

NATIONAL SCHEME FOR AUDITOR APPOINTMENTS

Presented by the Director of Finance & Resources

SUMMARY

It is a requirement for the external auditor for the audit of accounts 2018/19 to be appointed before the end of 2017. Public authorities have a choice about how to make the appointment when the existing scheme for public appointments ends; either they can arrange the procurement for their own appointment or they can opt into the national scheme run by Public Sector Audit Appointments.

RECOMMENDATION

Members Approve: (1) to opt into the scheme.

BACKGROUND

- 1 Public Sector Audit Appointments (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. They 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.
- 2 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 can make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements which will operate for audits of the accounts from 2018/19.
- 3 Alternatively the Authority could choose to appoint its own external auditor through a procurement exercise.

BENEFITS OF OPTING IN

- 4 PSAA intend to run the scheme in a way that will save time and resources for local government bodies through a collective procurement, carried out on behalf of all opted-in authorities, enabling them to secure the best prices without compromising on audit quality. Their current experience means they

have a unique experience and understanding of auditor procurement and the local public audit market.

Opting in will avoid the need for Lee Valley Regional Park Authority to:

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

The scheme will try to be flexible about changing auditors 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 from authorities to the opt-in invitation by PSAA will provide the best opportunity 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.

- 5 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.
- 6 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;
 - 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 any feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

PROCUREMENT STRATEGY

- 7 In order to secure the best prices PSAA intend 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 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, PSAA 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

- 8 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 will 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.

PSAA will consult the Authority on the appointment of its auditor 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

- 9 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 their articles of association and the memorandum of understanding with the Department for Communities and Local Government and the LGA.

The costs for setting up and managing the scheme will need to be covered by audit fees. PSAA expect annual operating costs will be lower than the current costs because they expect to employ a smaller team to manage the scheme.

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, 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 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. PSAA expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

TIMETABLE

- 10 The closing date for opting into the National Scheme with PSAA is 9 March

2017. A full list of authorities who opt in will be published on PSAA's website.

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| • Invitation to opt in issued | 27 October 2016 |
| • Closing date for notices to opt in | 9 March 2017 |
| • Contract notice published | 20 February 2017 |
| • Award audit contracts | By end of June 2017 |
| • Consult on/make auditor appointments | By end of December 2017 |
| • Consult on and publish scale fees | By end of March 2018 |

ENVIRONMENTAL IMPLICATIONS

- 11 There are no environmental implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

- 12 There are no financial implications arising directly from the recommendations in this report. Currently the Authority pays an annual fee of £18,619, a sum that has remained the same since 2013/14. If fees remain in line with that charged previously the Authority is looking at a total five year contract of circa £90K.

HUMAN RESOURCE IMPLICATIONS

- 13 The use of a third party to source and manage the external audit contract will mean the Authority is not committing internal resources to carry out this task.

LEGAL IMPLICATIONS

- 14 There are no legal implications arising directly from the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

- 15 There are no risk management implications arising directly from the recommendations in this report.

EQUALITY IMPLICATIONS

- 16 There are no equality implications arising directly from the recommendations in this report.

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ABBREVIATIONS

LGA	Local Government Association
PSAA	Public Sector Audit Appointments
FRC	Financial Reporting Council
RSB	Recognised Supervisory Body