

Agenda Item No: 8
Report To: Audit Committee
Date of Meeting: 6 December 2016



Report Title: **Procurement and Appointment of External Auditors – Appointment of a ‘Specified Person’**
Report Author & Job Title: Ben Lockwood – Head of Finance
Rich Clarke - Head of Audit Partnership
Portfolio Holder Cllr Shorter Portfolio Holder for Finance & Budget, Resource
Portfolio Holder for: Management and Procurement

Summary:

This is the fourth report to the committee updating them on the emerging picture for the procurement of an external auditor for the 2018/19 financial statements.

The Department for Communities and Local Government has appointed Public Sector Audit Appointments Ltd (PSAA – a wholly owned LGA company) to act as a ‘specified person’ to procure external auditors on behalf of authorities. Currently there is no other ‘Specified Body.’

PSAA have published a prospectus to Authorities outlining their proposed approach and have invited the council to opt into the national scheme for auditor appointments. This is the preferred route to procure the Councils next external Auditor.

Key Decision: NO

Significantly Affected Wards: N/A

Recommendations: **The Audit Committee is ask to recommend to Council:-**

- I. That they accept the Public Sector Audit Appointments’ (PSAA) invitation to opt in to the sector led option for appointment of external auditors for five financial years starting 1 April 2018.**
- II. That they approve the Head of Finance to liaise with PSAA and respond to its consultations on specific proposals as they come forward.**

Policy Overview: The Councils contract with its External Auditor is due to expire, and it will need to appoint a new auditor before 31 December 2017. The new auditor will take on responsibility for examining the 2018/19 financial statements and deliver their first opinion in July 2019.

If the Council is minded to accept the PSAA invitation then

Ashford BC will not be a party to the contract for the new external auditor and therefore the procurement process and selection of successful bidder will be completed by PSAA.

Financial Implications:

The Council must appoint an external auditor. Opting in to the national arrangement will allow PSAA to undertake a national procurement exercise that may result in lower fees through increased buying power than the Council could gain by local procurement.

Opting in also avoids incurring the costs of creating and preserving a local auditor panel.

Legal Implications

Section 7 of the Local Audit and Accountability Act 2014 demands a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year.

Section 8 governs the procedure for appointment including that the Council must consult and take account of the advice of its auditor panel on selecting and appointing a local auditor. Section 8 provides that where a relevant authority is a local authority employs executive arrangements, appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements.

Section 12 provides for the failure to appoint a local auditor. The authority must immediately tell the Secretary of State, who may direct the authority to appoint the auditor named in the direction or appoint a local auditor for the authority.

Section 17 gives the Secretary of State the power to regulate for an 'appointing person'. The Secretary of State exercised this power in the Local Audit (Appointing Person) Regulations 2015 (SI 192). These give the Secretary of State the ability to enable a Sector Led Body to become the appointing person. In July 2016 the Secretary of State named PSAA as the appointing person.

Equalities Impact Assessment

Not Required - this deals with the process for the appointment of an auditor and does not impact upon any groups within society.

Exempt from Publication:

NO

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Report Title: Procurement and Appointment of External Auditors – Appointment of a ‘Specified Person’

Introduction and Background

1. This is the fourth report to the Audit Committee on this subject. The Council's contract with its External Auditor is due to expire, and it will need to appoint a new auditor before 31 December 2017. The new auditor will take on responsibility for examining the 2018/19 financial statements and deliver their first opinion in July 2019. Under the current regulations the Council has 3 routes to procure an external auditor and at its meeting on the 16th June the Committee expressed a preference for this procurement the appointment of a ‘Specified Person’ who would have the authority to make auditor appointment decisions on behalf of those authorities who opt-in to those arrangements.
2. Since that meeting the Secretary of State has authorised Public Sector Audit Appointments Ltd (PSAA – a wholly owned LGA company) to act as a ‘specified person’ to procure external auditors on behalf of authorities. PSAA have published a prospectus (attached at **Appendix A**) setting out their intentions for the procurement exercise and have updated their Frequently Asked Questions guidance on the process for appointing a new external auditor and their role within that process which is attached at **Appendix B**.
3. PSAA have now written to authorities seeking their firm commitment to opt-in to their procurement process. A copy of the letter is attached at **Appendix C**.

