



**NOTTINGHAMSHIRE**  
**Fire & Rescue Service**  
*Creating Safer Communities*

Nottinghamshire and City of Nottingham  
Fire and Rescue Authority

# CHANGES TO ARRANGEMENTS FOR THE APPOINTMENT OF EXTERNAL AUDITORS

Report of the Treasurer

**Date:** 23 September 2016

**Purpose of Report:**

To summarise the changes to the arrangements for appointing external auditors following the abolition of the Audit Commission and the end of transitional arrangements following the 2017/18 external audit. To seek the approval of the Fire Authority to opt in to the national appointment arrangements being developed by Public Sector Audit Appointments Limited.

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## **1. BACKGROUND**

- 1.1 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 5 October 2015 the Secretary of State for Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to include the audit of the accounts for 2017/18.
- 1.2 The Council's current external auditor is KPMG, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA Ltd), the transitional not-for-profit body set up by the LGA with delegated authority from the Secretary of State at CLG.
- 1.3 This matter was the subject of an earlier report to the Finance and Resources Committee in January 2016. Members of that meeting noted that the options available for the appointment of external auditors following the end of transitional arrangements would be explored by Officers and presented at a future meeting of the Committee. The Local Audit (Appointing Person) Regulations 2015 require that if a decision is made to opt in to the appointing person arrangement (which is option 4 set out in this report) then this decision must be made by the full Authority. The Authority will need to consider the options available and approve new arrangements in time to make the first appointment of external auditors by 31 December 2017.

## **2. REPORT**

- 2.1 The scope of external audits will still be specified nationally with the National Audit Office (NAO) responsible for writing the Code of Audit Practice which all firms appointed to carry out public sector audits must follow. Not all accounting 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. The registration process has not yet commenced and so the number of firms able to compete for audit work is not yet known but it is reasonable to expect that larger firms in the UK including our current auditor, KPMG, will be on the final list and smaller, local independent firms are less likely to meet the eligibility criteria.
- 2.2 There are a number of options available to the Authority for the future appointment of external auditors. The Chartered Institute of Public Finance and Accountancy (CIPFA) has published guidance for Authorities on the matter of Auditor Panels with the guidance setting out the options, together with the possible advantages and disadvantages of each option, and this information is shown below as options 1, 2 and 3. In July 2016, the Secretary of State for CLG confirmed that PSAA Ltd has been specified as an appointing person under the Local Audit and Accountability Act 2014 and the

Local Audit (Appointing Person) Regulations 2015, which means that PSAA Ltd will make auditor appointments to principal bodies which choose to opt in to the arrangements, for audits of accounts from 2018/19.

- 2.3. The Local Audit and Accountability Act 2014 includes regulations about Auditor Panels which state that an Auditor Panel must contain a majority of independent members and have an independent chair. The Act provides a definition of “independent” and sets out that Members and Officers of an Authority within the past five years are not deemed to be independent for this purpose.

- 2.4. Option 1: the Authority sets up its own separate and individual Auditor Panel to oversee the separate and individual procurement of external auditors for the Authority.

2.4.1. Possible Advantages:

- Authority has full ownership of the process
- Authority can create a fully bespoke contract for audit services
- Tendering process can take account of own policies and local circumstances (but must be within procurement regulations)

2.4.2. Possible Disadvantages:

- May be difficulties in appointing majority independent Panel members and independent Panel Chair as per the regulations (see paragraph 2.3)
- Must ensure that Panel members are suitably qualified to understand and participate in the Panel's functions
- Will have to fund the Panel's expenses
- May not be able to procure at a lower cost e.g. if there is limited provider choice in the location or if a single authority contract is less attractive to some providers
- Will not achieve economies of scale

- 2.5. Option 2: the Authority sets up an Auditor Panel jointly with another authority / authorities as part of a procurement exercise for a joint contract.

2.5.1. Possible Advantages:

- Less administration than a sole Auditor Panel
- Able to share administration expenses
- May be easier to attract suitable panel members
- May still be a relatively locally tailored process
- May be able to achieve some economies of scale

2.5.2. Possible Disadvantages:

- May need to compromise on the contract
- May not end up with first choice of auditor, instead it is more likely that appointment will be made which is suitable for all authorities taken together
- Need to agree appointment of panel members across multiple authorities and agree a joint decision making process

## 2.6 Option 3: the Authority uses another Authority's Auditor Panel

### 2.6.1 Possible Advantages:

- Will not have to set up an Auditor Panel

### 2.6.2 Possible Disadvantages:

- The panel may not understand the specific needs of the Authority
- May be difficult to find another Authority willing to enter into such an arrangement
- May be more difficult to ensure adequate liaison with Authority's Finance and Resources Committee (which acts as the Audit Committee)

