

Joint Audit Committee

19th September 2016

Public Sector Audit Appointments.

Summary:

On 13 August 2010, the Government announced its intention to abolish the Audit Commission and put in place new decentralised arrangements for the audit of local public bodies.

The Local Accountability and Audit Bill, published in May 2013, deliver the Government's commitment to close the Audit Commission and transfer its remaining functions. The Bill gave local bodies the freedom to appoint their own auditors from an open and competitive market; manage their own audit arrangements, with appropriate safeguards to ensure auditor independence; and retain the same high standards.

Section 17 of the Local Audit and Accountability Act 2014 allows for sector-led collective procurement arrangements, under which relevant authorities would be able to opt to have their auditor appointed by a specified sector-led body, rather than appoint locally.

This report provides information on the sector-led procurement approach from Public Sector Audit Appointments Limited (PSAA) – an independent, not for profit company limited by guarantee and established by the Local Government Association.

Recommendation:

The committee is asked to:

1. Support the principle of joining the Public Sector Audit Appointments (PSAA) Limited for the procurement of audit contracts with effect from 2018/19.
2. Provide feedback on the draft response to the six consultation questions in paragraph 2.3.

1 Introduction and background

- 1.1 On 13 August 2010, the Government announced its intention to abolish the Audit Commission and put in place new decentralised arrangements for the audit of local public bodies.
- 1.2 In March 2012 the Audit Commission completed a procurement exercise to outsource the work of its in-house audit practice, covering 70% of

principal audits. This exercise, and other efficiencies, allowed the Commission to make reductions of up to 40% in audit and certification fees from 2012/13, subject to annual review.

- 1.3 As a result of this procurement exercise Grant Thornton were appointed to audit the PCCs and Chief Constables of Warwickshire and West Mercia for a five year period from 2013/13 i.e. ending with the audit of the 2017/18 accounts.
- 1.4 The Local Audit and Accountability Bill, published in May 2013, delivered the Government's commitment to close the Audit Commission and transfer its remaining functions. The Bill put in place a new local audit and accountability framework for local public bodies in England. This replaces the centralised arrangements for the audit of local bodies with a more localist approach, giving local bodies the freedom to appoint their own auditors from an open and competitive market; manage their own audit arrangements, with appropriate safeguards to ensure auditor independence; and retain the same high standards.
- 1.5 Although the Minister of State was very keen that all local public bodies should establish Auditor Panels to select and appoint their own auditors, local public bodies - including the police - were not as enthusiastic and lobbied the Government to change the proposed legislation to enable sector-led collective procurement arrangements in order to benefit from economies of scale.
- 1.6 The Government clearly listened since Section 17 of the Local Audit and Accountability Act 2014 (the 2014 Act) gives the Secretary of State the power to make provision, by regulations, for certain relevant authorities to have a local auditor appointed on their behalf by a body (an 'appointing person') specified by the Secretary of State. This is to allow for sector-led collective procurement arrangements, under which relevant authorities would be able to opt to have their auditor appointed by a specified sector-led body, rather than appoint locally.

Public Sector Audit Appointments Limited (PSAA)

- 1.7 In July 2016 the Secretary of State confirmed that PSAA has been specified as an appointing person under the provisions of the 2014 Act and the Local Audit (Appointing Person) Regulations 2015. This means that PSAA will make auditor appointments to relevant principal local government bodies that choose to opt into the national appointment arrangements they are developing, for audits of the accounts for 2018/19.
- 1.8 PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association.
- 1.9 According to PSAA the benefits of joining their scheme are:

- 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

2 Issues for consideration

2.1 The Committee's current operating principles include the following in respect of external audit:

- Consider and comment upon any proposals affecting the provision of the external audit service
- Consider the level of fees charged, and
- To undertake the future role of the Independent Audit Panel, as set out in the Local Audit and Accountability Act 2014, including considering and recommending appropriate arrangements for any future appointment of External Auditors

2.2 It is wholly appropriate therefore that the Committee considers and discusses the recommendation from Officers that we join the PSAA sector-led procurement.

2.3 PSAA anticipate that invitations to formally opt in will be issued before December 2016. In their prospectus, PSAA has asked for feedback on six specific questions concerning their plans for the future. These are set out below, together with a suggested response to each.

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?

Yes, these are the primary considerations for the next round of audit contracts

2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?

Yes, three years with an option to extend to five would be appropriate for a contract of this value and importance.

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?

Yes, the scale fee should reflect all three considerations set out above. In addition, the overall risk associated with auditing the 'PCC Group' should be considered when setting individual fees for PCCs and Chief Constables.

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?

Yes, the benefits are adequately summarised in the prospectus.

The savings in audit fees since 2012 highlight the benefits, particularly in terms of economy of scale savings, that be obtained through national procurement exercises. Being able to select (or request) the same auditor for collaboration partners should facilitate a quicker and smoother audit closedown.

Being a not for profit organisation, any savings generated through the careful management of audit contracts will be redistributed to members.

I presume the PSAA will undertake contract management on behalf of local bodies. If correct, this is an additional benefit that should be highlighted in the prospectus.

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

Cost and quality are the key issues. Timeliness of the tender process and award of contract is also very important.

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

Regular newsletters and email updates to chief finance officers

3 Financial comments

- 3.1 The audit scale fee charges for 2016/17 are £31035 for the PCC for Warwickshire and £34260 for the PCC for West Mercia, £15000 for the Chief Constable for Warwickshire and £18750 for the Chief Constable for West Mercia (i.e. a total charge of £99045). Fee charges for 2017/18 are likely to be announced next March, following consultation with local public bodies. This will be the final year of fees under the present contracts.
- 3.2 It is too early to estimate the new audit fee with effect from 2018/19 but the cost will almost certainly be lower through a sector-led procurement than local procurement.

4 Legal comments

- 4.1 The Local Audit and Accountability Act 2014 explain the process to be adopted for the next round of audit contracts in 2018/19.

5 Equality comments

- 5.1 There are none arising specifically from this report

6 Background papers

Local Audit and Accountability Bill (May 2013)
Local Audit and Accountability Act 2014