Proposal/Current Position

4. To agree to recommend to Council that Public Sector Audit Appointments be appointed as the Council's ‘Specified Person’ for the appointment of a new External Auditor.

5.

PSAA prospectus

6. The full prospectus is attached to this paper (**Appendix A**). PSAA suggest that over 200 bodies have expressed an interest in joining their group procurement (Ashford Borough Council is one of these). PSAA intend to run 2 or 3 large contract areas, awarding contracts to a small number of firms. By procuring over these areas it will be seeking to secure “best possible prices” as a “top priority” of their procurement exercise. The intended contract duration will be 3 years with a 2 year option (so, up to 5 year commitment but the decision to extend will be at the PSAA's discretion).
7. The prospectus outlines the benefits of the scheme as being:
 - a. assured appointment of a qualified, registered, independent auditor
 - b. appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
 - c. on-going management of independence issues
 - d. securing highly competitive prices from audit firms

- e. minimising scheme overhead costs
 - f. savings from one major procurement as opposed to a multiplicity of small procurements
 - g. distribution of surpluses to participating bodies
 - h. a scale of fees which reflects size, complexity and audit risk
 - i. a strong focus on audit quality to help develop and maintain the market for the sector
 - j. avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
 - k. enabling time and resources to be deployed on other pressing priorities
 - l. setting the benchmark standard for audit arrangements for the whole of the sector
8. PSAA has written to authorities seeking their firm commitment to opt-in to their proposal (**Appendix C**). The PSAA invitation to opt in to all principal authorities, allows a minimum of 8 weeks for acceptance of the invitation. An authority wishing to accept the invitation to opt-in must give notice of acceptance to PSAA before the closing date. The decision to accept the invitation must be taken by the members of the authority meeting as a whole. The Audit Committee has previously agreed that this represents the best route to procure the next External Auditor.

Questions posed by PSAA

9. The Prospectus is seeking views on a number of questions which are reproduced below with some thoughts on possible responses. Members are asked to consider the questions and whether a response should be submitted by the committee:
- a. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
Yes – the need for both quality and good value are important features that the council would look for in its Auditor. In addition it would be preferable that the auditor is active in the sector leading on technical accounting and governance matters.
 - b. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
The Council has benefited from having a longer term relationship with its auditors, which allows the auditor to build a fuller understanding of the Councils activities, aspirations, and priorities. Therefore a contract of 5 years would be preferable; however there is sense to have an option to break this after 3 years.
 - c. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
This is consistent with the current system for setting fees and it supported. It would be helpful if there was a mechanism for reviewing fee levels if a Council were to alter its risk profile, either through a

change in activity or improving its internal control processes and governance.

- d. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive?

- i. Which specific benefits are most valuable to local bodies?

The benefits that particularly appeal is the simplicity of the process offered, the other procurement routes required Audit Panels to be established and this creates issues of control and governance for the Council.

The opportunity to be part of a larger procurement process and achieve economies of scale is important as a single procurement or even County wide exercise would not be as attractive to an audit firm.

- ii. Are there others you would like included?

The Council has two companies that also need to be audited and the auditors need to be authorised by the Financial Conduct Authority to provide public audit services. This has resulted in high audit fees for the companies which are not proportionate to their turnover. It is important that there is flexibility within the procurement process to allow for these companies to be audited at a competitive fee.

- e. What are the key issues which will influence your decisions about scheme membership?

These reasons are similar to those outlined above.

- f. What is the best way of us continuing our engagement with you on these issues?

Regular information updates need to be emailed to Authorities who have expressed an interest.

The idea of a panel selected from a sample of interested authorities and potentially professional bodies is a good way to test further developments of the proposal, with fuller consultation when necessary.

Implications and Risk Assessment

10. The implication of not opting in the PSAA's invitation would mean that the Council would either have to:
- a. set up an independent auditor panel. The panel must have a majority of independent members. The Act defines independent members as independent appointees, excluding current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority on the panel assessing bids and choosing which audit firm to recommend to the Council for appointment as the Council's external auditor.
 - b. Alternatively, the Act allows the Council to join with other authorities to set up a joint auditor panel. Again this would need a majority of independent appointees (members). This option also depends on there being other councils to join with. Research undertaken by the Head of Audit Partnership failed to identify any other authorities

considering this method of appointment to whom this Council could look to partner.

