

# Appendix A

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## Public Sector Audit Appointments

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### 1. Background

- 1.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and the 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 5 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 and this will be undertaken by our current external auditors KPMG LLP.
- 1.2 Regulations made under the Act allow authorities to 'opt in' for their auditor to be appointed by an 'appointing person'. In July 2016 Public Sector Audit Appointments (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 local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission under powers delegated by the Secretary of State.
- 1.3 An outline procurement strategy was published in November 2016 that sets out how PSAA intends to fulfil the LGA's objectives in practice. The prospectus and procurement strategy can be found on the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)) and are attached as background information in Appendix E and F.
- 1.4 PSAA is an independent, not-for-profit company limited by guarantee and established by the Local Government Association (LGA). PSAA is inviting West Berkshire Council to opt in, along with all other authorities, so that PSAA can enter into a number of contracts with appropriately qualified audit firms and appoint a suitable firm to be the Authority's auditor. The principal benefits from such an approach are as follows:
- PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together;
  - PSAA will monitor contract delivery and ensure compliance with contractual, audit quality and independence requirements;
  - Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon;
  - It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition;
  - The overall procurement costs would be lower than an individual smaller scale local procurement;
  - The overhead costs for managing the contracts will be minimised through a smaller number of large contracts across the sector;

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- There will be no need for the Authority to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel';
  - The new regime provides both the perception and reality of independent auditor appointment through a collective approach; and
  - A sustainable market for audit provision in the sector will be easier to ensure for the future.
- 1.5 The Authority's current external auditor is KPMG LLP, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract was transferred to PSAA, and since this date PSAA has demonstrated its capability in terms of auditor appointment, contract management, and monitoring audit quality. Over recent years authorities have benefited from a reduction in fees. This has been the result of a combination of factors including new contracts negotiated nationally with the audit firms and savings from closure of the Audit Commission. The Authority's current external audit fees for 2016/2017 are expected to be £107,468 which includes certification of the Council's Housing Benefit claim.
- 1.6 The proposed fees for subsequent years cannot be known until the procurement process has been completed, as the costs will depend on proposals from the audit firms. The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Authority's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
- 1.7 Currently, there are only nine providers that are eligible to audit local authorities and other relevant bodies; all of these being firms with a national presence. This means that a local procurement exercise, would seek tenders from these same firms, subject to the need to manage any local independence issues. Local firms could not be invited to bid.
- 1.8 It is understood that a large majority of Council's are opting for this route or have already opted in, see appendix D where there is a list of those Councils who have already opted into PSAA as at 4<sup>th</sup> January 2017.

## 2. Other options considered

- 2.1 Establish a stand-alone Auditor Panel to make the appointment on behalf of the Council. The members of the panel must be made up of wholly or a majority of independent members as defined by the act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract to for the Council's external audit.
- 2.2 The recruitment and servicing of the Auditor Panel, running the bidding process and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus ongoing expenses and members allowances. The Council also will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

- 2.3 CIPFA published in December 2015 a guide to Auditor Panels, which are required if authorities do not opt in to an “appointing person” arrangement. The minimum number of members for an Auditor Panel is 3, of which 2 must be considered independent from the authority. A panel member job description should be drawn up and agreed before commencing recruitment and the requirement or desire for relevant knowledge or expertise should be clearly determined. Vacancies must be publicly advertised, as is good practice for any public appointment, but particularly as a person may only be appointed as an independent member of an auditor panel if that vacancy has been advertised in accordance with the Auditor Panel Regulations.
- 2.4 CIPFA highlighted that appropriate skills and knowledge need to be sought when appointing members to an Auditor Panel. Some of these can be fairly generic, such as knowledge of the authority itself, values of good governance and ethics and public procurement rules. However, others are likely to be fairly specialist, including understanding of:
- a. local authority finance
  - b. accountancy (public sector or commercial)
  - c. audit processes and regulation (public or private sector, external/local audit or internal audit), including more specifically,
  - d. the role and responsibilities (statutory duties) of a local public auditor in local government.
- 2.5 The issue of what level of allowances and expenses to pay Panel members is at the discretion of individual organisations. CIPFA suggests that authorities may wish to mirror arrangements for other allowances within their governance arrangements. There would clearly be an expectation of some financial recompense to engage a suitably qualified, independent individual.
- 2.6 Turning to the actual auditor appointment, this will need to be taken in accordance with EU procurement rules which specify particular stages and timescales. There are five key stages of the process which are likely to be common across authorities:
- i) Decide on the appointment process (a decision for Council whether to use the sector led body or appoint independently)
  - ii) (If appointing independently) determine the important criteria to be considered when selecting the auditor and invite expressions of interest against these
  - iii) Evaluate expressions received
  - iv) Final evaluation of tenders
  - v) Recommendation to the authority.
- 2.7 While the Auditor panel would play a key role at each of these stages, in reality the detailed work to inform the Panel’s considerations would need to be undertaken by Council officers. While the skills exist to do so, the issue of capacity in the context of reducing resources is a key challenge across the local government sector. This is a key factor cited by other authorities who have decided to opt in to the PSAA arrangement.
- 2.8 Based on the following key issues, the Head of Finance does not recommend that West Berkshire Council independently seeks to appoint its local external auditor:

