

## **HIGH PEAK BOROUGH COUNCIL**

### **Report to the Audit & Regulatory Committee**

**14th February 2017**

<b>TITLE:</b>	<b>Appointment of External Auditors - Public Sector Audit Appointments Opt-in</b>
<b>EXECUTIVE COUNCILLOR</b>	<b>Councillor Emily Thrane – Executive Councillor for Finance &amp; Corporate Services</b>
<b>CONTACT OFFICER:</b>	<b>Andrew Stokes – Executive Director (Transformation) &amp; Chief Finance Officer</b>
<b>WARDS INVOLVED:</b>	<b>Non-Specific</b>

#### **Appendices Attached**

**Appendix 1 Opt-in Letter and Appendix: Appointing an External Auditor – Information on the National Scheme**

**Appendix 2 Appointing Person: Frequently Asked Questions**

#### **1. Reason for the Report:**

- 1.1 Following the demise of the Audit Commission new arrangements are needed for the appointment of external auditors. 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. The Council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

#### **2. Recommendation**

- 2.1 That the Committee recommends to Council that the Authority opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

#### **3. Executive Summary**

- 3.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5th October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional

arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

- 3.2 When the current transitional arrangements come to an end on 31st March 2018 the Council will be able to move to local appointment of the auditor. There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act); to opt-in to an approved sector led body; establish an independent audit panel; or establish Joint Auditor Panel / local joint procurement arrangements.
- 3.3 In response to the consultation on the new arrangement, the LGA successfully lobbied for Councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. A non-binding expression of interest in opting-in to a SLB was submitted to the LGA in April 2016, which was noted by this committee at the 25th May 2016 meeting.
- 3.4 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. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government.
- 3.5 The date by which authorities will need to opt in to the appointing person arrangements is 9th March 2017. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation this Committee is asked to make the recommendation to Council.

#### **4. How this report links to Corporate Priorities**

- 4.1 The most economic and efficient approach to procurement of external audit contributes to the effective use of financial and other resources to ensure value for money.

#### **5. Options and Analysis**

- 5.1 To approve the Council opt-in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors (*Recommended*). Opting-in will ensure the most efficient, timely and cost effective procurement of external audit.
- 5.2 Do not approve the Council opt-in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors (*Not Recommended*). The Council will have to establish an independent audit panel which will be a more resource intensive and costly process.

## 6. Implications

- 6.1 Community Safety - (Crime and Disorder Act 1998)  
None
- 6.2 Workforce  
None
- 6.3 Equality and Diversity/Equality Impact Assessment  
This report has been prepared in accordance with the Council's Diversity and Equality Policies.
- 6.4 Financial Considerations  
Current external fees levels are likely to increase when the current contracts end in 2018. Opting-in to a national SLB provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.
- 6.5 Legal  
Opting in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors will ensure compliance with the Local Audit and Accountability Act 2014.
- 6.6 Sustainability  
None
- 6.7 Internal and External Consultation  
None
- 6.8 Risk Assessment  
Opting in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors by the opt-in deadline will enable successful transition to the new arrangement in a timely and efficient manner. Failing to meet this deadline will result in the far more resource intensive and costly process of establishing an independent Audit Panel.

**ANDREW P STOKES**  
**Executive Director (Transformation) & Chief Finance Officer**

**Web Links and  
Background Papers**

Local Audit and Accountability  
Act 2014

PSAA Invitation to opt  
into the national scheme  
for auditor appointments  
October 2016

PSAA Prospectus  
August 2016

**Location**

Buxton Town Hall

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## **7. Background and Detail**

- 7.1 As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1 April 2015. The audits were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government (DCLG).
- 7.2 In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the appointed person regime.
- 7.3 There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government. PSAA 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).

## **8. Options for local appointment of External Auditors**

- 8.1 Under the legislation each Local Authority has 3 options:
- Option 1 - Opt in to an approved sector led body (SLB) to be specified by DCLG to act as the Appointing Person on behalf of opted in Local Authorities.
  - Option 2 - To establish an independent Audit Panel. The Panel must be made up of a majority of wholly independent members and must be chaired by an independent member.
  - Option 3 - Establish a joint Auditor Panel to carry out the function on behalf of two or more bodies.
- 8.2 Councillors will recall that a report was submitted to this Committee at the 25th May 2016 meeting which set out the advantages and disadvantages of these 3 options. The Committee noted the decision to submit a non-binding expression of interest in opting-in to the Local Government Association (LGA) sector-led body approach to the procurement of future external audit contracts (Option 1).
- 8.3 The main advantages under Option 1 of using PSAA are set out in its prospectus and are copied below; these can also be viewed as the disadvantages if the Council was to decide to undertake its own procurement. Further information is contained within the Opt-in Letter and Appendix (**Appendix 1**).

- Assure timely auditor appointments
- Manage independence of auditors
- Secure highly competitive prices
- Save on procurement costs
- Focus on audit quality
- Operate on a not for profit basis and distribute any surplus funds to scheme members.

8.4 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement undertaken by this Council or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an Auditor Panel and conducting our own procurement. Further information is contained within the Appointing Person FAQ's (**Appendix 2**).

8.5 The other Options have been considered and these are shown below:

- Option 2 - To establish an Auditor Panel and conduct own procurement – this is not recommended as it will be a far more resource intensive process and without the economies of scale of the sector led procurement and would likely to result in a more costly service.
- Option 3 - To establish a joint Auditor Panel to carry out the function on behalf of 2 or more bodies – this is not recommended because there is little appetite for a joint procurement.

8.6 The date by which authorities will need to opt in to the appointing person arrangements is 9 March 2017. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council (authority meeting as a whole). To comply with this regulation this Committee is asked to make the recommendation to Council.