11. Neither of these alternatives are particularly suitable for the Council. Both would be more time and money intensive to do and without the bulk buying power of sector led procurement could result in a more costly service. There is also risk associated with management of audit quality and independence through local appointment.
12. The Act demands that councils appoint an external auditor through one of the defined routes by the end of December 2017. If the Council chooses not to act at all, then the Secretary of State holds reserve power to intervene.
13. Therefore the proposal the opt into the national procurement option manages the risks associated with the procurement of an external auditor.

Equalities Impact Assessment

14. An Equalities Impact Assessment is not applicable as this report deals with the process for the procurement of the External Auditor.
15. The procurement of an external auditor has no significant equalities impacts.

Other Options Considered

16. These were reported to the Committee on the 16th June.

Reasons for Supporting Option Recommended

17. Members have previously been consulted on this matter through the [Audit Committee] whose conclusions are summarised in this report. Then, the Council had not yet received the formal invitation to opt in to PSAA's arrangements.

Next Steps in Process

18. The Committee is asked to endorse PSAAs' invitation to opt in to the sector led option for appointment of external auditors for five financial years starting 1 April 2018
19. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 demands that a decision to opt in must be one of a meeting of the Council as a whole. The Council then needs to formally respond to PSAA's invitation in the form named by PSAA by 17 March 2017.
20. PSAA will begin the formal procurement after this date. It expects to award contracts in summer 2017 and consult with authorities to make the appointment by the statutory deadline of December 2017.

Conclusion

21. The Prospectus from PSAA outlines an acceptable proposal to the council for the procurement of its next external auditor.
22. The Council should opt-in to the proposal.

Portfolio Holder's Views

- 23.
- 24.

Contact and Email

25. Ben Lockwood

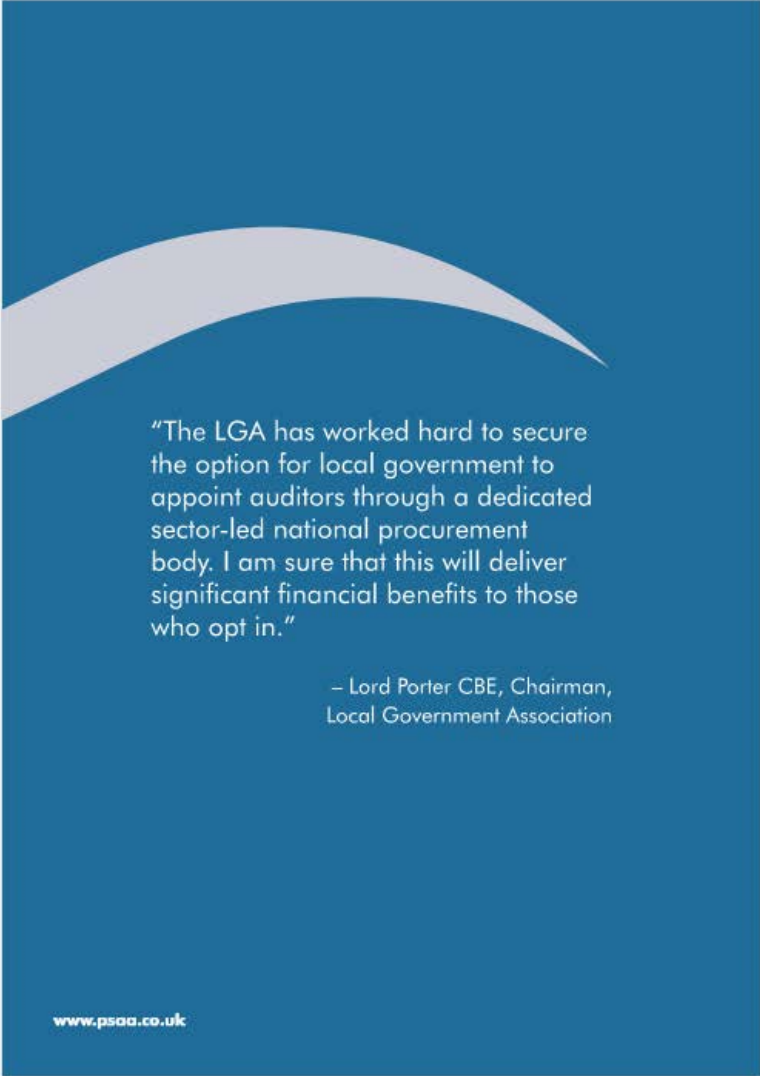
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Developing the option
of a national scheme for
local auditor appointments

www.psa.co.uk


Public Sector
Audit Appointments



“The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in.”