- As a small unitary authority, the Council is unlikely to attract competitive prices from suitably qualified organisations;
  - It is likely to prove difficult to attract sufficient independent members for an Auditor Panel that have an understanding of the authority and the broader skills required to play a key advisory role;
  - There is insufficient capacity internally to support the appointment process.
- 2.9 Another option available would be to commence work on exploring the establishment of local joint procurement arrangements with neighbouring authorities. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act.
- 2.10 Recent years have seen increased partnership working across the Berkshire Unitaries, to deliver a range of specific functions. This indicates that such an approach could potentially be applied to the appointment of a local external auditor. However, to date no proposal has been made or received by West Berkshire for joint working in this area. This should not be taken as an indication that there is no interest, but rather as a reflection of the scale of other challenges facing Local Authorities at this time.
- 2.11 A key issue for consideration is the timescale involved. Local Authorities must have appointed an auditor for their 2018/19 accounts by no later than 31 December 2017. An important and necessary first stage in this is to make a formal decision on their approach to appoint a local auditor and, if necessary, to establish an Auditor Panel by no later than 9 March. While this represents a timetable determined by the PSAA, it also reflects a realistic deadline to start a formal and complex procurement process to ensure a local auditor is in place.
- 2.12 Another factor is that the approach to local authority audit is tightly defined by the Local Audit and Accountability Act 2014 and the National Audit Office's (NAO) Code of Audit Practice, which came into force on 1 April 2015. There is no real scope for local variation of the approach required and the number of bodies qualified to audit local authority accounts is very small.
- 2.13 For these reasons, together with the likelihood of the PSAA being able to secure better value bids for work through a national collective process, very few authorities are expected to undertake their own procurement processes for a local auditor. The Head of Finance has also been unable to find any examples of unitary authorities working together outside of the PSAA arrangement, for the same reasons.
- 2.14 Therefore, while recognising the potential in future years to develop a local partnership that can learn from the experience of appointing a local auditor for the first time, the Head of Finance recommends that West Berkshire Council should join the overwhelming majority of local authorities in opting in to the collective arrangements of the PSAA.

### 3. Conclusion

- 3.1 The Council have until December 2017 to make an appointment of external auditors and the Committee are being requested to give early consideration to their preferred approach. If the Council would like to accept the invitation of the PSAA they would need to opt in by the 9<sup>th</sup> March 2017. The officer recommendation would be to approve the opting in of the National Scheme.

3.2 The member recommendation will need to go to full Council, members are requested to ask full Council to consider and endorse the Government and Ethics committee's decision.

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**Subject to Call-In:**

Yes:  No:

The item is due to be referred to Council for final approval   
Delays in implementation could have serious financial implications for the Council   
Delays in implementation could compromise the Council's position   
Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months   
Item is Urgent Key Decision   
Report is to note only

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**Strategic Aims and Priorities Supported:**

The proposals will help achieve the following Council Strategy aim:

**MEC – Become an even more effective Council**

The proposals contained in this report will help to achieve the following Council Strategy priority:

**MEC1 – Become an even more effective Council**

The proposals contained in this report will help to achieve the above Council Strategy aim and priority.

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**Officer details:**

Name: Andy Walker  
Job Title: Head of Finance  
Tel No: 01635 519433  
E-mail Address: [andy.walker@westberks.gov.uk](mailto:andy.walker@westberks.gov.uk)

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## Appendix B

### Equality Impact Assessment – Stage One

We need to ensure that our strategies, policies, functions and services, current and proposed have given due regard to equality and diversity.

Please complete the following questions to determine whether a Stage 2, Equality Impact Assessment is required.

<b>Name of policy, strategy or function:</b>	Not Applicable
<b>Version and release date of item (if applicable):</b>	
<b>Owner of item being assessed:</b>	
<b>Name of assessor:</b>	
<b>Date of assessment:</b>	

Is this a:		Is this:	
Policy	No	New or proposed	No
Strategy	No	Already exists and is being reviewed	No
Function	No	Is changing	No
Service	No		

<b>1. What are the main aims, objectives and intended outcomes of the policy, strategy function or service and who is likely to benefit from it?</b>	
<b>Aims:</b>	
<b>Objectives:</b>	
<b>Outcomes:</b>	
<b>Benefits:</b>	

<b>2. Note which groups may be affected by the policy, strategy, function or service. Consider how they may be affected, whether it is positively or negatively and what sources of information have been used to determine this.</b>		
(Please demonstrate consideration of all strands – Age, Disability, Gender Reassignment, Marriage and Civil Partnership, Pregnancy and Maternity, Race, Religion or Belief, Sex and Sexual Orientation.)		
<b>Group Affected</b>	<b>What might be the effect?</b>	<b>Information to support this</b>

<b>Further Comments relating to the item:</b>

<b>3. Result</b>	
<b>Are there any aspects of the policy, strategy, function or service, including how it is delivered or accessed, that could contribute to inequality?</b>	<b>No</b>
Please provide an explanation for your answer: Not a policy just setting out audit appointment route.	
<b>Will the policy, strategy, function or service have an adverse impact upon the lives of people, including employees and service users?</b>	<b>No</b>
Please provide an explanation for your answer: Not a policy just setting out audit appointment route.	

If your answers to question 2 have identified potential adverse impacts and you have answered 'yes' to either of the sections at question 3, or you are unsure about the impact, then you should carry out a Stage 2 Equality Impact Assessment.

If a Stage Two Equality Impact Assessment is required, before proceeding you should discuss the scope of the Assessment with service managers in your area. You will also need to refer to the Equality Impact Assessment guidance and Stage Two template.

<b>4. Identify next steps as appropriate:</b>	
<b>Stage Two required</b>	Not Applicable
<b>Owner of Stage Two assessment:</b>	
<b>Timescale for Stage Two assessment:</b>	
<b>Stage Two not required:</b>	

**Name: Andy Walker**

**Date: 23<sup>rd</sup> January 2017**

Please now forward this completed form to Rachel Craggs, the Principal Policy Officer (Equality and Diversity) for publication on the WBC website.