## 2.7 Option 4: the Authority elects to join the national scheme for Auditor appointments led by the PSAA Ltd

### 2.7.1 Possible Advantages:

- Will not have to set up an Auditor Panel
- Administration and procurement will be undertaken by PSAA Ltd
- Scheme is being developed in consultation with representatives from principal bodies
- PSAA Ltd staff are experienced in appointing auditors, in managing audit contracts and in setting audit fees
- Early indications of interest from principal bodies show that the scheme is likely to be widely taken up (more than 200 bodies), which should result in economies of scale and should attract the best audit suppliers
- The scheme will aim to appoint the same auditors to bodies which are involved in formal collaboration / joint working initiatives if the parties consider that a common auditor will enhance efficiency and value for money

### 2.7.2 Possible Disadvantages:

- Authority will not be involved directly in the process so will have no influence over contract or selection of Auditor other than indirectly by way of input at the consultation stage

## 2.8 Option 4, the PSAA Ltd scheme, appears to offer the most advantages when compared to the other available options and it is therefore this solution which is recommended to the Authority for approval. The PSAA Ltd has indicated that it will be looking for firm commitments to join the scheme during this Autumn and such a commitment will need to be supported by the Authority in accordance with the Local Audit (Appointing Person) Regulations 2015.

## 2.9 The PSAA has produced a leaflet about the national scheme and this is attached as Appendix A. It gives further information about the benefits of the scheme and demonstrates an emphasis on audit quality and competitive pricing.

### **3. FINANCIAL IMPLICATIONS**

- 3.1 The external audit fee for the current year is £31,050 and this has significantly reduced in recent years. It is not yet known what the audit fees will be when the new contract comes into force, but the PSAA scheme is likely to be able to secure a more competitive price than the Authority would have been able to do alone.
- 3.2 The PSAA leaflet attached as Appendix A confirms that costs will not be known until after the procurement process has been completed. The PSAA has committed to minimising its own costs, pooling scheme costs and audit fees, setting a scale of charges which has regard to the size, complexity and audit risk of participating bodies, and returning any surplus funds to participants.

### **4. HUMAN RESOURCES AND LEARNING AND DEVELOPMENT IMPLICATIONS**

There are no human resources or learning and development implications arising directly from this report.

### **5. EQUALITIES IMPLICATIONS**

An equality impact assessment has not been completed because this report does not reflect a new policy, only a new method of procuring external audit services.

### **6. CRIME AND DISORDER IMPLICATIONS**

There are no crime and disorder implications arising from this report.

### **7. LEGAL IMPLICATIONS**

The proposal within this report is designed to ensure compliance with the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

### **8. RISK MANAGEMENT IMPLICATIONS**

The service provided by the external auditor forms part of the Authority's corporate governance framework, which is a key tool in the management of organisational risk.

## **9. RECOMMENDATIONS**

It is recommended that Members approve option 4 set out in this report, which is to commit to participating in the Public Sector Audit Appointments Ltd national scheme for local auditor appointments, with effect from the audit of accounts for 2018/19.

## **10. BACKGROUND PAPERS FOR INSPECTION (OTHER THAN PUBLISHED DOCUMENTS)**

None.

Neil Timms  
**TREASURER TO THE FIRE AUTHORITY**

## Appendix A

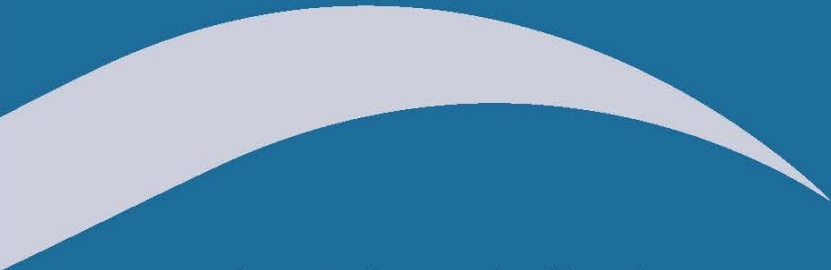


Developing the option  
of a national scheme for  
local auditor appointments

[www.psaa.co.uk](http://www.psaa.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](http://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](mailto: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.



# 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.

# 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.

"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)

[www.psaa.co.uk](http://www.psaa.co.uk)

## 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 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.



# 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.

# 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.

"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

[www.psaa.co.uk](http://www.psaa.co.uk)

## 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.

# 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](mailto: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

“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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