– Lord Porter CBE, Chairman,
Local Government Association

www.psaa.co.uk

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It aims to be designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at generalenquiries@psaa.co.uk

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.



Public Sector
Audit Appointments

Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal 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.

The LGA is supporting PSAA in its application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

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PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA wishes to be selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.


Public Sector
Audit Appointments

“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,
Police and Crime Commissioners
Treasurers’ Society (PACCTS)

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The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body's arrangements for securing value for money, dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.


Public Sector
Audit Appointments

PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). 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 meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

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PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years, subject, of course, to the terms of specification by DCLG.

The procurement strategy will need to 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. This will require specific safeguards in the design of the procurement and appointment arrangements.


Public Sector
Audit Appointments

“Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process.”

– Steven Mair, City Treasurer,
Westminster City Council

“In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with.”

– Charles Kerr, Chair,
Fire Finance Network

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PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

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 means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.


Public Sector
Audit Appointments

The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

Please reply to: generalenquiries@psaa.co.uk



The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

BOARD MEMBERS

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP

CHIEF OFFICER

Jon Hayes, former Audit Commission Associate Controller

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“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”

– Andrew Burns, Director of Finance and Resources,
Staffordshire County Council

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Public Sector
Audit Appointments



Appointing person: Frequently asked questions (updated 8 November 2016)

Question	Response
<p>1. What is an appointing person and what bodies are eligible to opt in?</p>	<p>Public Sector Audit Appointments Limited (PSAA) has been specified as an appointing person under the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015, and has the power to make auditor appointments for audits of the accounts from 2018/19 on behalf of principal local government bodies that opt in, in accordance with the Regulations. PSAA is a not-for-profit 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. The 'appointing person' is sometimes referred to as the sector-led body.</p> <p>Eligible bodies are only those principal local government bodies listed in schedule 2 of the Local Audit and Accountability Act 2014. This includes county councils, district councils, London Borough councils, unitary authorities, metropolitan councils, police bodies, fire and rescue authorities, joint authorities, combined authorities (covering elected regional mayors), national park authorities, conservation boards, PTEs, waste authorities, and the GLA and its functional bodies. Smaller authorities (such as parish councils) and NHS bodies, including accountable care organisations, are not eligible to opt in.</p> <p>A list of 493 local government bodies currently eligible for the appointing person scheme is available on the appointing person page of our website (http://www.psa.co.uk/supporting-the-transition/appointing-person/).</p>

Question	Response
<p>2. When will invitations to opt in be issued?</p>	<p>The invitation to opt in was issued on 27 October 2016 with a closing date for acceptance of 9 March 2017. This allows considerably longer than the statutory minimum period of eight weeks, for the requirement under the regulations that authorities must make the decision to opt in at a full council meeting. As corporations sole, the full council requirement does not apply to police and crime commissioners.</p> <p>The aim is to award contracts to audit firms by June 2017, giving six months to consult with authorities and confirm appointments before the 31 December 2017 deadline to appoint auditors for the following financial year.</p> <p>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. Our timetable means that we will need to start preparing tender documentation early in 2017, so we will need to know which authorities have opted in.</p>
<p>3. How do we have to make the decision to accept the invitation to opt in?</p>	<p>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.</p>
<p>4. Can we join after it has been set up or do we have to join at the beginning?</p>	<p>One of the main benefits of an appointing person approach is the ability to achieve economies of scale as a result of being able to offer larger volumes of work. The greater the number of participants we have signed up at the outset, the better the</p>

