers of current auditors if there were issues?**

PSAA will seek feedback on its auditors as part of its engagement with the sector. PSAA will continue to have a clear complaints process and will also want to undertake contract monitoring of the firms it appoints.

**19. What is the timetable for set up/ key decisions?**

The timetable is currently being refined but we expect the key points in the timetable to be broadly:

- establish an overall strategy for procurement - by 31 October 2016
- achieve 'sign-up' of scheme members - by 9 March 2017
- invite tenders from audit firms - by 31 March 2017
- award contracts - by 30 June 2017
- consult on and make final auditor appointments - by 31 December 2017; and
- consult on, propose and publish audit fees - by 31 March 2018.

**20. What would be the terms of reference of the body?**

PSAA is wholly owned by the IDeA (the IDeA is wholly owned by the LGA). PSAA will operate as an independent company as it does now, although there will be changes to its governance arrangements and its founding documents to reflect the fact that it is no longer the transitional body.

**21. Will PSAA take on the auditor panel role and therefore mitigate the need for there to be one in each and every public body?**

Opting in to the appointing person arrangement will remove the need to set up an auditor panel. This is set out in the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.