Question	Response
	<p>economies of scale we are likely to achieve. This will not prevent authorities from applying to join the appointing person scheme in later years (and PSAA must agree to the request unless there are reasonable grounds to refuse), but they will need to make their own arrangements to appoint an auditor in the interim, which will include establishing an auditor panel. In order to be in the best position we would encourage as many authorities as possible to commit by accepting the invitation within the specified timeframe, that is by 9 March 2017.</p>
<p>5. Will membership be free for existing members of the LGA?</p>	<p>The option to join the appointing person scheme will be open to all principal local government authorities 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, authorities will avoid the costs of their own procurement and management of contracts and also the requirement to set up an auditor panel with independent members.</p>
<p>6. How will we be able to influence the development of the appointing person scheme and associated contracts with audit firms?</p>	<p>We have established a stakeholder advisory panel which will comment on our proposals. Members of the panel are drawn from representative organisations for councils, police and fire bodies. The first meeting of the group was held on 30 September 2016. Further meetings are scheduled for 23 November 2016, 26 January 2017 and 25 May 2017.</p> <p>PSAA continues to work in partnership with the LGA in setting up the appointing person scheme and you can feed in</p>

Question	Response
	<p>comments and observations to PSAA by emailing appointingperson@psaa.co.uk and via the LGA and their principal advisors.</p>
<p>7. Will there be standard contract terms and conditions?</p>	<p>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 authorities 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 stakeholder advisory panel (see Q6).</p>
<p>8. What will be the length of the contracts?</p>	<p>The length of contract between PSAA and firms will be five years.</p>
<p>9. 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?</p>	<p>Local authority group accounts are part of the accounts produced under the CIPFA SORP and are subject to audit in line with the NAO Code of Audit Practice. They will continue to be part of the statutory audit.</p> <p>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 to undertake the principal body audit, should they so wish.</p>
<p>10. Will bodies that opt in be able to seek information from potential suppliers and undertake some form of evaluation to choose a supplier?</p>	<p>PSAA will run the tendering exercise, and will evaluate bids and award contracts. PSAA will consult authorities on individual auditor appointments. The appointment of an auditor independently of the body to be audited is an important feature of the appointing person arrangements and will continue to underpin strong corporate governance in the public sector.</p>

Question	Response
11. 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 authorities. As a not-for-profit organisation, PSAA will be able to return any surpluses to opted-in authorities after all costs have been met.
12. We have shared service arrangements with our neighbouring bodies and we are looking to ensure that we share the same auditor. Will the appointing person scheme allow for this?	<p>PSAA will be able to make appointments to all principal local government bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014 that are 'relevant authorities' and not excluded as a result of being smaller authorities, for example parish councils.</p> <p>In setting up the new arrangements, one of our aims is to make auditor appointments that take account of joint working and shared service arrangements. Requests for the same auditor as other authorities will need to be balanced with auditor independence considerations. As we have set out in our prospectus, auditors must be independent of the bodies they audit. PSAA will have an obligation under the provisions of the Local Audit and Accountability Act 2014 to ensure that every auditor appointment it makes passes this test and auditors must comply with the requirements of the Ethical Standards issued by the Financial Reporting Council. We will need information from opted-in authorities on potential independence considerations and joint working arrangements, and will also need information on independence issues from the audit firms. Risks to auditor independence include, for example, an audit firm having previously been engaged to advise on a major procurement which could, of course, later be subject to audit.</p>

Question	Response
<p>13. We have a joint committee which no longer has a statutory requirement to have an external auditor but has agreed in the interests of all parties to continue to engage one. Is it possible to use this process as an option to procure the external auditor for the joint committee?</p>	<p>The requirement for joint committees to produce statutory accounts ceased after production of the 2014/15 accounts and they are therefore not listed in Schedule 2. Joint committees that have opted to produce accounts voluntarily and obtain non-statutory assurance on them will need to make their own local arrangements.</p>
<p>14. How will the appointing person scheme ensure audit firms are not over-stretched and that the competition in the market place is increased?</p>	<p>The number of firms eligible to undertake local public audit is 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.</p> <p>PSAA is developing a procurement strategy which may include a limit on the total business available to any one firm.</p> <p>One of the advantages of the appointing person 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:</p> <ul style="list-style-type: none"> • firms have a regional presence; • greater continuity of staff input; and • a better understanding the local political, economic and social environment.
<p>15. Will the appointing person scheme contract with a number of different audit firms and how will they be allocated to authorities?</p>	<p>PSAA will organise the contracts to maximise the number of firms appointed nationally. The minimum number of audit firms 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</p>

Question	Response
	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 that allow each firm a balanced portfolio of work subject to independence considerations.
16. What will be the process to feed in opinions from customers of current auditors if there are 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 undertake contract monitoring of the firms it appoints.
17. What is the timetable for set up and key decisions?	<p>We expect the key points in the timetable to be broadly:</p> <ul style="list-style-type: none"> • establish an overall strategy for procurement - by November 2016; • achieve 'sign-up' of opted-in authorities - by 9 March 2017; • invite tenders from audit firms - by April 2017; • award contracts - by 30 June 2017; • consult on and make final auditor appointments - by 31 December 2017; and • consult on, propose audit fees and publish fees - by 31 March 2018.
18. What are the terms of reference of the appointing person?	PSAA is a not-for-profit company wholly owned by the IDeA (the IDeA is wholly owned by the LGA). PSAA will continue to operate as an independent company, although there will be changes to its governance arrangements and its founding documents to reflect the fact that it will be an appointing person going forward rather than a transitional body which has overseen the transition from the Audit Commission to the new appointing person arrangements.

Question	Response
19. Will the appointing person take on all audit panel roles and therefore mitigate the need for there to be one in each individual authority?	Opting into the appointing person scheme 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.
20. What will be the arrangements for overseeing the quality of audit work undertaken by the audit firms appointed by the appointing person?	<p>PSAA will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the Local Audit and Accountability Act 2014, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of the firms' 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, meaning that small local firms will not be eligible to be appointed to local public audit roles.</p> <p>PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. PSAA will take a close interest in feedback from opted-in bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems. We will liaise with the NAO to help ensure that guidance to auditors is updated when necessary.</p>

Question	Response
<p>21. In what circumstances can an auditor be changed during the five year opt-in period, and how does this differ from locally procured arrangements?</p>	<p>The main circumstances in which PSAA will consider changing an auditor appointment during the five year compulsory appointing period are either for independence reasons, for example the identification of a conflict of interest involving the existing audit firm, or because of the emergence of new joint working arrangements.</p> <p>An authority appointing its own auditor will find it more difficult to change their auditor appointment during the contracted period, as this would require the authority to conduct a new selection and procurement exercise. The appointing person scheme will therefore provide more flexibility for opted-in bodies.</p>
<p>22. How will audit fee levels be set for each individual body with the objective of recovering PSAA costs at the aggregate level?</p>	<p>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 currently 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 our scale fees.</p> <p>2018/19 scale fees will be determined by the prices achieved in the auditor procurement that PSAA will undertake during the early part of 2017. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable in March 2018. Where more or less work is required than is envisaged in the scale fee, a fee variation process will apply. The variations process will ensure that fees for additional work</p>

Question	Response
	cannot be invoiced until agreed with the audited body and approved by PSAA.
23. What will be the future arrangements under the appointing person scheme for certifying grant claims?	<p>PSAA's audit contracts from 2018/19 will not cover certification work. PSAA has no power under the Local Audit and Accountability Act 2014 to make certification arrangements, and its arrangements will apply only to opted-in bodies. Any certification work required by grant paying government departments will need to be undertaken using a tripartite agreement between an audited body, an audit firm and the grant paying body, under instructions prepared by the grant paying body.</p> <p>The Department for Work and Pensions is developing its arrangements for housing benefit subsidy claim certification from 2018/19 on this basis. Where applicable, local authorities will appoint an auditor for this certification work (for which an auditor panel is not required) and may if they wish choose to use the same auditor appointed by PSAA for the audit of the accounts, if they are opted-in bodies.</p>
24. How will the appointing person scheme deal with an authority that is dissatisfied with its auditor and wants a change (e.g. because of quality, relationships, or a conflict of interest)?	<p>As with the current arrangements, where an authority is dissatisfied with its auditor, concerns should be raised in the first instance with the firm's Engagement Lead and subsequently with the firm's PSAA Contact Partner (as indicated on communications between the firm and the authority).</p> <p>If the authority is not satisfied with the response of the firm, then the matter should be raised with PSAA.</p>

Question	Response
	<p>As appointing person, PSAA appoints a firm as auditor to an authority. The firm is responsible for nominating an individual to act as the Engagement Leader on the audit of an authority.</p> <p>PSAA will consider changing an auditor appointment in extremis if an authority is dissatisfied, but would expect the authority and the firm to have exhausted all avenues for resolution before doing so. Maintaining the independence of the auditor is an important part of this consideration.</p> <p>PSAA will consider changing an auditor appointment during the five year compulsory appointing periods, if a conflict of interest involving the existing audit firm is identified, or because of the emergence of new joint working arrangements.</p> <p>The appointing person scheme will have the flexibility to provide an audit alternative if required in these cases.</p> <p>PSAA will be monitoring the quality of audit services provided as part of the contractual terms of appointment to be agreed with firms.</p>
<p>25. Will an auditor be able to provide my authority with non-audit consultancy services?</p>	<p>The independence requirements for all auditors within the local public audit regime are the same whether locally appointed, or part of the appointing person regime. These requirements are specified by the Financial Reporting Council in the Ethical Standard and applied to local public audit as determined by the NAO.</p> <p>The services that an auditor can provide are the same, whatever the appointment method.</p>

Question	Response
	<p>As the Appointing Person, PSAA will perform the role otherwise required of an auditor panel to advise the authority on the maintenance of the independence of the auditor [Local Audit and Accountability Act 2014 section 10(1)].</p> <p>PSAA will consider changing an auditor appointment during the five-year compulsory appointing period for independence reasons, if for example the identification of a conflict of interest involving the existing audit firm, or because of the emergence of new joint working arrangements.</p>
<p>26. Will the appointing person arrangements cover the audit of an authority's pension fund where it is the administrative body responsible for preparing the pension fund accounts?</p>	<p>Yes. Pension funds are not separate legal entities from their administering local authority, and are therefore not listed as relevant authorities in schedule 2 of the Local Audit and Accountability Act 2014. The auditor appointment to an opted-in local authority will include the audit of the pension fund where the authority is the administering body. As is currently the case, the pension fund audit will be subject to a separate engagement and scale audit fee, but the auditor appointment will cover both the local authority and the pension fund.</p>

<p>27. How does the opt-in process work for police and crime commissioners and chief constables given that chief constables must not appoint their own auditor?</p>	<p>PSAA has issued the opt-in invitation to chief constables as well as police and crime commissioners because the Local Audit (Appointing Person) Regulations 2015, issued under the provisions of the Local Audit and Accountability Act 2014, require the appointing person to issue an invitation to "all principal authorities which fall within the class of authorities in relation to which the person has been specified" (Regulation 8). PSAA's specification as an appointing person covers all relevant local government authorities that are principal bodies, as listed in Schedule 2 of the 2014 Act. Chief constables and police and crime commissioners are listed separately as relevant authorities.</p> <p>While the responsibility for the decision about appointing an auditor for the chief constable is reserved to the police and crime commissioner for a police area (under schedule 3 of the Local Audit and Accountability Act 2014), the police and crime commissioner will need to consider this decision with the chief constable. The opt-in invitation information sent by PSAA provides chief constables with essential information about the appointing person arrangements, including the timetable for the opt-in process. This should enable chief constables to engage with police and crime commissioners on this decision.</p> <p>Where a police and crime commissioner makes a decision to opt into PSAA's national auditor appointment arrangements and submits a notice of acceptance of the invitation, PSAA will need to confirm that the notice covers the chief constable if this is not explicitly stated. As separate legal entities, PSAA will subsequently need to make separate auditor appointments,</p>
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Question	Response
	albeit of the same audit firm, to the opted-in police and crime commissioner and chief constable for a police area.



27 October 2016

Email: appointingperson@psaa.co.uk

Tracy Kerly
Ashford Borough Council
Civic Centre
Tannery Lane
Ashford Kent TN23 1PL

Copied to: Ben Lockwood, Director of Finance, Ashford Borough Council
Terry Mortimer, Director of Law and Governance, Ashford Borough Council

Dear Ms Kerly

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the [appointing person](#) page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely

Jon Hayes, Chief Officer

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Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

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

We 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. We 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.

The national scheme for appointing local auditors

We 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 we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the [appointing person](#) page of our website.

We 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 our 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

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

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

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your 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 us 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. We 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.

We 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 our contract terms and in the quality criteria in our 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.

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

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we 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 us 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, we 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.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

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

Fee scales

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

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We 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 our current deferred income. We 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 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 our 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. We 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. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

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

Enquiries

We publish frequently asked questions on our [website](#). We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.